

Analysis of Microfinance Development in Russia

Part II. Non-Bank Microfinance Institutions Supply Assessment

Summary

Moscow, 2004





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Any opinions expressed herein are the opinions of the authors, and do not necessarily reflect the views of USAID.

<http://www.usaid.ru>

This paper is Part II of the Analysis of Microfinance Development in Russia undertaken as part of the USAID-supported project: The Inter-Parliamentary Working Group for SME Support "The Russian Duma – the US Congress."

Part I assessed the demand for microfinance services; it is available from the Center's website http://www.rcsme.ru/libArt.asp?id=4333&r_id=145&l_id=1.

A central purpose of this effort was to build an aggregated picture, both qualitative and quantitative, of the current state of market supply of microfinance services. In addition to a general review, another important objective of the project was a case by case analysis of the key market participants to help potential investors and donors both in and outside Russia to choose the most effective ways of investing in the development of microfinance in Russia. The data gathered in the project will be used to produce an All-Russian Catalogue of Microfinance Institutions (MFIs) featuring profiles of microfinance service providers.

The Project Participants:



FINCA International, Ltd.

<http://www.villagebanking.org>



The Russian Microfinance Center

<http://www.rmcenter.ru>



The Russian SME Resource Centre

<http://www.rcsme.ru> , <http://www.sme-news.ru>

Summary of Main Findings

Microfinance is increasingly common in the Russian market; it is penetrating the country's financial system, complementing conventional banking services and providing better access to finance for businesses and individual borrowers who find it difficult to meet the banks' standards.

Russia does not have a formal definition of microfinance in its legislation. However, the country's existing legal and normative framework permits microlending operations in various institutional formats. Generally, these are non-profit institutions, such as consumer and credit cooperatives, funds, and non-governmental MFIs. Currently, Russia's microlending market is semi-formal, which is, in fact, a good thing, because it facilitates a 'natural selection' of the most efficient microlending products and formats.

In defining microfinance we looked at those macroeconomic effects that are normally associated with the development of this instrument. Using this approach, we can define microfinance as legitimate provision to SME and individuals with limited access to conventional banking financial and complementary social services aimed, from the point of view of their macroeconomic effect, at alleviating social tensions, improving standards of living, facilitating employment and entrepreneurship. It should be emphasized that the services are not limited to loans, but include savings, micro-leasing, consulting and training. Further, in defining microfinance for the purposes of this paper, we imposed an artificial limit of 300,000 rubles as a maximum value of a service.

In the absence of official statistics on MFIs, a sample-based survey was undertaken to identify the main parameters. The sample included 229 non-bank institutions registered in 62 Russian regions. These are the most active legally operating microfinance providers. By expert estimates, the institutions surveyed account for about 30 – 40% of all active microfinance providers in Russia, and by their scope and size of operation they cover 50 - 60% of the entire microlending market.

By expert estimates based on the project findings, the lending part of the microfinance market is approximately 4.6 – 5.6 bln rubles. In 60% of cases, they make business loans with maturities up to 12 months.

The client base of microfinance institutions is estimated at 160-180,000 customers. Individual entrepreneurs are the biggest group served by 80% of the MFIs surveyed; 64% serve physical persons (not entrepreneurs); 53% lend to SME (legal entities), and 40% lend to farmers.

Microfinance allows its borrowers to overcome the limitations they encounter when trying to access bank credits.

One of the main limitations in accessing bank credits is the lack of acceptable collateral. In contrast, a major advantage of microfinance is its ability to overcome this limitation. As opposed to banks, MFIs are not bound by formal regulations concerning collateral availability and quality, so they have developed an extensive experience of using unconventional forms and methods to secure loan repayment.

Some MFIs work with a well-defined customer group and use psychological motivation to ensure repayment, so they do not require any 'material' collateral. Uncollateralized loans are especially common in consumer cooperation, where the coop's members (shareholders) know each other personally and can take someone's word as a guarantee. Thus, nearly half (46% of the respondents) credit consumer cooperatives of individuals (CCCI) do not require collateral, similarly to 21% of agricultural credit consumer cooperatives (ACCC) and 27% of credit cooperatives (CC), which use 'psychological' methods to ensure repayment.

Another factor limiting access to bank credits for SME and low-income population is the gap between amounts requested by the consumers and those offered by the banks. Again, MFIs offer credit products which are smaller in size and match the needs of this type of borrowers. Thus, in one quarter of the MFIs, average loan size was equal or less than USD 575.

And finally, the cost of credit for the borrower is an important consideration. Whereas loan interest rates are higher in the microfinance sector than in the conventional banking sector, they are still quite acceptable. Thus, the average maximum interest rate on ruble loans across MFIs was 45%

annually. It should be noted that in certain cases, such as specific subprograms, MFIs establish a special discounted interest rate for target groups of customers - most often, for agricultural producers or MFIs engaged in production.

Loan size, maturities and interest rates suggest that microfinance is most suited for trade and service businesses as a way to finance their working capital.

Savings are the second most common type of microfinance services. Here, the market capacity is about 2 billion rubles and 100,000 savers. Only some MFIs, and not others, are permitted by law to capture savings. The survey findings confirmed that savings-related operations are allowed to MFIs registered as consumer cooperatives, credit consumer cooperatives of individuals, and agricultural credit consumer cooperatives.

From the point of view of financial performance, it should be noted that portfolios at risk in most Russian MFIs are within international standards, and in 50% of cases, within four percent. The loan repayment rates are virtually the same as in the conventional banking sector. In one MFI out of two, delinquency rates were within 2,7%. Moreover, MFIs are fairly profitable, with the average operational sustainability rate of 127%.

