



Microfinance Index of Market Outreach and Saturation

Kyrgyzstan

November 2015

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The microfinance sector in Kyrgyzstan is moderately saturated, with a MIMOSA score of 4.

While the overall strength of regulation is judged relatively poor by EIU Microscope, the specific elements most relevant to sustainable growth are positive. The credit bureau is strong, encompassing all significant lenders in the country, and with six years' of operation, it has the data needed to assess trends. During field interviews, borrowers showed near-unanimous awareness of the credit bureau and consequences of loan defaulting. The lenders likewise have shown care in avoiding multiple borrowing, with only 2.3% of borrowers holding 3+ loans from financial institutions, including banks, MFIs, and credit cooperatives.¹

The market is moderately competitive, with the largest three MFIs (FINCA, Kompanion, and Mol Bulak) each maintaining about 25% market share – a situation that has held steady since at least 2011. Regionally, the most saturated regions – Talas and Naryn – also have the smallest population.

Moreover, while these MFIs cite downscaling banks as a competitive threat, the risk remains modest. In field interviews, while clients were well aware of bank presence, their borrowing was still largely limited to MFIs. For example, in our lender survey MFIs consistently cited Ayil Bank and Optima Bank as competitive risks. However, in our field survey of potential customers, only 3 out of 51 borrowers mentioned having borrowed from either of these two institutions. Nevertheless, potential for increasing competition from banks and small microfinance institutions remains, and this is a risk that should be monitored.

Category	Rating	Indicator	Value
Saturation	4	Loan penetration over capacity	+ 4.6%
	Neutral	Credit card penetration	1.7%
Regulation		Overall quality of regulation	43/100
		Prevention of overindebtedness	3/3
		Appropriate collections	1/2
		Quality of credit bureau & credit reporting	75/100
Competition / overheating		Level of competition (HHI)	1882
		% Borrowers with 3+ loans	2.3%
		Loan portfolio CAGR in value past 3 years	24%
		Loan portfolio growth in value expected next 12 months	12%
Maturity of microfinance institutions		% clients at MFIs <10y or >20y old	26% <10y old
		Experienced crisis in past 15 years	no
Transparency		Composite transparency score	4/4
		% MFIs with ratings in past 2 years	20%
Other risks		FX exposure	<5%
	?	Interest rate level	n.a.

¹ Based on credit information reported as of December 2014 by 23 banks, 4 microfinance companies, 50 microcredit companies, 12 microcredit agencies, and 24 credit unions.

At 24% CAGR portfolio growth, the microfinance sector has trended more than double the nominal economic growth rate of the past three years. However, MFI growth expectations for the next 12 months remain more modest at 12%, roughly even with the economic growth forecast for the same period (unadjusted for inflation). Growth in number of borrowers is expected to remain similarly modest (7.5% for next 12 months). Assuming this level prevails for next three years, the country is likely to increase its level of saturation, just barely retaining a MIMOSA score of 4 by 2017.

The Kyrgyz microfinance sector is moderately mature, with only a quarter of MFIs under ten years of age. And experience with the market downturn in 2011 is still recent enough to temper aggressive lending.

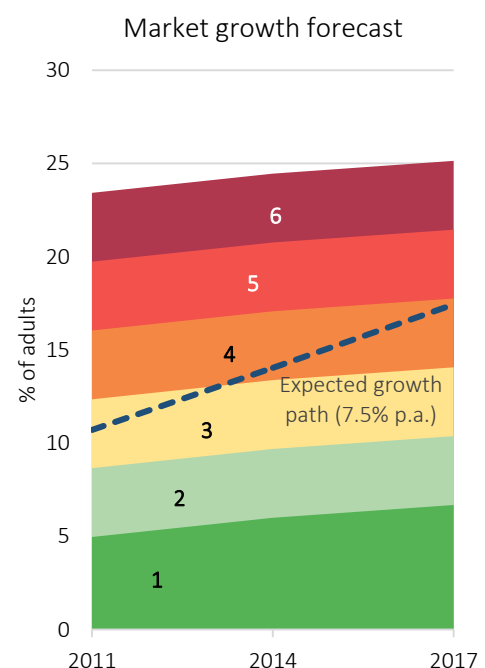
Market transparency is relatively high, mainly because of the role of the Ishenim credit bureau, to which all major lenders report (some small institutions still do not). Ishenim regularly publishes reasonably detailed summaries of lending activity at both national and regional level. On the other hand, ratings play a minor role in the market, with just one of the 5 leading MFIs having been rated in the past two years.

