Russia Microfinance Analysis and Benchmarking Trends Report 2008

A report from the Microfinance Information Exchange, Inc. (MIX) and the Russian Microfinance Center (RMC) **November 2008**

Introduction

2007 was another year of impressive growth and development for the microfinance industry in Russia. The number of microfinance institutions (MFIs) increased to approximately 2,000, serving nearly 700,000 customers (borrowers and savers). According to the Russian Microfinance Center (RMC) estimates, the aggregate offer of loans by non-bank MFIs totaled 625 million USD. Microfinance banks, such as KMB and Forus, as well as downscaling programs from mainstream commercial banks supported by the European Bank for Reconstruction and Development (EBRD) had an aggregate portfolio estimated at 2 billion USD. By conservative estimates, by the end of calendar year 2008, the aggregate loan portfolio for the sector will range between 2.4 and 3 billion USD.

Table of Contents

Table 1 presents estimated volume numbers for MFIs in Russia, which range from credit cooperatives, to deposit taking non-bank financial intermediaries, to banks and government funds.

Credit consumer cooperatives and credit consumer societies (grouped under the umbrella term of credit unions) served more than two-thirds of total borrowers in the Russian markets. Microfinance and downscaling banks had much smaller outreach at close to 15 percent, but their portfolio accounted for more than two-thirds of the total microfinance portfolio in the country. However, all microfinance providers collectively served less than 1 percent of the total population in Russia, indicating that the sector still has plenty of room to expand in the coming years.

Supply of microfinance will increase as non-bank MFIs expand their branch networks. They opened new branches in small towns and rural communities, where banks are few or absent, and thus expanded the microfinance customer base.

However, growth is restrained by a number of factors. First, microlenders often lack access to finance. Even though commercial banks, investment companies and private investors show an increasing interest in the Russian microfinance market, the supply of finance is insufficient and does not match the current demand for microloans estimated at 10 billion USD in early 2007. Second, their dynamic development in terms of scope

Table 1 Microfinance Providers in Russia[1]

Microfinance Providers	Type	Number	Active Borrowers	GLP in mln. USD	Share of Population Served	Share of Total Borrowers Served
Downscaling bank (EBRD program)**	Bank	10	27,727	679	0.02%	4.1%
Specialized microfinance bank**	Bank	2	69,903	1399	0.05%	10.4%
Non-bank deposit and credit organization*	NBFI	1	3,301	7	0.00%	0.5%
Credit consumer cooperatives of citizen*	CU	760	163,611	196	0.12%	24.2%
Credit consumer society*	CU	400	306,173	183	0.22%	45.4%
Agricultural credit consumer cooperative*	CU	350	41,447	87	0.03%	6.1%
State, regional and municipal fund for entrepreneurship support*	Gov fund	230	8,846	53	0.01%	1%
Private foundation*	NGO	130	28,889	25	0.02%	4%
Private commercial non-bank MFI*	NBFI	10	25,000	73	0.02%	4%
TOTAL		**1,893**	**674,897**	**2702**	**0.48%**	

Source: EBRD, Microfinance Information Exchange, Russian Microfinance Center.

Based on RMC research in 2006; * Based on experts' estimates 2006; ** Based on 2007 numbers.

of operations and number of branches requires better business processes and organization, and a more effective system of staff recruitment and training. In addition, over the past year, many commercial, non-bank microfinance providers entered the marketplace; this segment is now playing a larger role in the microfinance provision. This evidences an increased focus on microfinance among private investors who contributed a substantial portion of funds to the microloan portfolios of commercial retail lenders.

This report is a joint effort between the Russian Microfinance Center (RMC) and the Microfinance Information Exchange, Inc. (MIX). It presents an overview of data from the *MicroBanking Bulletin* for 40 MFIs benchmarked in 2007, and performance trend data for 11 MFIs involved in the benchmarking project between 2005 and 2007. The analysis of Russian MFIs' financial performance is accompanied by a brief update on the macroeconomic environment, recent trends in bank lending, and changes in laws and policies affecting microfinance in 2007 and in the first half of 2008.

Macroeconomic Environment

The Russian economy continued its steady growth in 2007, with the country's GDP increasing by 22.7 percent. Most of the growth is attributable to processing industries, wholesale and retail trade, construction, real estate, and finance.

Per capita GDP according to IMF statistics was 185,643 rubles (7,563 USD) at the end of 2007[2]; an increase of 27 percent since 2006 in local currency terms, leading to increased consumer activity and a higher consumer price index. The official inflation rate was 11.9 percent in 2007, as compared to 9 percent in 2006.

By official statistics, the proportion of people living below the minimum wage steadily decreased, in line with the overall economic growth and better living standards. At the end of 2007, the proportion of people living on minimum wage or below was 13.4 percent[3], a drop from 17.7 percent in 2005, while the estimated average minimum wage increased by 12.4 percent in 2007, from 3,422 rubles (130 USD) in 2006 to 3,847 rubles (157 USD) in 2007.

The ruble's strengthening against the dollar began in early 2006 and continued in 2007, leading to more demand for investments in foreign currencies both by commercial banks and microfinance institutions in Russia.

1 The information presented is according to research estimates in 2006. As of the writing of this report, estimates for 2007 were not yet available.

2 The Russian per capita GDP figure of 31.12.2007 was not publicly available from the website of the Federal Statistics Service.

3 Source: The Russian State Statistic Service

Table 2 Russia Macroeconomic Trends

Indicator	2005	2006	2007
GDP, billions of rubles	21,625 (881 USD)	26,880 (1,095 USD)	32,987 (1,343 USD)
Per capita GDP, thousand of rubles	128,658 (4,470 USD)	146,664 (5,570 USD)	185,643 (7,653 USD)
Population, in millions	143.5	142.8	142.2
Rural population, in millions	38.8	38.7	38.4
Inflation, percent	10.9	9	11.9
Subsistence Minimum, wage rubles	3,018 (105 USD)	3,422 (130 USD)	3,847 (157 USD)
Population living below the subsistence minimum, percent	17.7	15.2	13.4

Source: Federal Statistics Service and IMF.

The Russian Commercial Banking System

In 2007, the development for top institutions in Russia's banking system slowed down in comparison to previous years. Consumer lending and SME lending programs at federal level banks reached the peak of their geographical expansion in 2006 as signified by their branch activity: in 2006 they opened 551 new branches for SME (small and medium enterprise) lending, compared to 252 in 2007. However, overall, the growth rates of banks' branch networks actually increased in 2007, as new operators entered the marketplace. The number of branches, additional offices, credit-cash and operational offices increased by more than 10 percent, reaching 41,103 at the end of 2007. In 2006 the growth averaged 7 percent from 35,234 to 37,057. These growth levels indicate that new players have entered the market and they are developing at a fast pace.