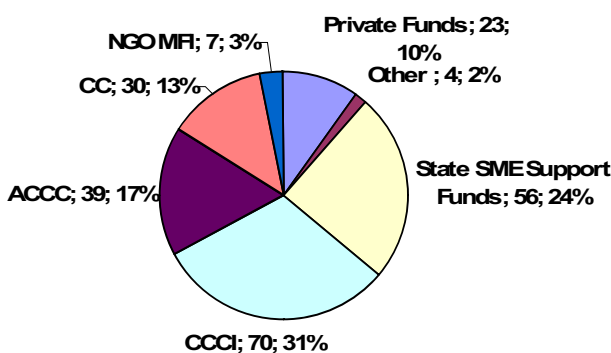
Therefore, while the Russian microfinance market has evolved relatively recently and still faces a number of unresolved issues with methodology and legislation, it has good prospects of development. There are a number of reasons, the most important ones being as follows:

- firstly, effectiveness (due to a good match between demand and supply) of microlending as an instrument improving access to debt financing for small entrepreneurs;
- secondly, real and high demand for microlending services.
- thirdly, high level of efficiency and financial sustainability of institutions operating in this market segment.
- fourthly, active efforts aimed at institutionalization and integration of industry-wide operational standards;
- and, finally, the experience of other countries, including Western Europe and the US, shows that various forms of financial intermediaries can enjoy a sustainable coexistence in the market of SME debt financing, allowing us to expect the Russian microfinance market development to be sustainable over the long term.

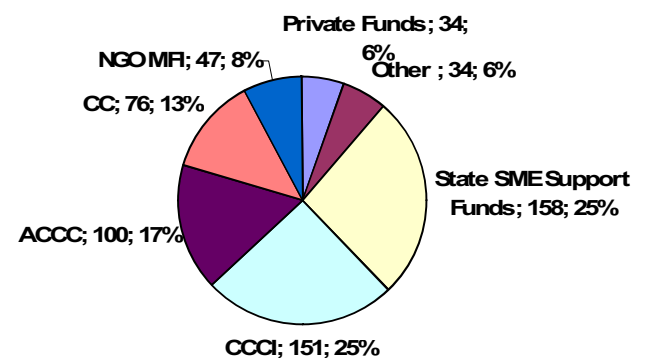
A Typology of Microfinance Providers

In Russia today, microlending services are provided, in the first place, by various credit cooperatives. The institutions surveyed for this report included credit consumer cooperatives of individuals – 31%, agricultural credit consumer cooperatives -17% and credit cooperatives/consumer societies - 13%. Various funds providing microfinance services were also numerous - 34%, including State-run SME Support Funds - 24%. While the so-called NGO MFIs - and here we mean institutions such as FINCA, FORA, and Russian Women’s Microfinance Network (RWMN) - account for only 3% of all institutions surveyed, this type of organizations creates a major part of microfinance market supply. It should be noted, however, that the percentages above do not take into account branches and affiliates of the MFIs surveyed.

Graph 1 A Typology of Microfinance Providers (without autonomous divisions, affiliates and networks), in figures and % of the total surveyed

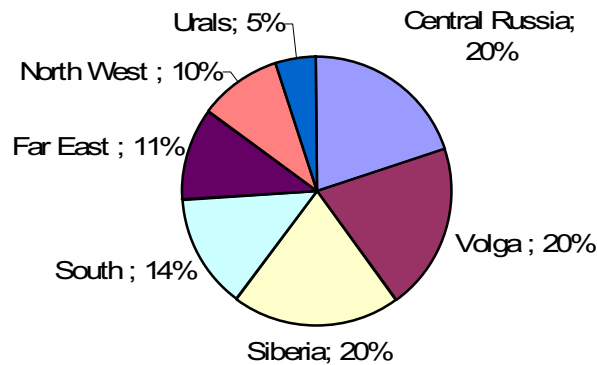


Graph 2 A Typology of Microfinance Providers (with autonomous divisions, affiliates and networks), in figures and % of the total surveyed

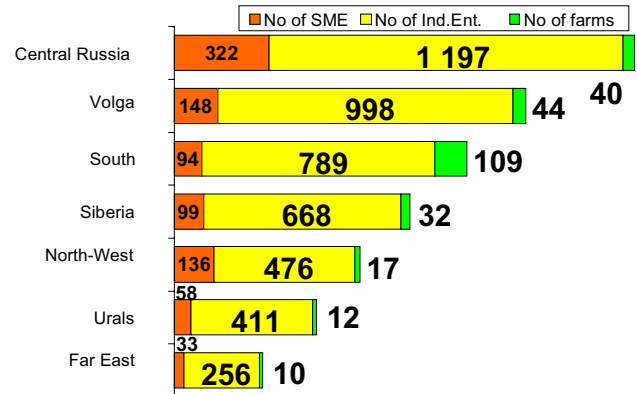


Geographic Coverage of Russian Microfinance Institutions

Graph 3 Geographic Coverage of Russian MFIs, % of the total surveyed



Graph 4 Number of SME, thousands



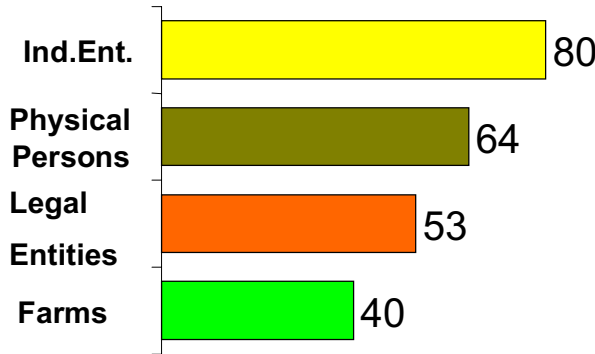
/Official statistics/

Microfinance services are unevenly distributed over the Russian territory, depending, firstly, on the availability of international programs, and secondly, on the attitudes of regional and local authorities to SME, and lastly, on the overall level of social and economic development in the region - this instrument is better developed in more advanced regions. The survey showed that microfinance has been developing more actively in the Central, Privolzhsky (Volga) and Siberian Federal Districts. Nizhny Novgorod and Rostov Oblasts are leaders among the regions. The geographic coverage of microfinance and its contributing factors demonstrate that the focus of microfinance has shifted from alleviating poverty to supporting small, but functioning businesses.

