

# Armenia Micro Lending Programme

<p><u>Implemented by:</u> Internationale Projekt Consult (IPC), Germany</p>	<p><u>Financed by:</u> EBRD - European Bank for Reconstruction and Development USAID - United States Agency for International Development Reference Number: 111-A-00-05-00044-00</p>
---	--

## Quarterly Report

### July – September 2006

#### 1. General situation

For the past few months, two issues have had an impact on the overall development of the Armenian economy and therefore on the AMP's MSME clients as well. The first issue is the development of the exchange rate, and the second is the developments in the relationship between Georgia and Russia.

From the beginning of the year to the end of September 2006 the Armenian Dram (AMD) appreciated against the USD by more than 15%.

Table 1:

#### Development of Exchange Rate

AMD – USD from beginning of 2006 to date

End of Month	Dec.05	Jan.06	Feb.06	Mar.06	Apr.06	May06	Jun.06	Jul.06	Aug.06	Sep.06
EXR AMD/USD	450	449	451	451	446	427	419	413	396	382
Difference in % from beginning of 2006	0	-0.2	0.2	0.2	-0.9	-5.1	-6.9	-8.2	-12.0	-15.1

Source: Central Bank of Armenia

This development has had a damping effect on Armenia's exports and puts local companies which produce for export markets under immense pressure. In the first nine months of the year, Armenian foreign trade grew by 20% from a year ago<sup>1</sup>; however, imports grew by 28%, while exports increased by only 2.6%.<sup>2</sup> Moreover, companies which produce exclusively for the domestic market are suffering due to the rising exchange rate as well, because more and more local products are substituted by the now relatively inexpensive imported products, a trend which threatens to force domestically produced goods not only out of the export market, but out of the domestic market as well. It is expected that this trend will continue next year, because the state budget for 2007 forecasts an exchange rate of about AMD 357.

<sup>1</sup> Not counting Armenia's diamond cutting industries. Including the diamond cutting industry, foreign trade grew by only 11.5%.

<sup>2</sup> Information provided by Armenpress News Agency, September 26, 2006.

The second threat to the Armenian export industry has been created by the escalating conflict between Georgia and Russia. For a couple of months now the Russians have de facto kept the Georgian-Russian border closed, thus hindering the free flow of trade via this important transit route. The bulk of Armenia's exports were previously sent to Russia by land route via Georgia before this bilateral conflict unfolded; now, however, Armenian exporters are forced to ship their products to Russia via the Georgian seaports. As a result, the cost of transporting a container load from Armenia to Russia has approximately tripled within the last couple of months.

During the reporting period, one of the bigger players in the Armenian banking market, Converse Bank, came under massive pressure from the Armenian Central Bank concerning the attraction of offshore deposits. In the meantime, it appears that Converse Bank's main shareholder wants to sell his shares, although it is not yet clear how many of the shares will be for sale.

MSME lending results in the third quarter of the year were very modest, which can be attributed to the traditionally weak summer months and to the so far unresolved issues of lack of resources and lack of commitment at some of the partner banks. The rather disappointing results could not be offset by the start of MSME lending operations in the AMP's newest partner bank, Cascade Bank, at the end of August.

In a meeting with the Deputy CEO of a former AMP partner bank, Armeconom, about the future of MSME lending and co-operation with the AMP, it became clear that since Armeconom's top management changed earlier this year, the issue of MSME lending had not even been discussed and that Armeconom does not have concrete plans to resume or develop MSME lending in the near future.

## **2. General information on the Consultant's activities**

As noted in the outlook section of the previous quarterly report, it was planned to undertake all necessary steps at Cascade Bank to disburse the first loans. As will be discussed in section 5.2, the first loans were disbursed at the end of August.

For AMP's mature partner banks the programme's activities focused during this period on a) the introduction of new loan products, b) implementing the customer relationship management (CRM) approach, c) providing support for regional expansion plans, d) strengthening the partner banks' institutional capacities and e) seminars and training.

### *a) Introduction of new loan products*

All mature partner banks received proposed policy manuals for the newly designed loan products (i.e. automatic express loan, overdraft, credit line, parallel express loan). The manuals were discussed with the responsible individuals within the institutions. For reasons which varied from bank to bank, none of these new products have been introduced yet, despite interest in the concepts behind the new loans. ACBA has been, and still is, busy with other issues relating to the acquisition by Credit Agricole and they have indicated that they probably not be in a position to discuss implementation measures internally until October 2006 at the earliest. To date, Ineco has not been sufficiently motivated to introduce new products because they have not been provided with funds and until these are available, they are not willing to allocate additional own resources in order to facilitate portfolio growth through the introduction of new products. Moreover, their IT system does not support overdrafts so would need substantial amendments before this product could be introduced. Anelik did not implement the proposed package of new products – there is the lack of a management committed to MSE lending.