Total bank deposits by the public and entities[4] increased by more than 45 percent, from 5,956 billion rubles in 2006 (226 billion USD) to 8,679 billion rubles (353.5 billion USD) in 2007, allowing banks to increase their lending to retail clients and entities to 12,212 billion rubles (467.5 billion USD), or 37 percent of GDP.

The expansion of bank branch networks resulted in increased consumer and SME lending. In 2007, lending to SME increased by 62 percent, totaling about 1,400 billion rubles (57 billion USD).

[4] Source: the Russian Central Bank

In 2007, credits to SME (i.e. entities with annual revenues under 125 million rubles — 5 million USD) almost doubled, reaching 525 billion rubles (21 billion USD). This segment of borrowers continues to lead in terms of portfolio growth rate.

Notwithstanding the increased bank lending, small and particularly micro-businesses, and start-ups lacked access to bank finance. Very often, banks established a minimum loan size to make their SME lending business profitable starting from 500 thousand to 1 million rubles (20,400 to 40,800 USD). Furthermore, micro-businesses and start-ups typically could not provide the required collateral, limiting their access to credit. Despite the expansion of bank branch networks, smaller towns with less than 100,000 in population and rural communities still lacked access to banking services.

Banks targeting micro-businesses and start-ups included KMB Bank with 70 offices in 25 regions covering the vast territory from Moscow to Vladivostok, and Forus Bank, with 44 credit-and-cash offices in 29 regions concentrated in the Southern, Central and North Western Federal Districts. Some regional banks offered microlending programs, but the amount of lending tended to be small.

Banks' consumer lending programs were an alternative to microfinance banks and non-bank MFIs, since the size of consumer loans is comparable to that offered by microfinance providers – up to 600,000 rubles (24,444 USD) on average. Scoring systems used by banks to assess borrowers made their credit products accessible to microentrepreneurs as well as consumers, so consumer lending by banks partially covered the demand for microcredit. However, effective interest rates on consumer credit were often less attractive to microentrepreneurs than the loan terms offered by microfinance providers. Furthermore, non-bank microfinance institutions and microfinance banks arranged their repayment schedules based on the borrower's projected cash flow, making them more convenient for entrepreneurs. The perceived advantages of microlending programs offered by banks and non-bank microfinance institutions have caused microentrepreneurs and start-ups to switch from consumer credit to microloans, a shift that began in 2007.

2007 was also a landmark year in terms of microcredit programs launched by Russian state-owned banks and development banks. An active player is VTB-24, a leader in microcredit and in lending to MFIs. Late in 2007, the Russian Development Bank designed a microfinance support program, which was eventually approved in mid 2008. At the beginning of 2008, the top management of Sberbank declared microcredit their new priority. These initiatives are expected to boost the development of microfinance in Russia.

In addition, downscaling programs of commercial banks also play a significant role in SME lending. These programs began as early as 1994. In 2007, KMB, Absolut Bank, MDM Bank, ProbusinessBank, Uralsib, ChelindBank, NDB, SibacademBank, UraltransBank, UralvneshtorgBank, Transcapital,and Forus Bank had downscaling programs with a total gross portfolio of 1.3 billion USD and 84,906 loans outstanding.[5] In comparison, the cumulative portfolio of EBRD sponsored downscaling programs in all other countries in the Eastern Europe region was 1.5 billion USD, signifying the importance these commercial banks play in SME development in Russia. However, these programs have much higher loan balances than other microfinance and SME providers, the average being 382,528 rubles (15,584 USD.) In that respect, downscaling banks are not really competing with credit unions and other non-bank MFIs in the country. The average loan balance in 2007 for the 37 non-bank benchmark participants was 129,698 rubles (5,238 USD) and the median even lower, at 84,880 rubles (3,458 USD).

New Initiatives in the Policy Environment for Microfinance

MIX's and RMC's report from the previous year, *Microfinance in Russia: Benchmarks and Analysis in 2006*, contained a comprehensive description of

5 Note that in Table 1 total borrowers and loan portfolio for Forus Bank and KMB is presented separately as the entirety of their lending activities is considered microfinance and/or SME. However, a portion of their portfolio (644 million USD) and 57,179 loans outstanding fall under EBRD downscaling programs.

Table 3 Main Types of Microfinance Institutions in Russia

Institutional Type	Legislation	Main Funding Sources
Not Regulated by the Central Bank of Russia (CBR)		
Credit Consumer Cooperative of Citizens (CCCC)	The Federal Law on Credit Consumer Cooperatives of Citizens	Members' savings (members are natural persons)
Credit Consumer Cooperative (CCC)	Article 166 of the Russian Civil Code	Members' savings (members may be natural persons and/or entities)
Consumer Society (CS)	The Federal Law on Consumer Cooperatives (Consumer Societies and Their Unions) in the Russian Federation	Members' savings (members may be natural persons and/or entities)
Agricultural Credit Consumer Cooperative (ACCC)	The Federal Law on Agricultural Cooperatives	Members' savings (members are agricultural producers - natural persons and/or entities) External borrowing
State (Regional and Municipal) SME Support Funds (SME SF)	The Federal Law on the Development of Small and Medium-sized Entrepreneurship in the Russian Federation The Federal Law on Non-Profit Organizations §1, Chapter 42 of the Russian Civil Code	Subsidies from municipal or regional budgets; External Borrowing Donations External borrowing
Private Funds (PF)		
Private Commercial Non-Credit [Non-Regulated] Microfinance Organization (CMO)	§1, Chapter 42 of the Russian Civil Code	Equity capital; External Borrowing
Regulated by the Russian Central Bank		
Non-bank Deposit-credit Institutions (NDCO)	The Federal Law on Banks and Banking	Equity capital Deposits of legal entities External borrowing
Commercial Bank	The Federal Law on Banks and Banking	Equity capital Deposits of legal entities and the public External borrowing

the legislation regulating microfinance in Russia. This section will provide an update, focusing on key legislative changes in 2007 and the first half of 2008. **Table 3** lists the main types of microfinance institutions in Russia and legal provisions guiding their activity.

There are gaps in the regulation of non-bank MFIs in Russia; in particular, the legislation on credit cooperatives is incomplete. The current legislation on credit consumer cooperatives imposes a number of restrictions:

- A CCCC is not allowed to have more than 2,000 members
- Business loans cannot exceed 50 percent of the total loan portfolio

There are some restrictions concerning the allowed use of excess liquidity and retail co-ops' participation in second-tier associations, a barrier to the development of a multi-tiered credit cooperative system in Russia.

