

10 years Oikocredit experience with credit co-operatives in Bulgaria

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*Event
Savings & Credit Forum
At SDC in Bern*

*Date
May, 15 2009*



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Agricultural sector profile

- **Agricultural land:** 1945: nationalization 1990: privatization
ownership: 73% private, 22% municipalities, 5% state
- **Rural region:** defined as built-up area below 30'000 inhabitants
81% of Bulgaria land with 42% of the population.
- **Agriculture producers:** 665'500 in 2007
 - 75% cultivate ≤ 1 ha and $< 7\%$ of arable land (individuals)
 - 0,8% cultivate > 50 ha and 78,5% of arable land (former working co-operative agriculture units, companies and sole entrepreneurs)
- **Agricultural Production:** in 2007
 - 58%: crop production (cereals, vegetables and industrial crops)
 - big farmers: main producers of cereals and industrial crops
 - small farmers: fresh fruits, vegetables, grapes and root crops.
- **Agricultural employment:** 21,9% in 2007
 - around 50% work less than 4 hours per day
 - 12% are below 35 years; 55% are above 55 years

Financial sector regulatory framework

- There is no special law concerning micro credit. Currently, the legal framework for micro-scale lending carried out by MFIs in Bulgaria is defined by several laws and public Acts and Decrees.
- The Credit Institution Act (CIA) regulates credit institutions and other financial actors (so-called Non-Bank Financial Institutions-NBFIs).
- A special section of The Commercial Act deals with bank credits, providing a definition and setting credit forms and requirements. All financial actors mentioned in the CIA are registered under The Commerce Act.
- The Cooperative Act (CA) regulates the co-operative activities. There is no special provision for the credit co-operatives.
- The Council of Minister Decree No 343 defines the Cooperative MACAPFs as NBFIs although they are initially registered under Cooperative Act.

Evolution of the Popular Kasas (PKs)

- **The Association of Popular Kasas** was formed in 1994 and includes 22 credit co-operatives with total membership of 31,000 individuals across the country. During the financial crisis in 1997 most of PKs lost significant assets due to high inflation as well as the panic withdrawal of the collected deposits, thus making the surviving PKs to operate on an insignificant basis since then. PKs' members are mainly small entrepreneurs and employees in urban areas. Nowadays the Association of PKs is represented by 11 PKs with a total membership of 12,525 individuals and BGN 15.8 million total assets (around EUR 8.1 million).
 - ***Oikocredit currently*** has active loans to three PKs (altogether EUR 674,148 outstanding portfolio as of 31.12.2008).
- **Credit Union Credo is** the largest and best performing credit co-operative operating mainly in urban area. It has strong focus on co-operative principles and is not a member of the Association of PKs.
 - ***Oikocredit has*** active loans to Credo (EUR 1,148,750 outstanding portfolio as of 31.12.2008)

Evolution of Mutual Aid Credit Association of Private Farmers (MACAPFs)