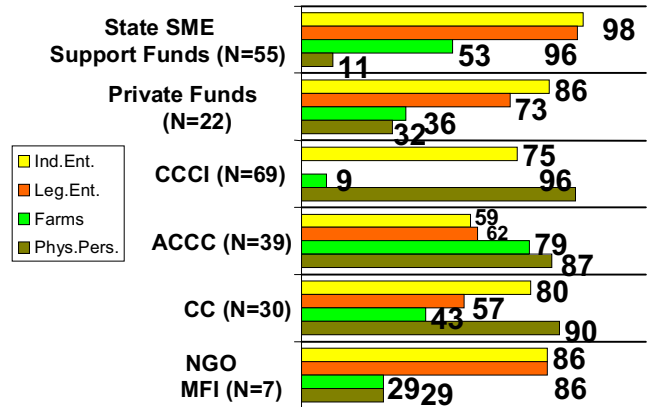
Target Customer Groups of Russian MFIs

The main customers of MFIs are individual entrepreneurs (operating as individuals, rather than legal entities). As many as 80% of all MFIs surveyed serve this group. Given the specific focus of Russian microfinance on supporting small enterprise, and the fact that individual entrepreneurs account for more than 80% of Russian SME, the finding is not surprising. Individuals (physical persons) who are not (yet) entrepreneurs are the second largest customer group for Russian MFIs (including lending to start-up entrepreneurs, as well as consumer lending). SME that are legal entities were served by one out of two MFIs surveyed. And lastly, farms could access microlending services from 40% of the MFIs in the sample - naturally, most of these MFIs were agricultural credit consumer cooperatives (Graph 5).

Graph 5 Structure of the Russian MFI customer base, % of the respondents (N=229)



Graph 6 Structure of the customer base of certain MFI types, % of the respondents

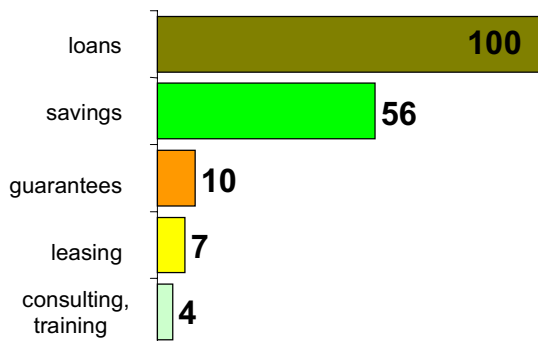


Services Provided by Russian MFIs

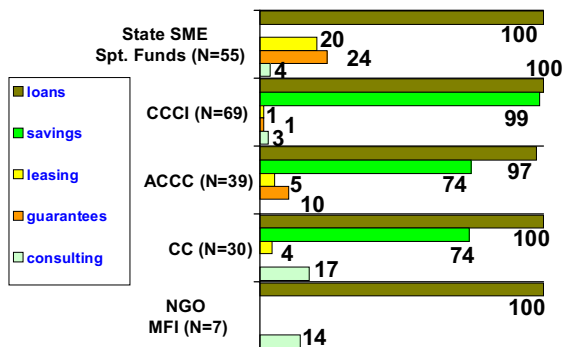
Lending is the most important operation for all microfinance providers surveyed, without exception. A little more than half of all MFIs capture savings. Whereas all of MFI clients borrowed from the institutions, only some of them would deposit their savings, ranging between 31% savers of the total SME borrowers and 83% savers of the total individual borrowers (physical persons). As a reminder, only some types of MFIs and not others can capture deposits, and the survey findings have demonstrated once again that savings are captured by MFIs operating in the form of cooperatives. Other services include guarantees and microleasing operations offered by 10% and 7% of all MFIs, respectively.

A number of MFIs in the sample reported training and consulting their customers – 4% MFIs, without branches and affiliates. However, there is no doubt that the actual rate of consulting as part of normal MFI operation is much higher.

Graph 7 Services Provided by Russian MFIs, % of the respondents (N=226)



Graph 8 Services Provided by MFI Type, % of the respondents



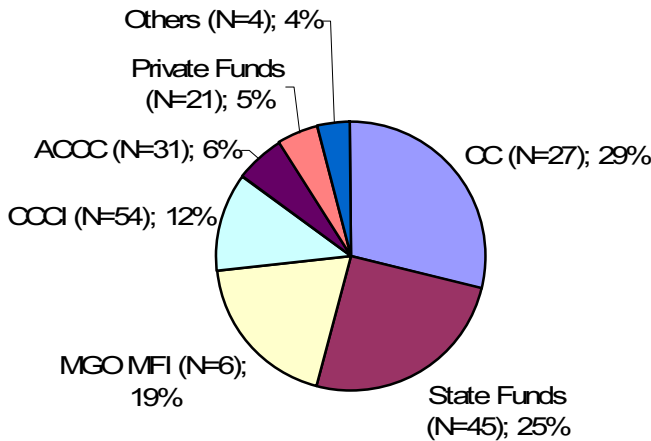
Data on Loans

Loan Portfolio of Russian Non-bank MFIs

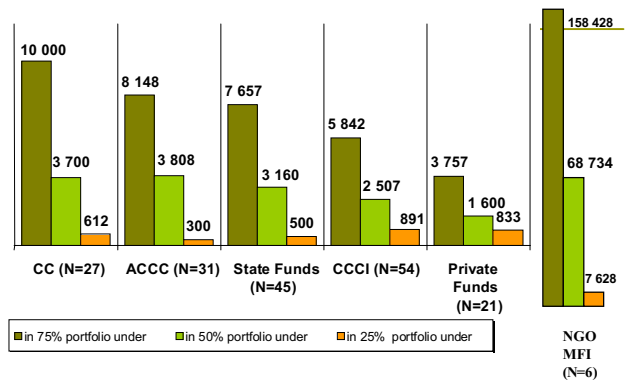
The total loan portfolio of the surveyed institutions was 2.8 billion rubles as of January 1, 2004.