Amendments to improve the Federal Law on Credit Consumer Cooperatives of Citizens have been proposed. Furthermore, in 2007 a framework law on Credit Cooperatives was drafted defining key concepts and mechanisms of supervision. The framework law is ready for the second reading in the Russian parliament, and both laws are expected to be enacted in 2008. These initiatives are expected to make a positive difference for the development of credit cooperatives in Russia.

In 2007, a number of amendments were drafted to improve the legislation regulating NDCOs – credit institutions regulated by the Central Bank of Russia (CBR) and allowed to lend and to take time deposits from legal entities. NDCOs are much easier to establish than banks, since their equity can be much smaller. However, the incorporation formalities are as complicated for NDCO as they are for banks; therefore just one NDCO has been established and operates in Russia as of 2007.

At the beginning of 2008, consistent advocacy resulted in relaxed reporting requirements for NDCOs and permission for them to issue cash loans (as opposed to bank transfers) to microentrepreneurs. However, much remains to be addressed and resolved before NDCO is perceived as an attractive business model.

In 2007, the National Association of Microfinance Market Stakeholders (NAMMS) prepared a draft concept paper, *"Building an All-inclusive (Universally Accessible) Financial System in the Russian Federation: Measures to Promote Microfinance in Russia in 2008-2012."* The paper highlights the links between access to finance and advancing the living standards, promoting private entrepreneurship and SMEs, and reaching other social and economic objectives.

Conclusions and recommendations provided in the paper are likely to inform the development of broader strategies designed to promote greater access to financial services. They will strengthen the focus on providing finance to the unbanked population, which, in turn, will have a positive impact on the development of microfinance in Russia. It is expected that the Concept Paper will be approved and adopted by the Federation Council before the end of 2008.[6]

Improving access to finance for the public and entrepreneurs and promoting microfinance has been declared a federal government priority. In December, 2007, the Russian Ministry of Economic Development adopted targeted measures designed to promote microfinance as part of its efforts to assist the development of SMEs. Such measures include interest rate subsidies to support the cost of borrowing for microfinance institutions, staff training subsidies, and audit subsidies. In 2008, about 15 Russian regions participated in the program.

Russia's Microfinance Industry

Scale and Outreach

The following data analysis is based on information provided by 40 institutions participating in a comparative analysis of microfinance institutions' performance. In 2007, Russia's microfinance industry developed in two main ways:

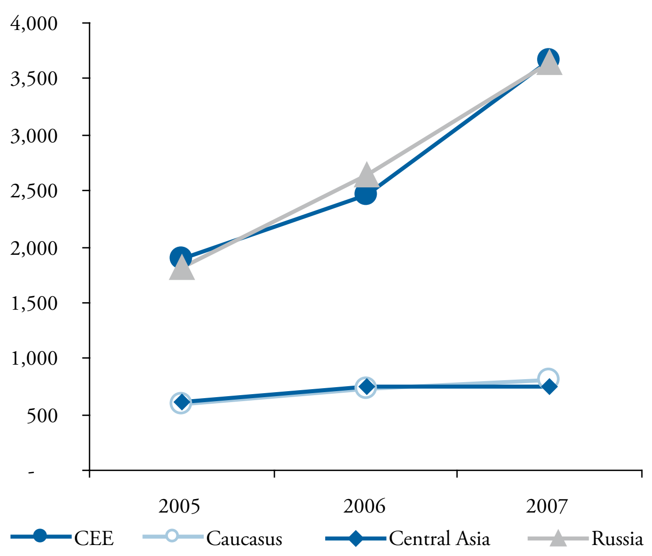
1. Mature institutions expanded their networks of branches and divisions
2. New microfinance institutions emerged

6 The Federation Council is the upper chamber of the Russian Parliament.

Since the demand for microfinance is concentrated primarily in small towns and rural communities, microfinance institutions focus their expansion efforts on such locations. A panel analysis of 11 institutions which made their data available for benchmarking purposes for consecutive years of 2005, 2006 and 2007 revealed that median numbers of additional offices and branches increased three-fold, from four in 2005 to 12 in 2007.

For a panel data set of 25 non-bank MFIs which provided volume data for years 2005-2007, we can conclude that outreach increased at slightly lower rates in 2007, 11 percent vs. 18 percent in 2006, whereas total loan portfolio measured in rubles increased at higher rates in 2007, 49 percent increase vs. 41 percent in 2006. This in turn means that loan balances became larger in 2007. In fact the median balance for these MFIs increased by nearly 30 percent from 67,280 rubles (2,555 USD) to 87,291rubles (3,556 USD). When compared to peers, Russian MFIs have one of the highest average loan balances, on par only with Central and Eastern Europe (CEE) MFIs (see **Figure 1**).

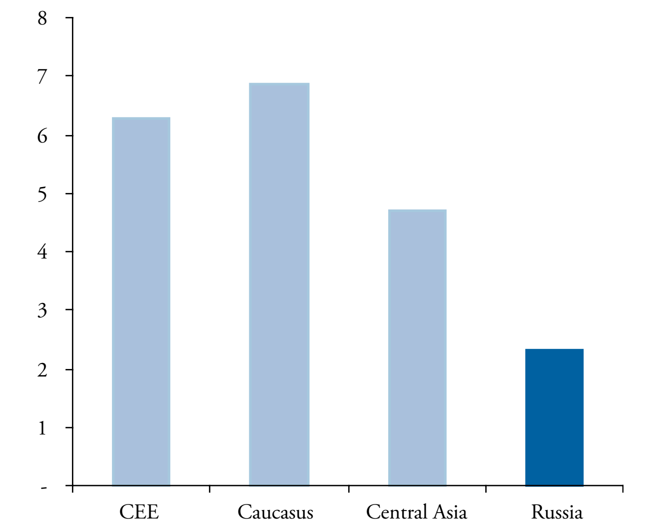
Figure 1 Average Loan Balances By Region in USD, 2005-2007



Source: MBB Benchmarks 2005-2007. Results are peer group medians.

Despite the fact that Russian MFIs have much higher loan balances than peers in Central Asia and the Caucasus, the typical Russian MFI manages a much smaller loan portfolio than its peers: 2.1 million USD, almost half that of Central Asia, and one third that of the Caucasus (see **Figure 2**). This is explained by the fact that the microfinance market is proliferated with thousands of small credit cooperatives (around 75 percent of total lending outreach, see **Table 1**). The membership cap imposed by the Federal Law on Credit Consumer Cooperatives of Citizens limits the growth of cooperatives.