*b) Implementing the customer relationship management (CRM) approach*

A decision was taken to support ACBA and in particular, Ineco, in implementing CRM. Both banks have received a CRM policy which provides an overview of the concept, defines the role of the CR manager within the overall structure of the bank, defines interfaces with other operational areas within the bank, provides instruments for data collection and gives an overview of how many CR managers should work in what branches and how they should be trained. Due to the above-mentioned organisational issues, ACBA was unable to undertake any significant steps towards rapid implementation. The bank has approved the general concept, but still needs to recruit suitable candidates who could be trained as CR managers.

As Ineco was going through an internal process of restructuring, the concept was submitted much later than in ACBA's case, since it was not clear who would be the programme's counterpart. Subsequently, the bank has assigned two counterparts who are responsible for CRM implementation. Cooperation with these two partners is developing well and the bank plans to start analysing its existing client base, with a view to identifying those who may potentially be interested in utilising various other banking products.

*c) Supporting regional expansion*

The only partner bank with serious regional expansion plans is ACBA. ACBA had previously envisaged opening at least three or four new branches within the reporting period, however this process was delayed at the last minute for various reasons, ranging from a lack of personnel to technical problems with equipment and infrastructure at new premises. However, in order to prepare for regional expansion, two of the programme's consultants spent much of their time and efforts in northern and southern Armenia. There they delivered on-the-job-training and seminars for the staff members who are scheduled to work in the new branches. Finally, in the last week of the reporting period ACBA organised the first two stages of an assessment centre for new loan officers in the southern region of Armenia. This was the first time a breakthrough in that ACBA was willing to hold at least the first stages of an assessment centre in the relevant region, rather than centrally in Yerevan, and that it had agreed to accept local personnel to work in one of its local branches.

Also during the reporting period, Anelik opened two new branches, one in Yerevan and one in the nearby town of Echmiadzin.

As pointed out in the previous quarterly report, Ineco is currently unwilling to finance the opening of new branches in the region and regional expansion plans are on hold until the pending USD 5 million loan from EBRD is available.

*d) Strengthening partner banks' institutional capacities*

During the reporting period considerable efforts were undertaken to strengthen ACBA's institutional capacities. The programme helped ACBA to develop and implement the function of regional managers, who will co-ordinate lending activities in ACBA's regional branches, focusing in particular on internal control, efficiency gains and training. In the last weeks of September ACBA promoted three experienced loan officers to the position of regional manager; they will be assigned to northern, central and southern Armenia respectively.

Additionally, Ineco and ACBA received proposals to implement a back-office function in all branches involved in MSME lending in order to strengthen internal control and to boost loan officers' efficiency. ACBA approved the concept and now plans to implement it in most of its

branches by the end of October. Due to the above-mentioned situation, Ineco has not yet taken any measures to implement this concept, but AMP is confident that Ineco will install back office staff in the future.

#### *e) Seminars and training*

Within the reporting period the AMP's consultants provided on-the-job training to the three new MSME loan officers at Cascade Bank. Additionally, 14 new loan officers from ACBA attended a week-long basic training seminar in the AMP's head office in Yerevan. Unfortunately, other banks could not send any new loan officers, since no further recruitment had been carried out in the last three months. Five other loan officers, who are due to be sent to the new branches of ACBA in northern Armenia, attended a four-day seminar conducted by the AMP's consultant in Vanadzor.

In the beginning of July, a weekend seminar was conducted for ACBA's branch managers and selected directors regarding CRM, financial analysis and methods of portfolio rating.

### **3. Outlook**

Plans call for MSME lending operations to be fully established in Cascade Bank by the end of the year. As will be discussed in section 5 below, this will only be possible if Cascade's management invests more time and resources in working together with the AMP's consultants. If this precondition is fulfilled, it might even be feasible to take in additional loan officers and back-office staff.

ACBA will be given further support in realising its regional expansion plans. In parallel, the process of institutional strengthening will be continued. Further efforts must be made to establish more rigorous documentation of MSME lending within the bank. Job descriptions and the documentation of processes and procedures have to be further formalised, and it is planned to introduce the position of head of the credit department for MSME lending departments at least in ACBA's bigger branches. The programme must continue to monitor the process of introducing regional managers and back-office staff functions, which has already been initiated, and the relevant support will be provided in the form of on-the-job training and seminars.