Credit cooperatives (consumer societies) accounted for as much as 30% of the total loan portfolio. About a quarter of the total consisted of loans made by state and municipal SME support funds. Almost 20% of the portfolio belonged to NGO MFIs. NGO MFIs were first set up with support from international donors, so the substantial amounts of their loans demonstrate the important role of international programs in the development of Russia’s microfinance sector.

Graph 9 Distribution of the Total Loan Portfolio as of January 1, 2004 /Total Loan Portfolio of the 118 MFIs surveyed was 2.8 bln rubles. /, mln. rubles., % of the respondents



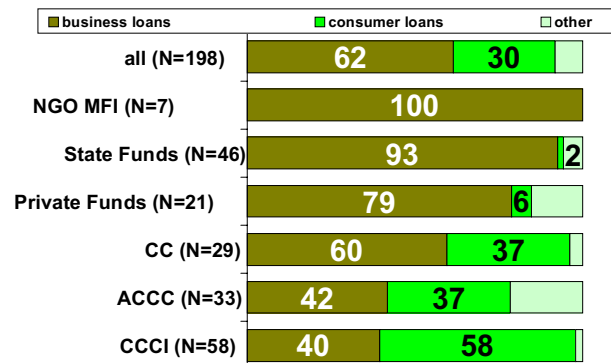
Graph 10 Loan Portfolios of Different MFI Types, thousand rubles.



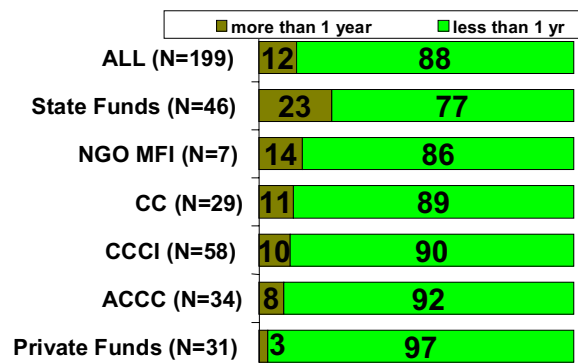
Due to high diversity of findings both across the entire sample and within certain types of MFIs, it would be inappropriate to try to identify ‘average’ portfolios of Russian MFIs or their types. Any such average would be artificial, and would not contribute to our understanding of the phenomenon. This diversity is indirect evidence of the formative stage of Russia’s microfinance sector, which is still in the process of developing standards and formats of operation.

CCCI have the biggest proportion of consumer loans - 58%, which is consistent with the composition of their client base, where individuals form the majority of customers. Notably, cooperatives make 40% of their loans for business development - as much, in fact, as they can legally lend for this purpose. Short-term loans with maturities under one year dominate their portfolios.

Graph 11 Structure of Loan Portfolio by Purpose as of January 1, 2004., %



Graph 12 Structure of Loan Portfolio by Maturity, as of January 1, 2004., %



Small average loan size confirms that microloans are used to finance working capital. Thus, two thirds of the surveyed MFIs made average loans of 77,000 rubles or less, half of the MFIs

surveyed made average loans of 37,000 rubles or less, and in one quarter of the MFIs average loans were of 17,000 rubles or less. The fact that average loans are relatively small both suggests the specific purpose for which the money is used, and also demonstrates that most of Russian MFIs' customers are small borrowers.

CCCI's make the smallest loans, consistent with their target group – individuals, and their main objective of meeting consumer needs, rather than financing businesses. A quarter of CCCIs surveyed made average loans of 9,000 rubles or less! (Graph 13).

Graph 13 Average Loans Made by MFIs, thousand rubles.

MFI Customer (Borrower) Base

The number of borrowers in all surveyed institutions totaled approximately 98 thousand, which, extrapolated to all Russian MFIs, would be about 160 – 180,000 borrowers.

Graph 14 Distribution of Active Customers as of January 1, 2004, in figures and % /Total customers in the MFIs surveyed – 97,824/

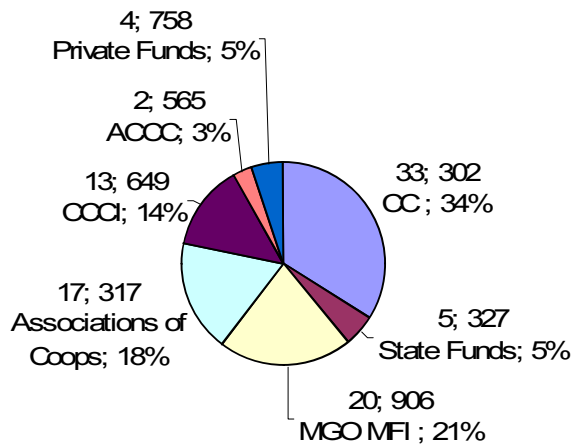


Table 1. MFI Customer Base, in figures (active customers as of January 1, 2004)

	25% - equal or less than	50% - equal or less than	75% - equal or less than
<i>A</i>	<i>2</i>	<i>3</i>	<i>4</i>
All MFIs (N=184),	19	61	265
<i>including</i>			
State Funds (N=44)	8	40	117
Private Funds (N=20)	9	30	170
CCCI (N=53)	36	98	400
ACCC (N=29)	19	44	145
CC (N=29)	18	109	975
NGO MFI (N=7)	178	600	4 322

This substantial customer base has been built through active efforts of the following types of MFIs in particular:

- consumer societies: they serve 34% of all active borrowers¹;
- NGO MFIs with their branches and networks - their share is 21% of all borrowers;
- associations of credit unions and cooperatives serve 18% of the total number of active borrowers.