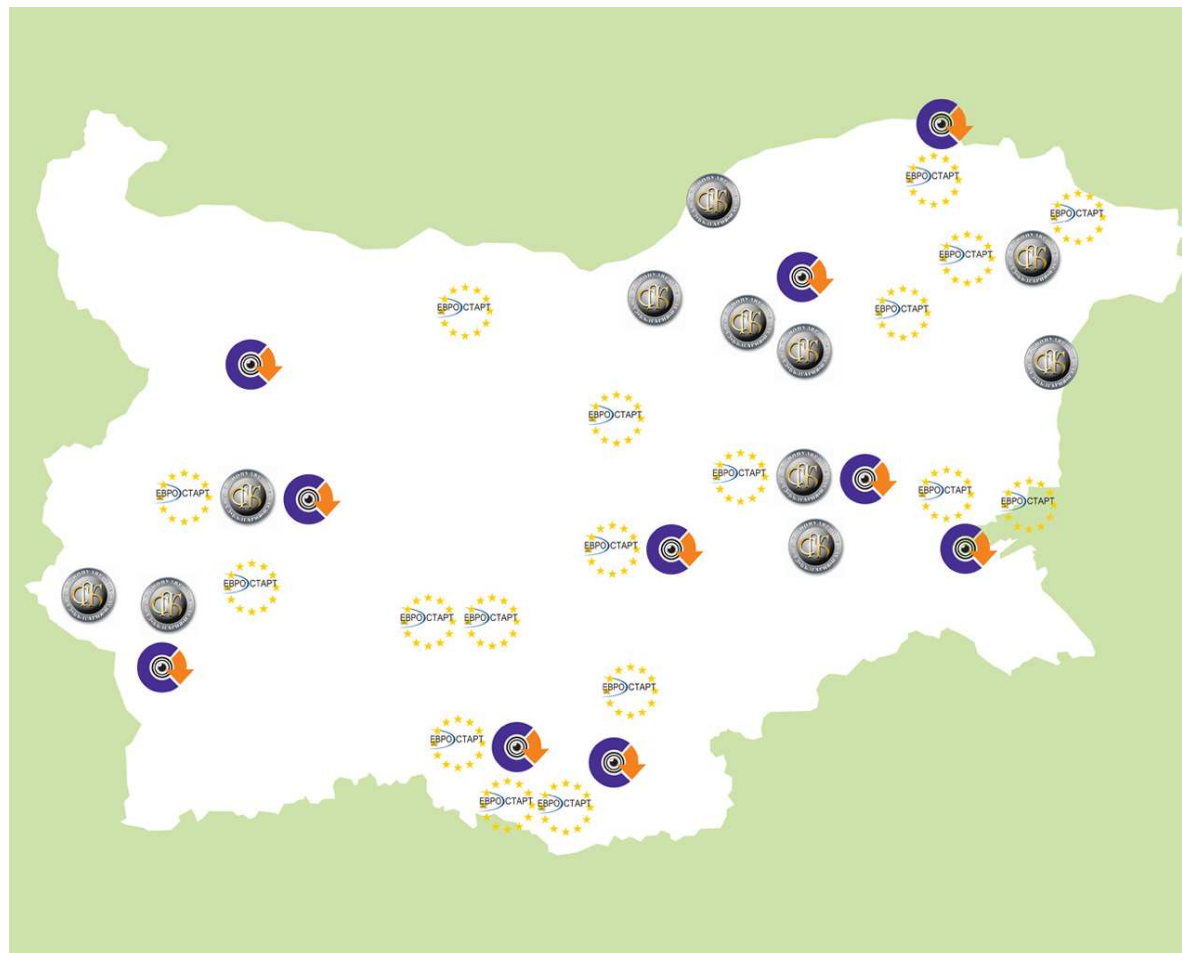
- **33 Mutual Aid Credit Association of Private Farmers (MACAPFS)** were established with financial and technical support under the EU Phare Programme in 1996 as alternative to commercial banks. They were supposed to serve as financial structures providing loans to micro and small agricultural producers in rural regions. Most members of the MACAPFs are farmers and rural micro entrepreneurs.
- **A Council of Ministers Decree** on the procedures for continuing the activity of MACAPFs has been published on 30 December 2008. The Decree defines the MACAPFs as NBFIs and obliges each MACAPF to be a member of a Co-operative Union. The best performing 17 MACAPFs are reunited in the National Co-operative Union (NCU) Evrostart. The General Meeting of the Union has already accepted all internal rules and regulations in compliance with the Decree requirements including a functioning Internal Audit Unit. The NCU Evrostart has total membership of 7,000 individuals and BNG 18 million total assets (around EUR 9.2 million).
- **Oikocredit has active loans** to eight MACAPFs (altogether EUR 1,662,500 outstanding portfolio as of 31.12.2008).

The credit co-operatives within financial sector 2000 – 2008

Indicators	Totals for all credit co-operatives partner of Oikocredit		Commercial banks (CB) sector		credit cooperatives lending compared to CB sector	
	2000	2008	2000	2008	2000	2 008
/in million BGN/						
Total assets	13.7	43.6	9 774.0	69 560.0	0.14%	0.06%
Gross loan portfolio*	11.2	34.7	569.0	17 357.0	1.97%	0.20%
Deposits	4.8	11.9	6 390.0	19 568.0	0.08%	0.06%

*The loans of commercial banks lent to households have been growing on average 3 times faster than the one of the Credit Co-operatives for the period 2000-2008.