At Ineco it will be important to re-launch MSME lending activities. This process will certainly be facilitated once Ineco receives new EBRD onlending funds. As will be explained in section 5, re-launching MSME lending activities at Ineco will entail generating a new MSME lending structure from scratch – from the recruitment of new loan officers in some of the branches, and their training, to the training of branch managers. Ineco's management pointed out that it would be ready to support AMP's efforts in order to utilise the envisaged new EBRD resources in an efficient way.

For all the mature partner banks, another effort will be made to launch express loans. The implementation of the new loan products already discussed may help to compel the banks to discuss their overall approach to collateral and security for very small loan amounts.

For ACBA and Ineco it is planned to start CRM operations in selected branches.

### **4. Results of lending activities:**

- Portfolio growth by volume within the reporting period was about 7%.

- Portfolio by number declined further, since Ineco's portfolio in total declined and ACBA's portfolio declined due to the repayment of agricultural loans. As a result, the average amount of an outstanding loan increased from USD 3,474 in June to USD 5,282 in September.
- The quality of portfolio remained satisfactory, with arrears by more than one day of 1.6% and by more than 30 days of 1.1%.

**Table 2: Development of the outstanding loan volume over the period July 1 - September 30, 2006 (in USD)**

City	Micro Loans			Small Loans			Total				
	30 June, 2006	30 September, 2006	Growth - (%)	30 June, 2006	30 September, 2006	Growth - (%)	31 May, 2006	30 June, 2006	30 September, 2006	Growth - 3 months (%)	Growth - 4 months (%)
Yerevan	2,451,780	2,984,176	22%	14,888,148	15,995,477	7%	16,722,006	17,339,929	18,979,653	9%	14%
Lori	663,354	490,835	-26%	2,713,048	3,202,428	18%	3,110,060	3,376,402	3,693,263	9%	19%
Armavir	4,178,785	3,149,991	-25%	2,572,578	2,986,773	16%	6,613,254	6,751,363	6,136,764	-9%	-7%
Ararat	2,830,920	2,365,655	-16%	1,995,912	2,279,408	14%	4,614,093	4,826,833	4,645,063	-4%	1%
Shirak	698,127	885,165	27%	1,359,121	1,805,243	33%	1,744,667	2,057,248	2,690,408	31%	54%
Kotayk	903,560	855,808	-5%	1,618,524	2,184,982	35%	2,342,146	2,522,084	3,040,790	21%	30%
Tavush	423,696	402,949	-5%	745,551	874,021	17%	1,084,666	1,169,247	1,276,969	9%	18%
Sjunik	398,134	346,391	-13%	777,842	950,331	22%	1,059,944	1,175,976	1,296,722	10%	22%
Gegarkunik	428,523	635,746	48%	831,908	835,269	0%	1,172,523	1,260,431	1,471,015	17%	25%
Vayots Dzor	222,029	239,446	8%	543,485	426,851	-21%	628,355	765,514	666,297	-13%	6%
Aragatsotn	370,883	326,575	-12%	980,151	1,211,467	24%	1,170,775	1,351,035	1,538,042	14%	31%
<b>TOTAL AMP</b>	<b>13,569,792</b>	<b>12,682,736</b>	<b>-7%</b>	<b>29,026,270</b>	<b>32,752,251</b>	<b>13%</b>	<b>40,262,490</b>	<b>42,596,062</b>	<b>45,434,987</b>	<b>7%</b>	<b>13%</b>

**Table 3: Development of the number of outstanding loans over the period July 1 - September 30, 2006**

City	Micro Loans			Small Loans			Total				
	30 June, 2006	30 September, 2006	Growth - (%)	30 June, 2006	30 September, 2006	Growth - (%)	31 May, 2006	30 June, 2006	30 September, 2006	Growth - 3 months (%)	Growth - 4 months (%)
Yerevan	1,180	1,247	6%	450	469	4%	1,644	1,630	1,716	5%	4%
Lori	356	269	-24%	90	111	23%	449	446	380	-15%	-15%
Armavir	4,148	2,954	-29%	120	130	8%	4,392	4,268	3,084	-28%	-30%
Ararat	3,353	2,614	-22%	77	94	22%	3,473	3,430	2,708	-21%	-22%
Shirak	432	432	0%	50	71	42%	486	482	503	4%	3%
Kotayk	648	611	-6%	66	88	33%	692	714	699	-2%	1%
Tavush	225	229	2%	39	50	28%	258	264	279	6%	8%
Sjunik	231	215	-7%	32	46	44%	266	263	261	-1%	-2%
Gegarkunik	311	377	21%	30	32	7%	336	341	409	20%	22%
Vayots Dzor	155	149	-4%	16	13	-19%	168	171	162	-5%	-4%
Aragatsotn	204	178	-13%	47	61	30%	243	251	239	-5%	-2%
<b>TOTAL AMP</b>	<b>11,243</b>	<b>9,275</b>	<b>-18%</b>	<b>1,017</b>	<b>1,165</b>	<b>15%</b>	<b>12,407</b>	<b>12,260</b>	<b>10,440</b>	<b>-15%</b>	<b>-16%</b>