Figure 2 Median Gross Loan Portfolio in USD Millions by Region

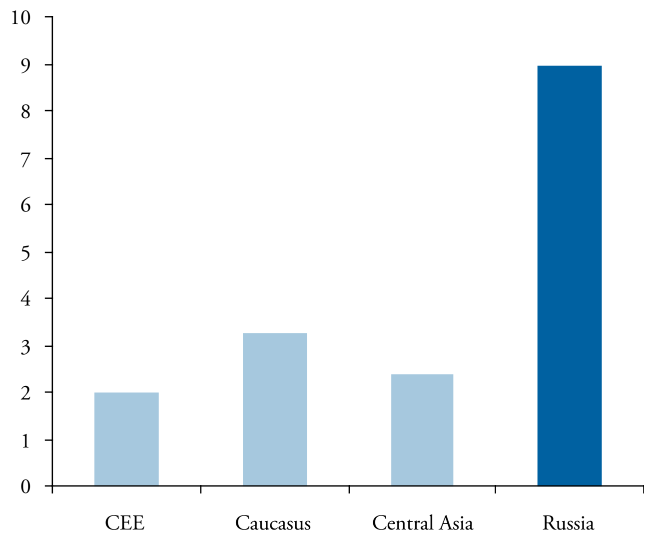


Source: MBB Benchmarks 2005-2007. Results are peer group medians.

Financing Structure

Russian MFIs differ structurally from their regional peers in terms of financial composition. In contrast to most other Eastern Europe/Central Asia non-bank MFIs analyzed in this report, the majority of Russian MFIs are credit cooperatives. In 2007, the main source of funding of their portfolios was member deposits, while their equity compared to total assets was very small. Equity of credit cooperatives in Russia may be formed primarily from retained earnings. Due to the fast growth of credit cooperatives, the accumulation of equity has been very slow as institutions prefer to allocate income to development and branch expansion. A look at the median indicator for debt-to-equity reveals this structural distinction of Russian MFIs. The median Russian MFI had a debt-to-equity ratio of close to 9, about three times as large as the indicator for peers (see **Figure 3**). Credit cooperatives account for most of this disparity: their debt-to-equity ratio in 2007 was 13 vs. 2.6 for other non-bank providers.

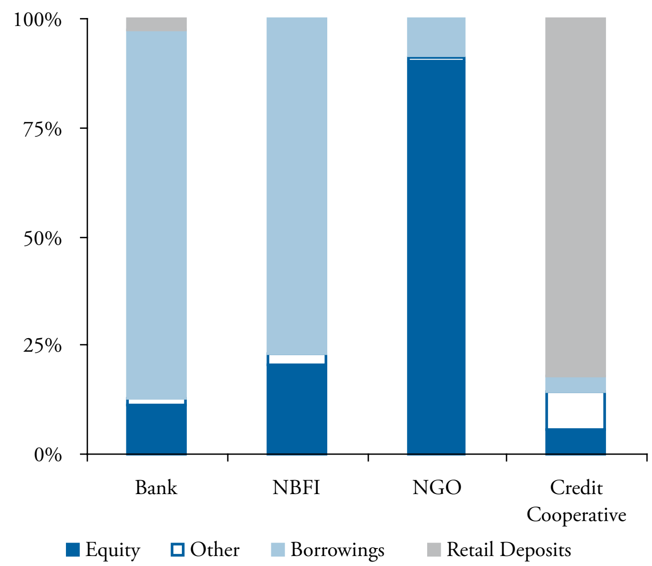
Figure 3 Debt-to-Equity Ratio By Region



Source: MBB Benchmarks 2007. Results are peer group medians.

Similarly, there are marked differences in the funding structure of MFIs according to their charter type (see **Figure 4**). The loan portfolio of credit cooperatives

Figure 4 Financing Structure of Russian MFIs by Type



Source: MBB Benchmarks 2007. Results are peer group totals.

was financed mostly by voluntary deposits as well as compulsory savings, grouped in the category “Other,” which also includes Accounts Payable and Other Liabilities. The main share of finance for non-profit organizations (i.e. private non-profit funds for the purposes of this report) came from funds donated by founders at the time of establishment. The share of debt finance increased each year in the financing structure of SME support funds and non-bank commercial microfinance institutions classified under NBFI. The debt-to-equity for NBFIs in the sample, which are non-deposit taking, increased from 3.6 in 2006 to 4.4 in 2007.

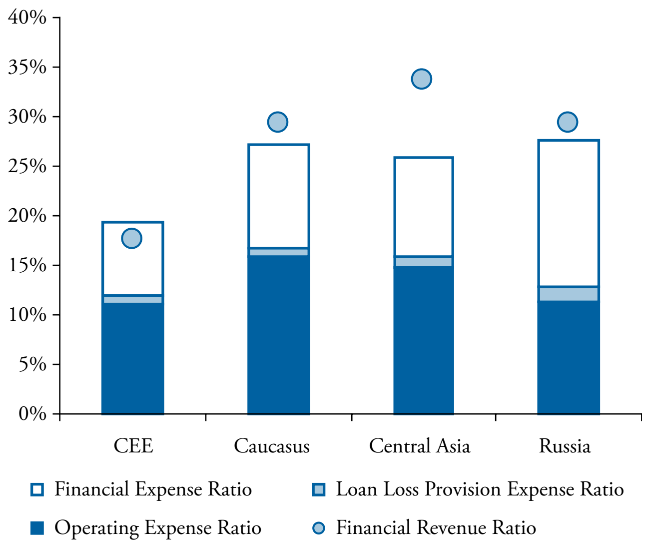
Profitability and Expense Structure

In 2007, Russian MFIs showed positive trends of profitability and sustainability. Return on assets increased from – 0.4 percent in 2006 to 0.1 percent by end of 2007. Return on equity increased from – 2.9 percent to 2.3 percent.

Even though Russian institutions are less profitable than those in Central Asia and the Caucasus, they are ahead of their neighbors in Central and Eastern Europe. Operational self-sufficiency increased by 5 percent, reaching 111.7 percent. While profitability and self-sufficiency ratios are modest, the positive trends are cause for optimism.

Looking at 2007 figures, where the benchmark sample is more robust, we can see how the expense structure of Russian MFIs differed from that of its peers. The operating expense ratio was lower in Russia, on par with Central and Eastern Europe peers, but financial expense was significantly higher than in all other peer groups. A big portion of the financial expense of MFIs came from interest paid on deposits. However, this ratio has decreased for the participants in the balanced data set from 16 percent in 2006 to 9 percent in 2007. This is due mainly to greater competition from consumer programs of commercial banks and general trends of declining cost of funds in the Russian market, which resulted in a decrease of average loan interest rates. To keep the margin at the same level, MFIs decreased interest rates on savings as well. Simultaneously, the financial revenue ratio of Russian institutions decreased just slightly as compared to the previous year, due to a downward trend in microloan interest rates. However, the cost of finance for MFIs dropped faster than the interest rates on microfinance products, which increased MFIs' profit margin from 0.3 percent to 0.5 percent in 2007.