Bulgarian map with MFIs partners of Oikocredit



Trend in Outreach indicators 2000 – 2008

Indicators	Association of PKs		NCU Evrostart		Credit union CREDO		MFI Benchmarks /ECA* Medium FSS/
	2000	2008	2000	2008	2000	2008	2007
No. of members	7 889	12 525	6 034	6 329	131	520	No data provided
No. of active borrowers	872	2 113	2 716	3 450	33	471	3 100
No. of active loans	918	2 201	2 829	3 575	33	479	3 100

*(ECA; GLP \geq \$ 2,000,000 and \leq \$ 8,000,000; Financial Self Sufficiency > 100%).

Trend in Outreach indicators 2000 – 2008

Indicators	Association of PKs		NCU Evrostart		Credit Union CREDO		MFI Benchmarks /ECA Medium FSS/
	2000	2008	2000	2008	2000	2008	2007
Total assets /in million BGN/	2.8	15.8	10.7	19.3	0.2	8.5	6.9
Gross loan portfolio /in million BGN/	1.8	11.4	9.2	16.5	0.2	6.8	6.3

Exchange Rate of US Dollar against Bulgarian Lev as per
as 31.12.2007 was 1 USD / 1.33 BGN

Trend in disbursed agricultural loans 2000 – 2008

Indicators	Association of PKs		NCU Evrostart		Credit Union CREDO	
	2000	2008	2000	2008	2000	2008
Total disbursed agricultural loans /in million BGN/	0.3	2.4	10.2	18.1	no lending	0.6
No. of active loans	88	440	2 586	3 236	no lending	46
% of the loans for production	73.0%	54.0%	83.0%	74.0%	no lending	29.0%
% of the loans for processing	no lending	18.0%	12.0%	18.0%	no lending	47.0%
% of the loans for trade	27.0%	28.0%	5.0%	8.0%	no lending	34.0%

Trend in Average loan size 2000 – 2008

Indicators	Association of PKs		NCU of MACAPFs		Credit Union CREDO		MFI Benchmarks /ECA Medium FSS/
	2000	2008	2000	2008	2000	2008	2007
Average loan size of agricultural loans (BGN)	2,900	5,460	3,280	4,960	no lending	12,180	no data provided
Average loan size of no-agricultural loans (BGN)	1,950	7,270	no lending	4,500	4,850	14,120	1 947

Trend in Portfolio quality 2000 – 2008

Indicators	Association of PKs		NCU Evrostart		Credit Union CREDO		MFI Benchmarks /ECA* Medium FSS/
	2000	2008	2000	2008	2000	2008	2007
Portfolio at risk (PAR) > 30 days	7.3%	6.5%	9.1%	6.9%	no lending	0.8%	1.5%
Portfolio at risk (PAR) > 90 days	5.9%	4.3%	4.3%	2.2%	no lending	0.4%	0.3%

*(ECA; GLP \geq \$ 2,000,000 and \leq \$ 8,000,000; Financial Self Sufficiency > 100%).

Trend in Efficiency 2000 – 2008

Indicators	Association of PKs		NCU Evrostart		Credit Union CREDO		MFI Benchmarks /ECA* Medium FSS/
	2000	2008	2000	2008	2000	2008	2007
Operating Expense /Loan Porfolio	7.5%	8.3%	5.2%	8.8%	6.8%	1.3%	15.0%
Cost per Loan (BGN)	383	432	290	409	367	173	234

*(ECA; GLP \geq \$ 2,000,000 and \leq \$ 8,000,000; Financial Self Sufficiency > 100%).

Trend in Financial Performance 2000 – 2008

Indicators	Association of PKs		NCU Evrostart		Credit Union CREDO		/ECA* Medium FSS/
	2000	2008	2000	2008	2000	2008	2007
Operational Self-Sufficiency (OSS)	102%	109%	152%	137%	400%	143%	134%
Return on Assets	0.3%	1.6%	3.0%	3.2%	13.6%	5.6%	2.8%

*(ECA; GLP \geq \$ 2,000,000 and \leq \$ 8,000,000; Financial Self Sufficiency $>$ 100%). Credo started its credit operation in the year of 2000 and in the beginning it relied on volunteers.