Accessibility of Microfinance

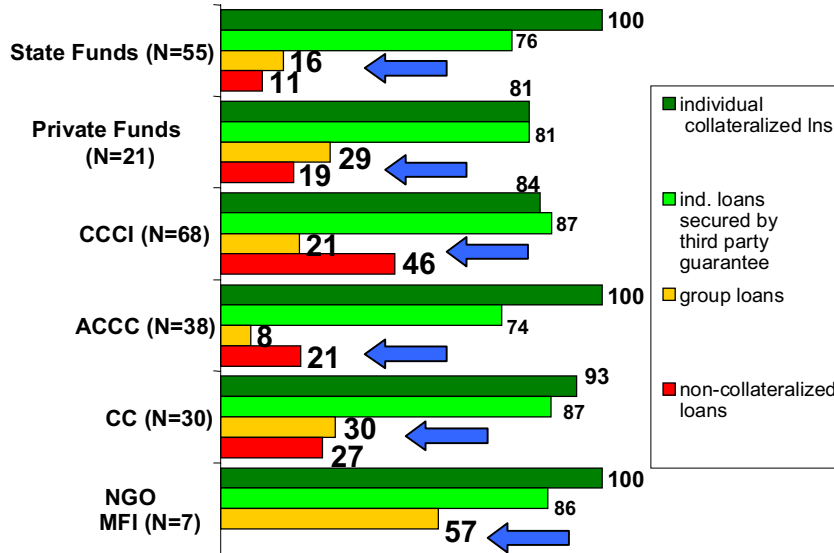
Loan Security

As opposed to banks, MFIs are not bound by formal regulations concerning collateral availability and quality, so they have developed an extensive experience of using unconventional forms and methods to secure loan repayment. Uncollateralized loans are especially common in consumer cooperation - nearly half (46% of the respondents) credit consumer cooperatives of individuals do not require collateral; 21% of agricultural credit consumer cooperatives and 27% of credit cooperatives also use 'psychological' methods to ensure repayment.

¹ Such a high proportion was due to a major cooperative with 14,000 active customers being included in the sample.

NGO MFIs which rely extensively on international methodologies and standards use peer group loan guarantees more often than other MFIs - specifically, more than half of NGO MFIs use peer group guarantees to ensure repayment (Graph 15).

Graph 15 Loan Types by Collateral Provided, % of MFIs surveyed /arrows point to unconventional types of collateral/



State Funds are more conventional in their approach to collateral requirements, which is understandable given that they are bound by the obligation to ensure appropriate use of the funding they receive (primarily from the state budget) to finance their loan portfolio.

Loan Size

One quarter of the MFIs surveyed, theoretically, could make loans of 1,000 rubles or less. The option of small loan amounts was offered by agricultural cooperatives and consumer societies, and consumer cooperatives, in 50% of cases, also could lend small amounts (consistent with their institutional format and objectives, as they originally evolved from the so-called 'mutual aid funds', and their small loans are mostly for consumer, rather than business purposes).

A quarter of the MFIs surveyed established 10,000 rubles as the minimum loan size. State SME Support Funds establish higher minimum amounts than other MFI types - half of them only make loans higher than 10,000 rubles, one quarter lend a minimum of 20,000 rubles to businesses, and one fund indicated 60,000 rubles as its minimum loan.

Similarly, agricultural credit cooperatives establish strict minimum amounts they can lend; thus, two thirds of ACCC do not make loans less than 10,000 rubles; moreover, some cooperatives do not lend less than 30, 40 or 50 thousand rubles. Like funds, their customer base and lending purposes do not allow for very small loans.

MFIs capable of making the biggest loans include NGO MFIs, State SME Support Funds, and agricultural credit cooperatives. At the same time, the survey findings have clearly demonstrated that around one quarter of CCCI and consumer societies are unwilling – even theoretically in their policies – to provide investment funding, so they establish maximum loans at 50 and 70,000 rubles, respectively (Table 2).

Table 2. Loan Size (as established by the institutions' policies), thousand rubles. /the numbers of respondents to the questions about the minimum/maximum loan amounts are given in brackets/

	Minimum loan amount possible			Maximum loan amount possible		
	25% under	50% under	75% under	25% -equal or less than	50% -equal or less than	75% -equal or less than
<i>A</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
All MFIs (N=190/204), total	1	5	10	100	250	300
<i>including:</i>						
State (municipal) SME Support Funds (N=47/51)	5	10	20	100	200	500
Private Funds (N=20/21)	1	4	10	100	200	325
CCCI (N=59/63)	1	1	5	50	200	300
ACCC (N=31/31)	1	5	10	100	300	500
CC (N=24/28)	1	5	10	70	200	300
NGO MFIs (N=6/7)	5	5	9	300	300	1,000

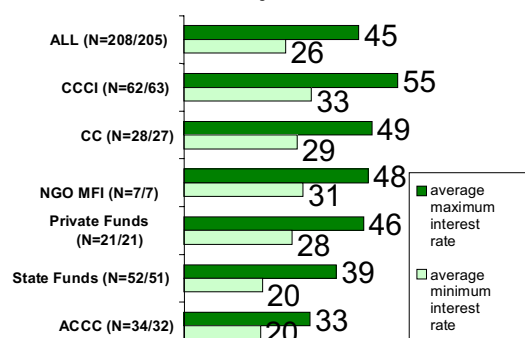
Cost of Microcredit for the Borrower

In most countries, relaxed requirements with regard to the borrower and loan documentation in microfinance are set off by higher cost of money for the borrowers. Russia is not an exception, although the difference between the cost of bank credits and the cost of microloans is not so big here (Table 3 and Graph 16).

Table 3. Average Weighted Interest Rates on Ruble Credits to Individuals and Non-Financial Institutions by Commercial Banks, 2004, % annually

	All ma-turi-ties	up to 30 days	31-90 days	91-180 days	181 days – 1 year	1 – 3 years
<i>A</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
Individuals						
January	18.6	17.5	19.9	15.7	23.0	24.3
April	18.0	15.3	16.6	18.2	18.7	21.1
July	19.5	16.8	19.1	18.9	21.4	20.9
October	20.5	16.4	19.8	21.5	22.3	20.7
Legal Entities						
January	12.4	10.5	14.6	15.1	15.1	15.3
April	12.1	10.5	13.8	13.9	14.3	13.6
July	11.1	10.2	12.1	13.3	12.7	11.0
October	11.0	9.2	13.1	12.9	13.5	12.6

/Bulletin of Banking Statistics. N 1 (1410), Central Bank, Moscow, 2005/

Graph 16 Averaged Maximum and Minimum Interest Rates on Ruble Loans, According to the Institution's Policies, % annually

/the numbers of respondents to the questions about the minimum/maximum loan amounts are given in brackets/

A review of interest rates on microloans clearly shows that this type of finance is accessible to all types of borrowers. Thus, MFIs serving SME – legal entities and farms, establish average maximum annual rates at 33% and 39%, respectively, and those serving individual entrepreneurs and consumers (physical persons) establish their rates at 48% and 49%. The sample-averaged maximum rate on ruble loans was 45% annually (Graph 16). CCCIs made more ‘expensive’ loans than others, while ACCCs made the most affordable loans. State (municipal) SME Support Funds also charge more or less affordable interest rates.