## **5. Co-operation with partner banks**

### **5.1 ACBA**

At the end of the quarter ACBA succeeded in converting its legal form to that of a closed joint stock company – this being a precondition for Crédit Agricole to acquire a stake. After this transaction, ACBA's equity now totals AMD 10 billion, of which Crédit Agricole holds 28% and ACBA's CEO 1 or 2%<sup>3</sup>, with the rest being held by ACBA's 10 regional entities.

Additionally, ACBA received the first tranche of a USD 10 million credit line from KfW, which will also be used to finance MSME lending operations. Thus, ACBA's liquidity is sufficient for the time being; nevertheless, ACBA is still pursuing the introduction of CRM with the help of AMP's consultants. Unfortunately, due to the changes currently taking place at the bank, there are frequently substantial delays in the process. An additional obstacle at the moment is a lack of sufficient management capacity, given that ACBA is still very much preoccupied with the conversion of its legal form and with Crédit Agricole's acquisition of a stake.

In terms of regional expansion the above-mentioned problems forced ACBA to also delay the opening of new branches during the reporting period. Due to insufficient preparation and planning, ACBA failed to open branches, either because of technical problems or because the bank simply lacked the proper personnel. Given that ACBA had in most cases already obtained all necessary licences from the National Bank, it is particularly regrettable that so little has been achieved so far in terms of opening new branches.

The bank's management was on the other hand very quick to accept the AMP's proposal to introduce regional managers and back-office staff. In the last quarter the bank approved both functions and has already selected three regional managers. In the framework of the last basic training seminar for ACBA's loan officers in the AMP's office, AMP's consultants encouraged these regional managers to conduct seminars themselves with the support and advice of the AMP's experienced trainers. Since two of these regional managers have already conducted seminars in the past and will do so in the future as well, the programme has ensured that their skills as trainers are being steadily enhanced and that ACBA will be able to deliver more and more seminars without the participation of the AMP's consultants.

All in all, co-operation with ACBA is excellent. The bank is very open to the AMP's ideas and suggestions, and the failure to resolve certain issues in a timely manner is purely due to a lack of capacity on the part of ACBA's management. ACBA's CEO is clearly trying to get as much advisory assistance and input as he can from the AMP, and in return is also willing to devote time and energy to issues related to MSME lending. As already mentioned, ACBA organised a three-day seminar at a conference centre, where, for the duration of the seminar, AMP's consultants gave presentations to all of ACBA's branch managers and the heads of selected departments. It would be highly welcome if the management of the other partner banks were to put as much effort into gaining full benefit from the AMP's presence.

In October ACBA will conduct another recruitment event, at which new loan officers and other personnel will be recruited to support ACBA's regional development. Efficiency gains could be

---

<sup>3</sup> The exact share has not yet been publicly announced.

achieved if ACBA's top management agreed to decentralise its recruiting to a greater extent, i.e. to hold more recruitment events in the regions and use regional personnel for regional branches.