Figure 5 Deconstruction of Return on Assets by Region



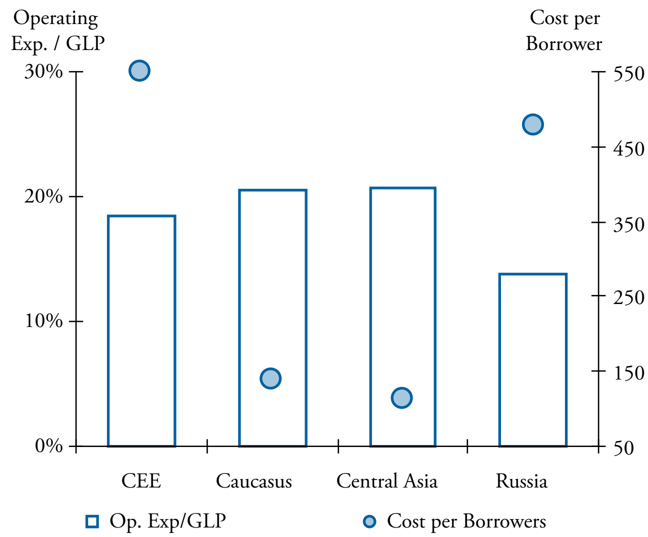
Source: MBB Benchmarks 2007. Results are peer group medians.

Efficiency and Productivity

Efficiency and productivity of microfinance providers in Russia remained at approximately the same level as in late 2006. The number of borrowers per staff member dropped by 20 percent; at the same time, the number of borrowers per loan officer increased by 40 percent, from 67 to 98. It may be explained by the growth of microfinance branch networks, inevitably leading to larger administrative and support staff.

The peer group lending methodology is not common in Russia, therefore Russian MFIs were less productive than their counterparts in Central Asia and the Caucasus when considering the cost per borrower indicator; it was one of the highest in the region along with CEE peers. Russian loan officers mainly handle individual loans, each borrower is evaluated in detail and managers monitor each borrower through phone calls, site visits, etc., which drives costs up.

Figure 6 Efficiency of Non-Bank Russian MFIs and Regional Peers: Two Perspectives



Source: MBB Benchmarks 2007. Results are peer group medians.

At the same time, operational expenses to gross loan portfolio ratio was lower in Russian MFIs than in other groups. In 2007, operational expenses of Russian MFIs dropped to 14 percent of the gross loan portfolio. In non-bank microfinance institutions of Central Asia and the Caucasus, this ratio was 21 percent. This was due to the much larger loan balances of Russian MFIs (see **Figure 6**).

Portfolio at Risk

In 2007, portfolio at risk > 30 days increased from 1.7 percent to 2.0 percent, while portfolio at risk > 90 days remained virtually the same. Based on this data, we can make a conclusion concerning the productivity of loan managers in dealing with delinquencies.

At the same time, the portfolio quality in Russian institutions is lower than that in Central Asia and the Caucasus, where portfolio at risk over 30 days past due is 0.9 percent and 0.2 percent, respectively. Yet, the Russian microfinance institutions are ahead of their CEE counterparts, which have the same PAR > 30 days of 2.5 percent as in 2006. Overall, there were few concerns about MFIs ability to handle portfolio risk in 2007.

Conclusion

The benchmarking data reveal positive trends in terms of return on equity, self-sufficiency, and operational efficiency. It evidences Russian MFIs' ability to establish reasonable pricing policies and to manage their saving and loan products. At the same time, a factor contributing to their profitability is progressively lower cost of finance – both their members' savings and external debt.

The recent problems with liquidity and sustainability of financial institutions in the international and Russian markets will undoubtedly influence the development of Russia's microfinance industry. Overcoming the crisis will require greater efforts from MFI managers in order to maintain savers' confidence and prevent increase in the portfolio at risk. Additionally, MFIs should be prepared to face decreased access to foreign funding, which may have to be replaced with domestic sources such as savings, investments and public funds. At the same time, it is likely that MFIs will be less affected by the financial crisis than banks by virtue of their more limited operations, absence of activity in the stock market and construction industry as well as lesser dependence on foreign capital.

Maria Baum, Development Director, the Russian Microfinance Center, and Ralitsa Sapundzhieva, Analyst, Eastern Europe and Central Asia, MIX.

Data and Data Preparation

The collection of data for Russian Microfinance Analysis and Benchmarking Trends Report 2008, was performed by the Russian Microfinance Center (RMC); The Microfinance Information Exchange (MIX) finalized the processing of data and the calculation of indicators. For benchmarking purposes, MIX collects and prepares MFI financial and outreach data according to international microfinance reporting standards as applied in the *MicroBanking Bulletin*. Raw data are collected from the MFI, inputted into standard reporting formats and crosschecked with audited financial statements, ratings and other third party due diligence reports, as available. Performance results are then adjusted, using industry standard adjustments, to eliminate subsidy, guarantee minimal provisioning for risk and reflect the impact of inflation on institutional performance. This process increases comparability of performance results across institutions. The benchmarking exercise promotes transparency of the Russian microfinance industry.

RMC and MIX thank all benchmarking participant as well as Mikhail Mamuta and Olga Tomilova for their contribution to the report.

MFI Participants from Russia

Benchmarks 2007 (39 MFIs)

Alternativa, Alteya, Aurora, BFSBS, BRCCC, CEF, Chita FSBS, Doveriye (Amursk), Edinstvo (Yurga), Edinstvo (Volgograd), EKPA, FFECC, FINCA- Russia, FORUS, Galaktika, Garant, Intellekt, KMB, KVK, Lider-Russia, Narodnaya Kasa, Narodnyi Kredit, Obereg (Perm), Obereg (Vladivostok), Partner, Podderzhka, Rezerv, Rost, Rus, RWMN, SBS, Schans, Sodeystvie (Pyatigorsk), Sodeystvie, Sodruzhestvo, Soyuz, Tsimlyansk, USFSBS (Udmurt), Vostok Kapital, VRFSBS

Trend Lines 2005 – 2007 (11 MFIs)

Alternativa, CEF, FFECC, FORUS, Intellekt, KMB, Rost, SBS, Sodeystvie (Pyatigorsk), Sodeystvie, VRFSBS