Expanding access to debt finance is the main purpose of microlending programs. The main problem of microfinance in Russia is that the number of MFIs is too small to meet the existing demand, rather than high interest rates on their services. An evidence of this is the high and still unmet demand for microloans estimated at a minimum of 233 billion rubles by entrepreneurs surveyed in the first part of this project. (Table 4).

Table 4. Estimated Customer Base and Demand for Microloans as of end-2002 (Summary Table).²

No	Groups requesting microloans	Size of groups requesting microloans, no of customers, thousand	Value estimate of the demand for microloans, mln.rubles.
<i>A</i>	<i>1</i>	<i>2</i>	<i>3</i>
1	Entrepreneurs, total	2 039,3	from 233,016.3 to 581, 515.9
	<i>including:</i>		
1.1	SME – legal entities	341,4	from 58,242.8 to 100, 678.9
1.2	Individual entrepreneurs (not a legal entity)	1 678,9	from 174,773.5 to 480, 837.0
1.3	Farms	19,0	no data available
2.	Unemployed and low-income people	from 6,482 to 7,292.5	from 729,225 to 820,406.3
	<i>including:</i>		
2.1	Unemployed, <i>including:</i>	from 188 to 998.5	from 21,150 to 112,331.3
2.1.1	Men	from 128 to 395.5	from 14,400 to 44,493.8
2.1.2	Women	from 60 to 603.0	from 6,750 to 67,837.5
2.2	Low-income people, <i>including</i>	6 294	708 075
2.2.1	Men	3 598	404 775
2.2.2	Women	2 696	303 300
	TOTAL:	from 8,521.3 to 9, 331.8	from 962,241.3 to 1, 401,922.2

² Analysis of the Microfinance Development in Russia, Part I. Demand Assessment. Analytical Materials. SME Resource Center, Moscow, 2003.

Savings: Amounts and Terms

Savings Volumes

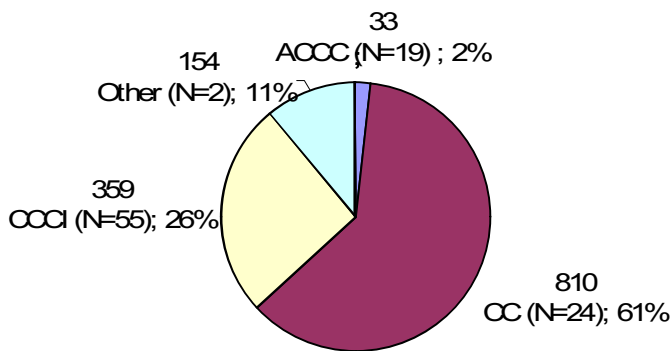
The moment an MFI starts taking deposits, it raises the issues of regulation and supervision. In the case of MFIs, due to relatively small volumes of their operation and limited number of clients (the sector-wide estimate is approximately 2 billion rubles³ and less than 100 thousand savers), there is no risk whatsoever to the country's financial system (Graph 17).

The survey findings show that currently, savings (both voluntary and obligatory for a borrower) are captured only by MFIs registered as consumer cooperatives.

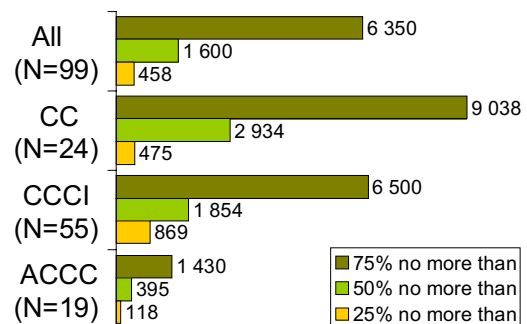
As of January 1, 2004, credit cooperatives (consumer societies) captured the greatest volume of savings. Similarly, CCCIs actively capture their members' savings and channel them to the mutual financial assistance fund to onlend to other members. One CCCI out of two in the sample held at least 1.8 mln. rubles in savings as of January 1, 2004.

ACCCs capture less savings, but have the biggest amounts of savings per saver - half of them reported minimum individual deposits of 78,000 rubles, while in consumer societies minimum deposit is 49,000 rubles, and in CCCIs 39,000 rubles.

Graph 17 Distribution of Captured Savings as of January 1, 2004, mln. rubles. and % total in MFIs respondents – 1.4 bln rubles./



Graph 18 Captured Savings as of January 1, 2004, thousand rubles. - by MFI type



Terms and Conditions of Capturing Savings and Deposits

³ For the sake of comparison, according to the *Bulletin of Banking Statistics No 1 (140)*, as of January 1, 2004, deposits in commercial banks totaled 1,075 for individuals, and 157 billion for legal entities.

One of the reasons why CC and ACCC capture larger deposits is their policy of interest rates on savings. While different MFI types use similar approaches to establishing minimum and maximum interest rates on savings and deposits⁴, CCCIs and consumer societies appear to offer a slightly higher maximum interest rate (27% and 26% annual rate, respectively), than ACCCs with 22% maximum rate (Graph 19).