Table 4: Overview of the performance of AMP lending operations at ACBA

	Yerevan	Lori	Armavir	Ararat	Shirak	Kotayk	Tavush	Sjunik	Gegarkunik	Vayots Dzor	Aragatsotn	Total
<b>Output over last 2 months</b>												
Disbursed loans - June 30, 2006	59	48	74	53	29	58	34	28	21	17	26	447
Disbursed loans - September 30, 2006	46	12	294	199	23	68	28	29	21	9	20	749
Disbursed loans (volume USD) - June 30, 2006	494,180	484,855	526,590	474,919	223,377	305,200	183,266	214,389	288,605	259,773	262,925	3,718,079
Disbursed loans (volume USD) - September 30, 2006	633,716	392,832	628,464	531,460	168,208	307,228	128,027	161,782	125,636	43,906	127,261	3,248,521
<b>Development of outstanding portfolio</b>												
Outstanding loans - June 30, 2006	597	416	4151	3430	199	608	264	263	174	171	251	10,524
Outstanding loans - September 30, 2006	589	354	2967	2708	212	595	279	261	173	162	239	8,539
<b>Growth (%)</b>	-1.34%	-14.90%	-28.52%	-21.05%	6.53%	-2.14%	5.68%	-0.76%	-0.57%	-5.26%	-4.78%	-18.86%
Outstanding loans (volume USD) - June 30, 2006	7,845,809	3,093,943	6,499,715	4,826,833	1,252,795	2,084,186	1,169,247	1,175,976	1,056,630	765,514	1,351,035	31,121,682
Outstanding loans (volume USD) - September 30, 2006	8,026,024	3,444,939	5,675,206	4,645,063	1,610,016	2,530,981	1,276,969	1,296,722	1,026,709	666,297	1,538,042	31,736,968
<b>Growth (%)</b>	2.30%	11.34%	-12.69%	-3.77%	28.51%	21.44%	9.21%	10.27%	-2.83%	-12.96%	13.84%	1.98%
<b>Portfolio quality</b>												
Arrears rate (volume) - June 30, 2006	2.09%	1.36%	0.33%	0.50%	1.41%	4.37%	1.05%	2.29%	16.22%	5.71%	0.74%	2.01%
Arrears rate (volume) - September 30, 2006	2.50%	2.54%	0.21%	0.65%	1.16%	3.08%	4.23%	0.47%	12.32%	0.48%	0.15%	1.95%
<b>Loan officers</b>												
No. of LOs under training (up to 6 months)	1	2	1	2		1	1	1			1	
No. of trained LOs (> 6 months)	10	6	5	5	4	5	2	1	2		5	
<b>Total no. of LOs</b>	11	8	6	7	4	6	3	2	2	1	6	56
<i>o. of LOs financed by partner bank</i>												

## **5.2 Cascade**

Co-operation with Cascade is difficult. The difficulties are caused by certain shortcomings at Cascade, which can be best described as a) lack of commitment to MSE lending and b) lack of experience within the bank and dependency on Cascade Holding.

### *a) Lack of commitment to MSE lending*

Even though the atmosphere at meetings and in day-to-day operations is friendly and welcoming, the overall level of commitment of the bank is palpably poor. Agreements are seldom adhered to and deadlines are seldom met; internal and external documents are not signed or delivered as agreed and as needed. For example, the bank took an extremely long time to take internal decisions regarding interest rates and the composition of the credit committee, and to generate and approve a procedure for lending to semi-informal businesses. Furthermore, the programme has already been trying for a couple of months to get a credit policy for MSME lending approved to serve as the basis for co-operation between the programme and the bank. The bank is neither signing nor refusing to sign, and it is ignoring the AMP's request to at least enter into a discussion about the document even if it does not wish to sign the version submitted as yet. The same lack of support is seen in regard to the marketing of MSME loan products and in the fact that credit committees are cancelled for week-long periods. The few MSME loans disbursed so far at Cascade were disbursed only because the AMP's consultants pushed hard and strived, in endless meetings and talks, to convince the bank to at least allow the programme's consultants to take all necessary steps to allow the issuance of the first loans. The applications for these first loans were generated through direct marketing activities carried out by Cascade's new MSME loan officers jointly with the AMP's consultants. Since direct marketing often seems to be particularly effective with relatively small businesses, all loans disbursed went to typical micro clients, a fact which the bank obviously did not appreciate very much.<sup>4</sup> On the other hand, the bank so far has not made any serious attempt to implement the AMP's proposals for diversifying its marketing approach, even though doing so would allow it to attract loan applications from bigger businesses as well and thus to work with the more formal clients which it prefers.

### *b) Lack of experience within the bank and dependency on Cascade Holding*

In some areas of co-operation it was not exactly clear whether all the delays noted were due to a lack of commitment, or rather to a lack of experience within the bank. It seems that Cascade definitely has difficulties in generating documents, procedures, policies and marketing materials in a timely manner, a situation which often seems to be worsened by the bank's dependence on Cascade Holding: It seems that the bank has only very limited scope to take decisions independently, without the direct involvement of the holding company. Unfortunately, the involvement of Cascade Holding does not necessarily increase the quality and speed of implementation, but rather often serves to slow processes down. Moreover, the holding company sends confusing signals both to the programme and to the bank's management.