Peer Groups	Definition	Description
Charter Type	Russia NGOs (2)	Russian MFIs with Nongovernmental Organization charter type
	Russia NBFIs (6)	Russian MFIs with Non-Bank Financial Intermediary charter type
	Russia Credit Unions (30)	Russian MFIs with Credit Union/Cooperative charter type
Sub-region	Caucasus (29)	ECA MFIs from Armenia, Azerbaijan and Georgia
	Central and Eastern Europe (17)	ECA MFIs from Bulgaria, Moldova, Poland, Romania, Turkey, Ukraine
	Central Asia (35)	ECA MFIs from Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Uzbekistan

Indicator Definitions

INSTITUTIONAL CHARACTERISTICS	
Number of MFIs	Sample Size of Group
Age	Years Functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized provisioning for loan impairment and write-offs
Offices	Number, including head office
Personnel	Total number of staff members
FINANCING STRUCTURE	
Capital/ Asset Ratio	Adjusted Total Equity/ Adjusted Total Assets
Commercial Funding Liabilities Ratio	(Voluntary and Time Deposits + Borrowings at Commercial Interest Rates) / Adjusted Average Gross Loan Portfolio
Debt to Equity	Adjusted Total Liabilities/ Adjusted Total Equity
Deposits to Loans	Voluntary Deposits/ Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary Deposits/ Adjusted Total Assets
Portfolio to Assets	Adjusted Gross Loan Portfolio/ Adjusted Total Assets
OUTREACH INDICATORS	
Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/ Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/ Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/ GNI per Capita	Adjusted Average Loan Balance per Borrower/ GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/ Adjusted Number of Loans Outstanding
Average Outstanding Balance / GNI per Capita	Adjusted Average Outstanding Balance/ GNI per Capita
Number of Voluntary Depositors	Number of depositors with voluntary deposit and time deposit accounts
Number of Voluntary Deposit Accounts	Number of voluntary deposit and time deposit accounts
Voluntary Deposits	Total value of voluntary deposit and time deposit accounts
Average Deposit Balance per Depositor	Voluntary Deposits/ Number of Voluntary Depositors
Average Deposit Balance per Depositor / GNI per capita	Average Deposit Balance per Depositor / GNI per capita
Average Deposit Account Balance	Voluntary Depositors/ Number of Voluntary Deposit Accounts
Average Deposit Account Balance / GNI per capita	Average Deposit Account Balance / GNI per capita
MACROECONOMIC INDICATORS	
GNI per Capita	Total income generated by a country's residents, irrespective of location / Total number of residents
GDP Growth Rate	Annual growth in the total output of goods and services occurring within the territory of a given country
Deposit Rate	Interest rate offered to resident customers for demand, time, or savings deposits
Inflation Rate	Annual change in average consumer prices
Financial Depth	Money aggregate including currency, deposits and electronic currency (M3) / GDP
OVERALL FINANCIAL PERFORMANCE	
Return on Assets	(Adjusted Net Operating Income - Taxes)/ Adjusted Average Total Assets
Return on Equity	(Adjusted Net Operating Income - Taxes)/ Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Impairment Losses on Loans + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/ Adjusted (Financial Expense + Impairment Losses on Loans + Operating Expense)
REVENUES	
Financial Revenue/ Assets	Adjusted Financial Revenue/ Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/ Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/ Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)
EXPENSES	
Total Expense/ Assets	Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense) / Adjusted Average Total Assets
Financial Expense/ Assets	Adjusted Financial Expense/ Adjusted Average Total Assets
Provision for Loan Impairment/ Assets	Adjusted Impairment Losses on Loans/ Adjusted Average Total Assets
Operating Expense/ Assets	Adjusted Operating Expense/ Adjusted Average Total Assets
Personnel Expense/ Assets	Adjusted Personnel Expense/ Adjusted Average Total Assets
Administrative Expense/ Assets	Adjusted Administrative Expense/ Adjusted Average Total Assets
Adjustment Expense/ Assets	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/ Adjusted Average Total Assets
EFFICIENCY	
Operating Expense/ Loan Portfolio	Adjusted Operating Expense/ Adjusted Average Gross Loan Portfolio
Personnel Expense/ Loan Portfolio	Adjusted Personnel Expense/ Adjusted Average Gross Loan Portfolio
Average Salary/ GNI per Capita	Adjusted Average Personnel Expense/ GNI per capita
Cost per Borrower	Adjusted Operating Expense/ Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/ Adjusted Average Number of Loans
PRODUCTIVITY	
Borrowers per Staff Member	Adjusted Number of Active Borrowers/ Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/ Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/ Number of Loan Officers
Voluntary Depositors per Staff Member	Number of Voluntary Depositors/ Number of Personnel
Deposit Accounts per Staff Member	Number of Deposit Accounts/ Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/ Number of Personnel
RISK AND LIQUIDITY	
Portfolio at Risk> 30 Days	Outstanding balance, portfolio overdue> 30 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Portfolio at Risk> 90 Days	Outstanding balance, portfolio overdue> 90 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Write-off Ratio	Adjusted Value of loans written-off/ Adjusted Average Gross Loan Portfolio
Loan Loss Rate	(Adjusted Write-offs - Value of Loans Recovered)/ Adjusted Average Gross Loan Portfolio
Risk Coverage Ratio	Adjusted Impairment Loss Allowance/ PAR > 30 Days
Non-earning Liquid Assets as a % of Total Assets	Adjusted Cash and banks/ Adjusted Total Assets
Current Ratio	Short Term Assets/ Short Term Liabilities