Foreign currency lending is a major factor in the banking sector, comprising roughly half of bank loan portfolios. However, due to regulatory prohibitions, MFIs cannot lend in foreign currency. Since two large MFIs (FINCA and Bai Tushum) recently transformed into banks, they are now allowed to lend in foreign currency, though under tighter Central Bank supervision than had been the case until recently. As a result, while the large currency devaluation experienced in the past 12 months had a significant impact on lenders, microfinance borrowers were not directly affected, at least not through their microfinance loans.

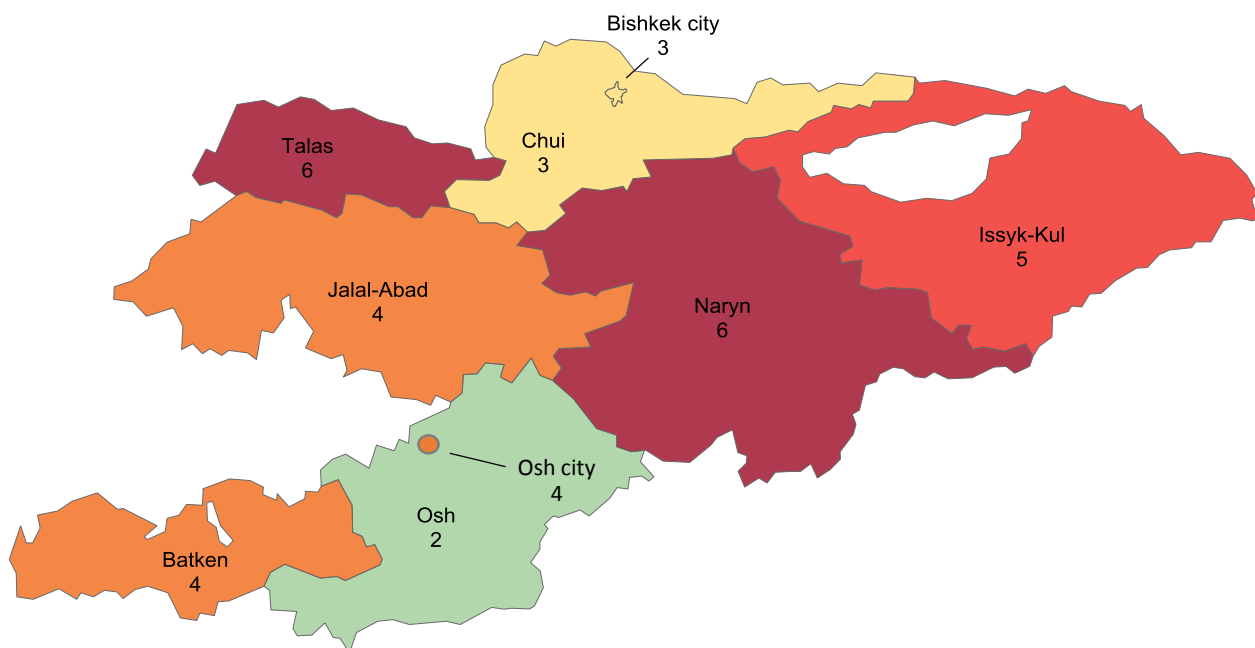
Finally, there are strong regional differences. Talas and Naryn show very high saturation levels, combining some of the highest levels in absolute penetration in the country, despite having some of the lowest levels of absorption capacity. Furthermore, based on feedback from the field, we believe that a significant amount of loans that are designated as being in Osh City may in fact be coming from the surrounding areas in Osh region, which has substantially lower absorption capacity. We thus suspect that the Osh region is likely to have higher penetration than implied by the data, while Osh city itself may have somewhat lower saturation than reported here. So long as growth remains modest, as implied by the forecasts, most of the risk of saturation in Kyrgyzstan is likely to be more regional than national.