Graph 19 Averaged maximum and minimum rates on savings, according to the institution's policies, % annually

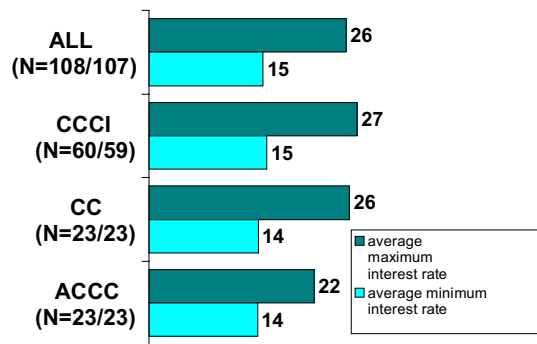


Table 5. Average Weighted Rates on Deposits by Individuals and Non-financial institutions, 2004, % annually

	All maturities	up to 30 days	31-90 days	91-180 days	181 days - 1 year	longer than 1 year
<i>A</i>	<i>1</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	
Individuals						
January	5.7	1.8	7.9	9.6	11.6	10.7
April	4.9	1.3	7.2	8.7	10.6	9.4
July	4.4	1.0	7.7	8.7	10.5	8.2
October	4.9	1.5	6.7	9.0	11.0	8.1
Legal Entities						
January	3.9	1.2	6.5	9.4	11.1	10.6
April	4.1	3.2	5.1	7.9	9.3	9.3
July	3.4	2.5	7.3	7.6	10.0	4.5
October	3.2	2.0	5.4	8.8	9.8	6.0

/Bulletin of Banking Statistics N 1 (1410), Central Bank, Moscow, 2005/

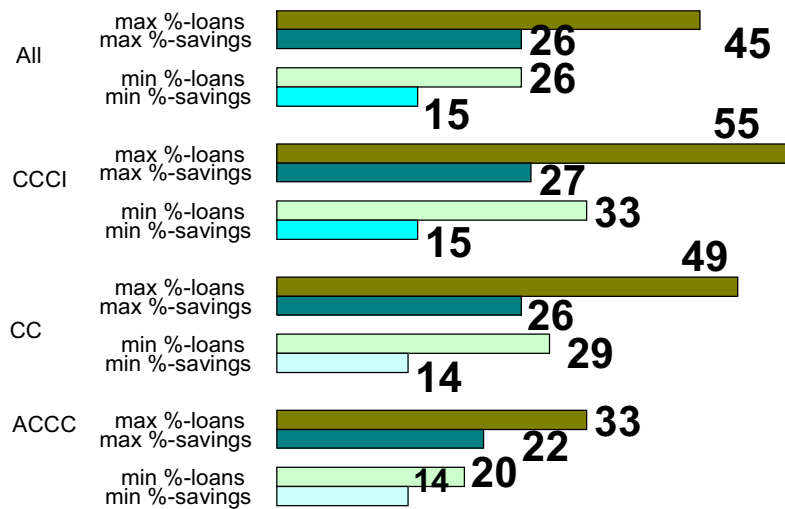
/the numbers of respondents to the questions about the minimum/maximum loan amounts are given in brackets/

As MFIs bear higher risks than banks, their rates on deposits should be higher, which is supported by data in Table 5 and Graph 19. In 2004, the average annual weighted rate in commercial banks was about 5% for individuals and 3.8% for legal entities, including all maturities, while the minimum rate stated in MFI policies was about 15-14% i.e. 3 to 4 times higher.

As MFIs lend at much higher rates than banks, and their resourced for onlending far exceed the amount of savings and deposits they are able to capture, MFIs can afford to offer high rates to their members - savers, especially that they are still getting fairly high margins between their loan and deposit rates (15 to 20%, depending on the MFI type, Graph 20).

⁴ Notably, this is one of the few quantitative indicators, where the sample was more or less homogeneous, suggesting that similar approaches were used across the sample in developing the policies.

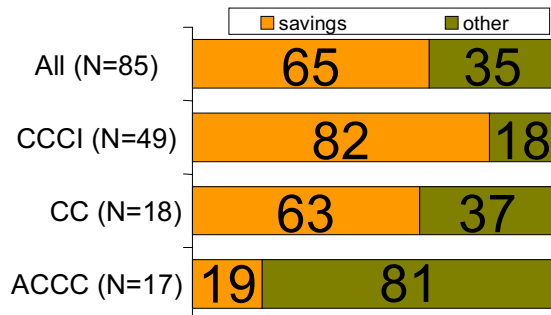
Graph 20 Comparison between interest rates on loans and savings, according to the institution's policies, % annually



Savings as a Source of MFI Capital

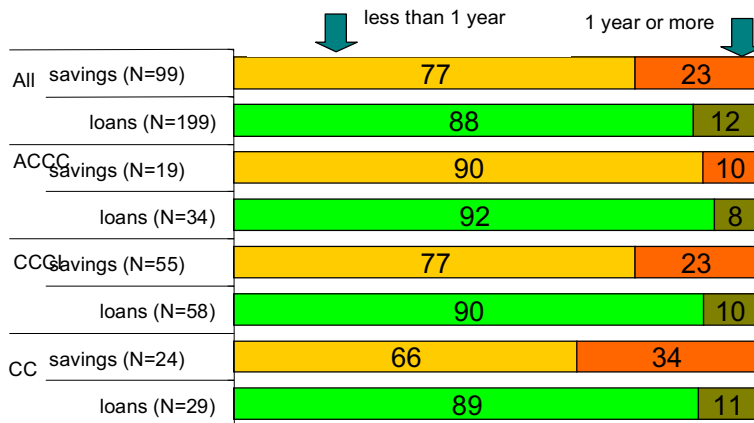
Generally in deposit-taking MFIs, the proportion of captured deposits in the institution's capital was 65%; in CCCIs, most of their liabilities (more than 80%) consisted of savings. In contrast, in agricultural cooperatives, only one fifth of the capital was formed by captured savings of their members (Graph 21).

Graph 21 Share of Savings in MFI Capital, % as of January 1, 2004.



In general across the microfinance sector, more than 77% of total savings amount consisted of those deposited for less than one year, and in ACCCs 90% of all deposits were short-term, deposited for less than 12 months. Consumer societies had the biggest share of long-term deposits, with one third of all savings they captured deposited for more than one year (Graph 22).