Russia Benchmarks and Trends

	Russia - all	Russia- NGOs and NBFIs	Russia- Credit Unions	Russia 2007- balanced	Russia 2006- balanced	Russia 2005- balanced
INSTITUTIONAL CHARACTERISTICS						
Number of MFIs	40	8	30	11	11	11
Age	7	9	5	9	8	7
Total Assets	3,041,423	6,882,082	2,195,543	6,325,328	4,690,039	2,315,675
Offices	5	4	5	12	9	4
Personnel	24	25	17	30	26	20
FINANCING STRUCTURE						
Capital/ Asset Ratio	7.8%	39.0%	5.2%	8.8%	10.7%	13.7%
Commercial Funding Liabilities Ratio	97.1%	52.3%	99.8%	105.6%	99.0%	104.8%
Debt to Equity	8.4	2.6	12.6	10.3	8.3	6.3
Deposits to Loans	82.1%	0.0%	91.0%	89.4%	81.7%	73.2%
Deposits to Total Assets	74.9%	0.0%	80.9%	80.8%	79.6%	66.4%
Portfolio to Assets	85.5%	78.9%	89.3%	85.6%	84.5%	83.0%
OUTREACH INDICATORS						
Number of Active Borrowers	946	436	946	1,568	1,500	803
Percent of Women Borrowers	60.8%	60.4%	60.8%	54.7%	68.8%	69.9%
Number of Loans Outstanding	946	552	946	2,079	1,705	891
Gross Loan Portfolio	2,325,141	5,058,117	1,722,224	5,701,737	3,961,209	2,114,189
Average Loan Balance per Borrower	3,550	6,919	3,250	3,636	2,641	1,806
Average Loan Balance per Borrower/ GNI per Capita	58.2%	119.7%	49.1%	56.6%	55.3%	40.5%
Average Outstanding Balance	3,276	5,768	2,675	3,041	2,389	1,568
Average Outstanding Balance / GNI per Capita	53.3%	99.8%	44.7%	47.4%	53.6%	35.2%
Number of Voluntary Depositors	283	0	361	361	462	497
Number of Voluntary Deposit Accounts	331	0	450	450	632	612
Voluntary Deposits	1,490,178	0	1,828,944	3,833,017	1,231,965	846,209
Average Deposit Balance per Depositor	4,792	0	4,792	4,464	4,687	5,695
Average Deposit Account Balance	4,095	0	4,095	3,722	4,103	5,459
MACROECONOMIC INDICATORS						
GNI per Capita	5,780	5,780	5,780	5,780	4,460	4,460
GDP Growth Rate	6.7%	6.7%	6.7%	6.7%	6.4%	6.4%
Deposit Rate	5.1%	5.1%	5.1%	5.1%	4.0%	4.0%
Inflation Rate	9.0%	9.0%	9.0%	9.0%	9.7%	12.7%
Financial Depth	37.9%	37.9%	37.9%	37.9%	33.4%	33.4%
OVERALL FINANCIAL PERFORMANCE						
Return on Assets	0.3%	-0.4%	0.4%	0.1%	-0.4%	-0.3%
Return on Equity	4.1%	-1.8%	22.6%	2.3%	-0.7%	-2.9%
Operational Self-Sufficiency	108.6%	118.3%	105.2%	111.7%	105.4%	108.5%
Financial Self-Sufficiency	101.6%	100.6%	102.0%	100.5%	100.3%	101.1%
REVENUES						
Financial Revenue/ Assets	29.4%	25.3%	32.3%	27.3%	28.6%	33.3%
Profit Margin	1.6%	0.6%	1.9%	0.5%	0.3%	1.1%
Yield on Gross Portfolio (nominal)	34.7%	30.1%	35.6%	31.0%	31.0%	38.0%
Yield on Gross Portfolio (real)	23.6%	19.4%	24.4%	20.2%	19.4%	22.5%
EXPENSES						
Total Expense/ Assets	29.9%	25.6%	31.7%	27.2%	31.3%	33.9%
Financial Expense/ Assets	14.6%	9.7%	15.5%	9.3%	15.5%	15.6%
Provision for Loan Impairment/ Assets	1.7%	1.6%	1.9%	1.6%	1.3%	1.0%
Operating Expense/ Assets	11.6%	14.7%	11.3%	11.8%	14.9%	11.7%
Personnel Expense/ Assets	5.9%	7.7%	5.6%	5.4%	5.9%	6.2%
Administrative Expense/ Assets	5.2%	5.3%	5.2%	6.2%	5.4%	4.7%
Adjustment Expense/ Assets	0.7%	5.3%	0.4%	1.1%	0.4%	1.4%
EFFICIENCY						
Operating Expense/ Loan Portfolio	14.8%	16.9%	13.9%	14.1%	18.5%	14.7%
Personnel Expense/ Loan Portfolio	7.2%	9.2%	6.7%	6.2%	7.6%	7.1%
Average Salary/ GNI per Capita	175.4%	251.6%	143.2%	195.1%	228.8%	130.3%
Cost per Borrower	500	1,025	429	518	343	202
Cost per Loan	489	968	372	512	339	178
PRODUCTIVITY						
Borrowers per Staff Member	41	24	50	32	41	54
Loans per Staff Member	43	30	54	38	47	51
Borrowers per Loan Officer	88	52	98	98	67	129
Loans per Loan Officer	90	64	99	107	91	145
Voluntary Depositors per Staff Member	13	0	30	12	13	15
Deposit Accounts per Staff Member	19	0	42	17	19	16
Personnel Allocation Ratio	51.0%	43.7%	53.6%	41.2%	55.1%	44.1%
RISK AND LIQUIDITY						
Portfolio at Risk> 30 Days	2.1%	1.6%	2.4%	2.2%	1.7%	1.1%
Portfolio at Risk> 90 Days	1.2%	1.4%	1.2%	1.2%	1.1%	0.3%
Write-off Ratio	0.7%	1.1%	0.3%	1.0%	0.5%	0.7%
Loan Loss Rate	0.7%	1.0%	0.3%	1.0%	0.5%	0.7%
Risk Coverage Ratio	65.9%	50.4%	76.8%	111.5%	90.0%	72.6%