	2011	2014	2017*
HDI	0.618	0.628	0.637
Population density per km ²	27.4	27.6	32.0
Credit Bureau Score	31.2	63.7	96.2
Loan capacity	8.6	9.6	10.7
Borrowers per adult	10.7	14.0	17.4
Microfinance loans per adult	12.0	11.4	14.1
MIMOSA Score	3	4	4
Credit card users per adult	0.4	1.7	-
MIMOSA CC penetration score	Neutral	Neutral	-
GDP per capita (current \$)	1,120	1,299	1,473
GDP 3yr CAGR (constant LCU)	2.8%	4.3%	3.4%

* forecasts: IMF for GDP, UNDP for population; MIMOSA for others



MIMOSA Scores by Region



Column no:	1	2	3	4	5	6	7
Region	Population (000s)	HDI	Population density (per km ²)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity
National	5,521	0.628	28	4	9.7	14.0	4.3
Osh	1,095	0.548	38	2	8.3	7.8	-0.5
Jalal-Abad	1,028	0.587	31	4	8.9	13.5	4.5
Bishkek city	946	0.718	1,200	3	18.9	21.5	2.7
Chui	841	0.605	42	3	9.4	10.7	1.4
Issyk-Kul	445	0.644	10	5	9.9	17.5	7.6
Batken	421	0.577	25	4	8.7	12.8	4.1
Naryn	259	0.567	6	6	8.4	19.9	11.5
Osh city	250	0.617	1,200	4	17.0	22.7	5.7
Talas	236	0.589	21	6	8.9	20.6	11.7

Sources: 1: The National Statistical Committee of the Kyrgyz Republic (NSCKR); 2: UNDP; 3: NSCKR; 4-5, 7: MIMOSA calculations; 6: Credit Bureau "Ishehim"

Special discussion: Moderation and long-run sustainability

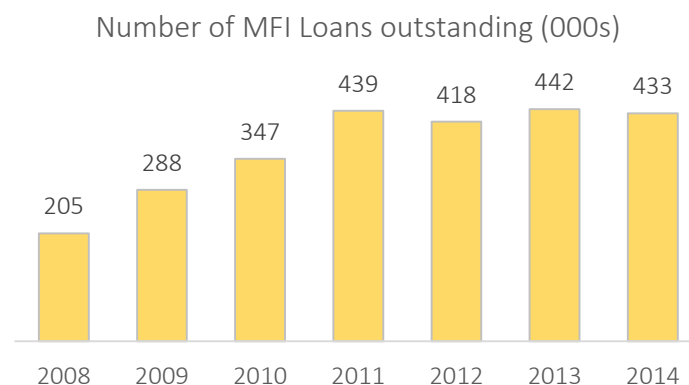
The currently modest level of saturation in Kyrgyzstan is a notable change for a country that a few years ago was seen as one of the more heated markets in the sector. The high level of growth and concerns about over-indebtedness prompted ICCO to commission an over-indebtedness survey in 2011. At the time, multiple borrowing was significant, with 11% of borrowers holding three or more loans. This figure has declined greatly, to just 2.3% of clients in 2014.

This is a result of multi-pronged efforts from several parties. The central bank instituted higher minimum capital requirements for MFIs and additional provisioning for multiple loans. Debt consolidation offers have increased, thus reducing number of multiple loans. And a number of MFIs implemented a policy of a per-client maximum of 2 concurrent loans. The result is that while the number of clients with 3+ loans has seen a four-fold decline, the shift among clients holding two loans was more modest – from 20% in 2011 down to 15% in 2014.

One major trend accompanying these changes has been a period of stasis in the sector, with the number of MFI loans outstanding largely unchanged since 2011 – even as outreach to clients grew. This is a sharp reversal from the pre-2011 period, where rapid growth was accompanied by multiple lending.

Finally, while the banking sector has seen more growth since 2011, it still serves fewer than half the number of clients of MFIs. Judging from our field surveys, it appears that relatively few of these bank clients overlap with the MFI target population.

Overall, in terms of multiple lending, Kyrgyzstan has demonstrated that the practice can be successfully reversed without undermining the sector. Even as its MIMOSA score increased from 3 to 4, the lower levels of multiple borrowing, along with strong regulation and greater management of the risk of overindebtedness suggest that the market is likely more sustainable now than it was in 2011. Maintaining moderate growth in number of borrowers and portfolio not too far ahead of GDP growth will help the Kyrgyzstan microfinance sector remain sustainable.