Oikocredit approach

- **Assessment of the credit co-operatives (CCs).**

- **First step:** Project viability risk system (PVR)

- Financial aspects (40% of PVR),
 - Governance and supervision (15% of PVR),
 - Management and administration (15% of PVR),
 - Market aspects (15% of PVR) and
 - Production and technology aspects (15% of PVR).

- **Second step:**

- Assessing the risk related to high concentration of loans to one individual or related person.

- **Third step:**

- Assessing the public accessibility and transparency level.

- **Other steps:**

- Assessing social commitment, client protection principles and equality amongst members.
 - To support CCs with growth potential (membership, portfolio and assets)

Progress made by Credit Co-operatives 2000 - 2008

- **Outreach indicators**

Total assets: increase by 3.2 times (15.5% per year).

Total number of members: more than 5,320 new members (average 665 individuals per year).

Number of active borrowers: more than 3,020 new borrowers (average 302 new clients per year).

Total amount of agricultural loans: double for the period.

- **Efficiency**

The operating expense/loan portfolio for the period remains almost constant (6.2%).

- **Risk**

The PAR > 30 days has decreased from 3.4% in 2000 to 2.3% in 2008.

The PAR > 90 days has decreased from 5,5% in 2000 to 4.7% in 2008.

- **Transparency**

The CCs provide quarterly data on regular basis.

Key challenges and Oikocredit way of coping with them

- **Absence of special law and regulations** concerning micro credit activities influenced directly the quality of management and the transparency.
 - The country office (CO) establishes relationship with new partners on a step by step basis (short term initial loan; small loan amount).
 - Second loan (according to achieved results)
- **Lack of building capacity** in establishing efficient internal risk control procedures and implementing higher management standards.
 - The CO personally monitors the quality of the pledged portfolio and the loan securities.
 - The execution of good managerial practices was used as an incentive tool for receiving new loans or additional financing from the SDC funds.
- **Small and disunited credit co-operatives**, lack of capacity to build an efficient unifying organization to promote monitoring, training, lobbying and technical assistance.
 - The CO provides specialized legal assistance on juridical matters when needed.

Lessons learnt

- **Unprofessional management, frauds, fake loan files and reports.** The cases of MACAPF Momina Voda and General Inzov.
- **Oikocredit CO coped with** above mentioned problems using the followings approaches and tools:
 - Urging the members of Managing bodies to correct problems on their own.
 - The CO along with the Managing Board of the problematical cooperative elaborate a detail scheme for resolving problems. The CO supervises the execution of the scheme on monthly basis.
 - The CO takes precautions to avoid further similar problems by maintaining constant monitoring of the financial and management activities of the co-operatives.
 - Based on experience the CO uses as the only possible tool to foresee future problems the close follow up of the development of each credit co-operative partner of Oikocredit.

Oikocredit Strategy

Outlook for the next 5 years

- **New amendments of Credit Institution Act (CIA)** concerning the activities of so-called NBFIs have been brought in and accepted by the Parliament in beginning of 2009.
- **The Council of Minister Decree No 343** on the Procedure for Continuing the Activity of Mutual-Aid Credit Co-operatives for Private Farmers-Producers released on 30.12.2008.
- **The Country Office (CO) is expecting** that these changes will strengthen the processes of unification of the credit co-operatives.
- **The Oikocredit CO will continue** to be the main lender for the credit co-operatives that serve as unique alternative for micro and small entrepreneurs, especially for the population in remote and rural areas.
- **In 2010 the CO will support** the efforts of the CCs to respond to the new challenges provoked by the world financial crisis by disbursing appropriate financing. The CO together with SDC will organize support seminars on the implementation of social performance initiatives and practical loan appraisal tools for individuals and SMEs.

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Oikocredit Country office Bulgaria

Thank you for your attention!