Russia Benchmarks and Trends

	CEE	Caucasus	Central Asia	Russia Non-bank	CEE Non-bank	Caucasus Non-bank	Central Asia Non-bank
INSTITUTIONAL CHARACTERISTICS							
Number of MFIs	17	29	35	38	14	24	27
Age	10	9	4	6	11	9	4
Total Assets	9,099,396	6,972,106	5,179,600	2,663,190	6,624,939	4,787,418	2,600,899
Offices	12	9	8	5	12	8	4
Personnel	48	83	99	20	39	47	56
FINANCING STRUCTURE							
Capital/ Asset Ratio	34.0%	23.8%	25.9%	7.3%	42.6%	27.5%	30.5%
Commercial Funding Liabilities Ratio	59.1%	55.4%	48.2%	97.1%	39.3%	44.6%	45.0%
Debt to Equity	1.9	3.2	2.3	8.9	1.3	2.6	2.2
Deposits to Loans	0.0%	0.0%	0.0%	85.1%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	76.1%	0.0%	0.0%	0.0%
Portfolio to Assets	75.9%	83.9%	87.1%	85.8%	72.5%	87.4%	87.7%
OUTREACH INDICATORS							
Number of Active Borrowers	2,691	9,399	5,172	741	2,036	7,481	2,439
Percent of Women Borrowers	42.1%	42.7%	46.6%	60.8%	42.1%	43.8%	48.9%
Number of Loans Outstanding	2,697	9,399	5,307	819	2,036	7,481	2,439
Gross Loan Portfolio	6,258,263	6,866,009	4,695,306	2,139,965	5,352,020	4,537,675	2,481,520
Average Loan Balance per Borrower	4,812	883	755	3,461	3,664	760	577
Average Loan Balance per Borrower/ GNI per Capita	85.1%	39.0%	97.5%	56.3%	77.1%	34.5%	78.8%
Average Outstanding Balance	4,375	883	755	3,124	3,553	757	542
Average Outstanding Balance / GNI per Capita	79.7%	38.7%	91.3%	50.0%	77.1%	34.5%	78.8%
Number of Voluntary Depositors	0	0	0	294	0	0	0
Number of Voluntary Deposit Accounts	0	0	0	332	0	0	0
Voluntary Deposits	0	0	0	1,490,178	0	0	0
Average Deposit Balance per Depositor	1,394	1,286	1,067	4,792	37	0	1,067
Average Deposit Account Balance	1,394	1,079	1,128	4,095	37	0	4,370
MACROECONOMIC INDICATORS							
GNI per Capita	3,990	2,109	653	5,780	4,420	2,227	653
GDP Growth Rate	6.0%	13.4%	8.2%	6.7%	6.0%	13.6%	8.2%
Deposit Rate	6.7%	9.5%	8.4%	5.1%	6.7%	9.5%	8.4%
Inflation Rate	8.4%	9.2%	10.8%	9.0%	8.4%	9.2%	10.8%
Financial Depth	44.3%	19.0%	28.6%	37.9%	44.3%	19.0%	28.6%
OVERALL FINANCIAL PERFORMANCE							
Return on Assets	-1.4%	0.7%	2.5%	0.3%	-2.8%	0.1%	3.4%
Return on Equity	-5.0%	2.5%	13.0%	4.1%	-7.0%	0.5%	13.8%
Operational Self-Sufficiency	105.7%	132.5%	132.3%	108.6%	103.4%	128.9%	132.3%
Financial Self-Sufficiency	95.2%	110.8%	119.9%	101.6%	91.6%	106.1%	120.2%
REVENUES							
Financial Revenue/ Assets	17.7%	29.3%	33.7%	30.5%	19.2%	31.1%	36.7%
Profit Margin	-5.0%	9.8%	16.6%	1.6%	-9.3%	5.8%	16.8%
Yield on Gross Portfolio (nominal)	23.5%	35.1%	38.9%	35.0%	24.6%	38.8%	41.7%
Yield on Gross Portfolio (real)	14.8%	19.8%	24.9%	23.9%	17.7%	21.9%	28.6%
EXPENSES							
Total Expense/ Assets	21.5%	26.9%	27.0%	30.6%	24.7%	27.9%	31.5%
Financial Expense/ Assets	7.5%	10.4%	10.1%	14.9%	8.2%	10.7%	11.3%
Provision for Loan Impairment/ Assets	0.9%	0.8%	1.1%	1.7%	1.3%	0.8%	1.1%
Operating Expense/ Assets	11.0%	15.9%	14.7%	11.6%	13.0%	18.0%	18.1%
Personnel Expense/ Assets	4.5%	8.8%	8.0%	5.9%	5.1%	9.2%	10.0%
Administrative Expense/ Assets	6.7%	6.2%	6.6%	5.2%	7.1%	6.8%	7.4%
Adjustment Expense/ Assets	2.0%	3.3%	2.5%	0.7%	3.5%	3.7%	2.7%
EFFICIENCY							
Operating Expense/ Loan Portfolio	14.9%	18.3%	19.5%	14.8%	18.4%	20.6%	20.7%
Personnel Expense/ Loan Portfolio	5.8%	9.4%	9.9%	7.2%	7.3%	11.9%	12.1%
Average Salary/ GNI per Capita	301.3%	370.2%	624.1%	162.1%	301.3%	344.8%	624.1%
Cost per Borrower	697	150	114	480	550	141	112
Cost per Loan	654	148	117	463	531	141	114
PRODUCTIVITY							
Borrowers per Staff Member	45	90	68	44	48	95	70
Loans per Staff Member	47	90	68	46	48	95	71
Borrowers per Loan Officer	128	212	159	88	123	207	172
Loans per Loan Officer	130	212	159	90	126	207	172
Voluntary Depositors per Staff Member	0	0	0	18	0	0	0
Deposit Accounts per Staff Member	0	0	0	24	0	0	0
Personnel Allocation Ratio	42.4%	37.8%	38.7%	52.0%	46.5%	38.9%	42.7%
RISK AND LIQUIDITY							
Portfolio at Risk> 30 Days	2.5%	0.2%	0.9%	2.1%	3.0%	0.2%	0.9%
Portfolio at Risk> 90 Days	1.1%	0.2%	0.5%	1.2%	1.4%	0.2%	0.4%
Write-off Ratio	0.6%	0.2%	0.3%	0.7%	0.7%	0.2%	0.3%
Loan Loss Rate	0.4%	0.2%	0.2%	0.6%	0.4%	0.2%	0.2%
Risk Coverage Ratio	69.2%	238.8%	122.3%	62.6%	59.5%	240.0%	130.8%

Russian Microfinance Analysis and Benchmarking Trends Report 2008

This publication was jointly produced by the Russian Microfinance Center (RMC) and the Microfinance Information Exchange, Inc. (MIX).

About RMC

The Russian Microfinance Center (RMC) was established in July 2002 in response to the need for an organization which represents and advocates for the interests of the entire microfinance community.

The RMC's mission is to promote a strong and sustainable microfinance sector in the Russian Federation, facilitate access to financial resources for SME and low-income people, create jobs and improve living standards of the poor. RMC serves as a resource center for Russia's microfinance industry and a national forum for its interaction with the government, public, and investors; it advocates for an enabling legal environment for microfinance; offers training and professional consulting services to microfinance institutions, and promotes national microfinance standards. RMC sees its role in promoting the development of the entire Russian microfinance market and consequently, all types of microfinance providers. Starting from 2005 RMC is a partner of the MIX and accomplishes collection and analysis of information received from Russian microfinance institutions.

About MIX

MIX is the leading provider of business information and data services for the microfinance industry. Dedicated to strengthening the microfinance sector by promoting transparency, MIX provides detailed performance and financial information on microfinance institutions, investors, networks and service providers associated with the industry. MIX does this through a variety of publicly available platforms, including MIX Market (www.mixmarket.org) and the MicroBanking Bulletin.

MIX is a non-profit company founded by CGAP (the Consultative Group to Assist the Poor) and sponsored by CGAP, the Citi Foundation, Deutsche Bank Americas Foundation, Omidyar Network, Open Society Institute & the Soros Economic Development Fund, IFAD (International Fund for Agricultural Development), Bill & Melinda Gates Foundation, and others. MIX is a private corporation. For more information, visit www.themix.org.

RUSSIAN MICROFINANCE CENTER

Email: info@rmcenter.ru
http://rmcenter.ru

Microfinance Information eXchange

Email: info@themix.org
www.themix.org