Source: AMFO, for 2014 Bai Tushum has been included.

User Guide

This is an abbreviated guide. For explanation of the methodology behind the penetration and capacity values, please consult the MIMOSA whitepaper.

The MIMOSA index consists of several measures. The primary score evaluates the degree to which the level of penetration exceeds estimated market capacity. The score levels and their interpretation is shown in the below table.

MIMOSA Score	Penetration over/ under capacity		
	Percentage points	Standard Deviations	Market status
6	>11.1%	3+	Saturated
5	7.4-11.1%	2 to 3	
4	3.7-7.4%	1 to 2	
3	0-3.7%	0 to 1	Normal
2	-3.7 - 0%	-1 to 0	
1	< -3.7%	< -1	Underserved

In addition to the score, we include the component metrics underlying the capacity and penetration calculations:

Human Development Index (HDI): developed by UNDP to assess the level of development, comprising GNI per capita, life expectancy, and education metrics. The scale ranges from 0-1.

Population density per km²: standard measure retrieved from country statistical bureaus.

Credit Bureau Score: derived from the Getting Credit measures in the World Bank Doing Business report. We include the level of coverage, and amount of information (both repayment history and debt outstanding) provided. The scale ranges from 0-400.

Borrowing Capacity: % of adults expected to be active borrowers, based on the MIMOSA model.

Borrowers per adult: derived from multiple sources, including the World Bank Findex survey, central bank reports, credit bureaus, and MIMOSA field surveys.

Microfinance borrowers (% of loans): number of active loans of microfinance institutions. Usually defined either by institutional registration with the regulator or membership in the microfinance association. Multiple loans held with the same institution are counted once.

Credit card borrowers (% of adults): number of adults with an outstanding credit card balance. Figure from Global Findex.

Credit card score: level of penetration vs. capacity. Graded on a three-point scale, indicating a market whose credit card demand is under-served, appropriately served, or over-saturated.

GDP 3-year CAGR (current \$): three year cumulative growth rate of GDP. Figure from IMF WEO.

GDP per capita (constant LCU): figure from IMF WEO.

In addition, we include a list of indicators that serve as additional risks or mitigants that in aggregate may increase or reduce the country's ability to manage increased levels of penetration:

Category	Indicator	Indicator	Mitigant 	Neutral 	Risk 
Regulation	Overall quality of regulation	Overall microscope score (0-100)	≥ 75	50-75	< 50
	Consumer protection (OID)	Microscope score 4.2.1	3	2	0 or 1
	Consumer protection (Collections)	Microscope score 11.3.2	2	1	0
	Credit bureau, credit reporting	Microscope score 10	≥ 75	50-75	< 50
Competition / overheating	Level of competition	Herfindahl-Hirschman Index	$HHI > 3,000$	$1,500 < HHI < 3,000$	$HHI < 1,500$
	Multiple borrowing	% borrowers with 3+ loans	$< 5\%$	5-15%	$> 15\%$
	Prior growth	Loan portfolio 3-year CAGR	$< 2x$ GDP growth	2-3x GDP growth	$\geq 3x$ GDP growth
	Future growth	Loan portfolio 12-mth growth expectations	$< 2x$ GDP growth forecast	2-3x GDP growth forecast	$\geq 3x$ GDP growth forecast
Maturity of microfinance institutions	Age of FIs	% clients of MFIs $> 20y$ or $< 10y$ old	$> 65\%$ of the borrowers are clients of MFIs > 20 years old	Other	$> 65\%$ of the borrowers clients of MFIs < 10 years old
	Prior crisis experience	Date of previous crisis	Market experienced crisis in past 15 years	no crisis experience	
Transparency	Composite score	See Transparency worksheet	≥ 3		< 1.5
	Ratings	% leading MFIs rated in past 2 years	≥ 75	50-75	< 50
Other risks	FX exposure	% of loans in foreign currency	< 10	10-25	≥ 25
	Interest rate level	Average Full APR, weighed by number of borrowers	$< 30\%$	30-60%	$> 60\%$