Graph 22 Proportions of Savings and Loans by MFI Type, as of January 1, 2004, %



As stated above, MFIs try to attract customers, among other things, by establishing fairly high rates on deposits. This policy of encouraging savings as a source of finance for their loan portfolios caused an increase of savings by a total of 766 mln. rubles across all MFIs surveyed deposited by 19,000 savers (Table 6).

Table 6. Scope of Savings Operations in 2003

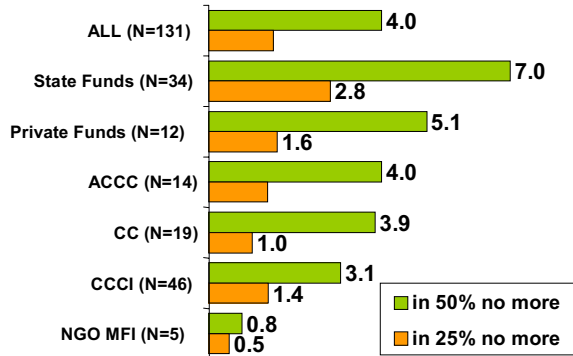
A	added savings, thousand rubles.				added savers in figures			
	in 25% of institutions – equal of less than 1	in 50% of institutions – equal of less than 2	in 75% of institutions – equal of less than 3	total growth 4	in 25% of institutions – equal of less than 5	in 50% of institutions – equal of less than 6	in 75% of institutions – equal of less than 7	total growth 8
All (N=99/97 ⁵)	200	1,200	4,400	766,636	10	30	91	19,356
<i>including</i>								
CC (N=24/25)	212	2,212	6,625	429,368	13	50	198	5,791
CCCI (N=53/52)	452	1,500	4,375	224,135	14	47	128	5,005
ACCC (N=18/18)	62	161	1,196	32,130	4	10	23	268

Loan Portfolio Quality

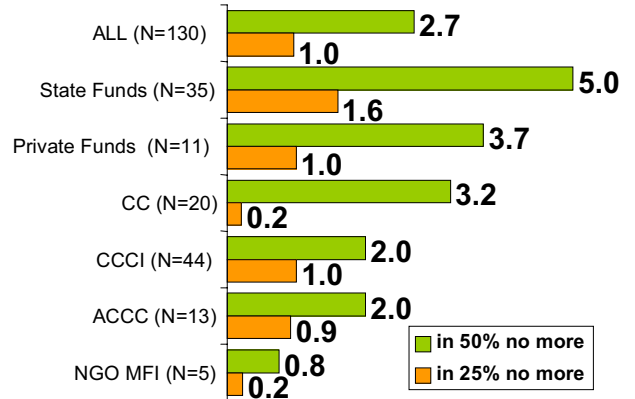
As a benchmark of good performance, we can refer to practices of non-bank MFIs involved in the Russian Microfinance Standards Working Group set up by RMC. Their portfolio at risk varied between 1% and 3%. This survey showed that in most MFIs, risks are close to this standard. Thus, in one out of two institutions in the surveyed sample this ratio was within 4%, and in one out of four it was within 1.5%. The highest risk was characteristic of funds, especially state funds. NGO MFI operations were associated with lesser risk. Due to consistent observance of international principles and standards, their portfolio at risk in 50% of cases was within 0.8% (Graph 23).

⁵ The first number is the respondents to the question about the growth of savings.

Graph 23 Portfolio at risk - delinquencies of more than 30 days, as of January 1, 2004, %



Graph 24 Rate of delinquencies over 30 days, as of January 1, 2004, %



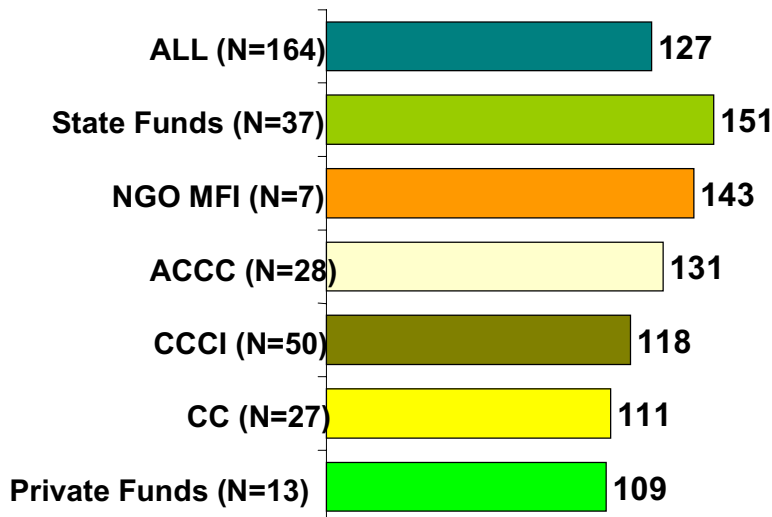
Most Russian MFIs had high repayment rates comparable to those of commercial banks, evidencing the sector's sustainability. Thus, in early 2004, delinquency rates on loans overdue⁶ for more than 30 days was within 2.7% in half of the MFIs surveyed, while in 25% of the MFIs it was within 1% (Graph 24).

Profitability

Alongside good repayment and low portfolio at risk, Russian MFIs are fairly profitable.

All MFI types have attained the average of 127% operational sustainability, covering their financial liabilities, administrative costs of their main operation, and personnel costs by operational income (income from main operation, interest, charges, fees and commissions received on all their financial assets). State Funds and NGO MFIs were the most profitable, with operational sustainability of 151 and 143%, respectively (Graph 25).

Graph 25 Operational sustainability in 2003, %, average



⁶ The ratio of total loans overdue to the total loan portfolio, i.e. total debt receivable.

While the Russian microfinance market is fairly young and faces a range of unresolved problems, it demonstrates good prospects of development for a number of reasons, including its effectiveness as an instrument improving access to debt financing primarily for small entrepreneurs, as shown by Russian as well as international experience. Another important factor is the existing high demand for microfinance services in Russia. It is also worth noting the high efficiency and financial sustainability of institutions operating in this segment of the financial market.