It remains to be seen how MSME lending will develop at Cascade in the upcoming months. It would certainly be helpful if the bank and the holding company would formulate and present their overall business strategy, and thus make clear whether MSME lending is to play a significant role in the bank's operations. So far, the signals received from the bank have been very mixed. It seems that Cascade Bank's structure and approach are better suited to SME lending than to MSE lending.

---

<sup>4</sup> The bank is concerned about the relatively low level of formality of these businesses and their inability to provide bankable collateral.

Table 5: Overview of the performance of AMP lending operations at Cascade

	Yerevan
<b><u>Output over last 2 months</u></b>	
Disbursed loans - August 30, 2006	2
Disbursed loans - September 30, 2006	6
Disbursed loans (volume USD) - August 31, 2006	3,026
Disbursed loans (volume USD) - September 30, 2006	15,203
<b><u>Development of outstanding portfolio</u></b>	
Outstanding loans - August 31, 2006	2
Outstanding loans - September 30, 2006	8
<b>Growth (%)</b>	300.00%
Outstanding loans (volume USD) - August 31, 2006	3,026
Outstanding loans (volume USD) - September 30, 2006	18,349
<b>Growth (%)</b>	506.33%
<b><u>Portfolio quality</u></b>	
Arrears rate (volume) - May 31, 2006	0.00%
Arrears rate (volume) - June 30, 2006	0.00%
Arrears rate (volume) - September 30, 2006	0.00%
<b><u>Loan officers</u></b>	
<i>No. of LOs under training (up to 6 months)</i>	3
<i>No. of trained LOs (&gt; 6 months)</i>	0
<b>Total no. of LOs</b>	3
<i>No. of LOs financed by partner bank</i>	

### **5.3 Ineco**

Throughout the reporting period the programme was engaged in an ongoing dialogue with Ineco regarding a) MSME lending b) CRM, and c) various institution building measures.

#### *a) MSME lending*

Within the last few months Ineco's MSME portfolio unfortunately decreased by more than 20%, from about USD 2.7 million as of the end of May 2006 to USD 2.1 million at the end of September. While Ineco's branch in Armavir performed more or less as before, MSME lending activities in Yerevan, Gyumri and Vanadzor came almost to a halt.

After various meetings and discussions with the bank's top management, it became very clear that Ineco is only willing to resume its MSME lending activities if it receives resources from the EBRD to finance onlending to the MSME segment. If the bank does not receive resources from the EBRD, it certainly will not re-enter this market to the extent necessary to allow it to serve the target group on any significant scale. The bank explains its reluctance to commit its own resources to MSME lending by pointing to the higher margins in its consumer loan business. Unfortunately, the bank used the resources it recently received from the IFC almost exclusively to provide large loan amounts to large companies, and not at all for MSMEs. Right now it seems that the bank is pursuing a strategy of being a retail bank for consumer loans, but not by any means for business loans.

Meanwhile, most of the former MSME loan officers at Ineco are now working with other types of loans, and the bank and the programme have come to the conclusion that MSME lending at Ineco will have to start almost from scratch in the event that the bank receives funds from the EBRD. The AMP's consultants are convinced that Ineco Bank has the potential to become a fairly significant player on the Armenian MSME lending market if the bank can be convinced that it would benefit from making MSME lending an integral part of its overall strategy.

#### *b) CRM*

As pointed out in section 2, the bank appreciates the idea of CRM and wants to implement the concept. At the end of the reporting period the bank announced two counterparts with whom AMP's consultant will work on implementation. CRM may well develop into one of the key fields of Ineco's strategy, since the bank's top management is already showing considerable interest in the development of this concept.

#### *c) Institution building measures*

Meanwhile Ineco has introduced a lending policy for the bank's entire business loan department. AMP's consultants made sure that integral parts of this new policy are based on IPC's technology. The bank also agreed to include a more structured approach to working with arrears. This new policy provides the bank with a sound basis on which to develop its business lending activities.

Table 6: Overview of the performance of AMP lending operations at Ineco

	Yerevan	Lori	Armavir	Shirak	Total
<b>Output over last 2 months</b>					
Disbursed loans - June 30, 2006	13	0	14	3	30
Disbursed loans - September 30, 2006	10	0	5	3	18
Disbursed loans (volume USD) - June 30, 2006	35,006	0	35,817	2,388	73,211
Disbursed loans (volume USD) - September 30, 2006	40,688	0	14,941	3,801	59,430
<b>Development of outstanding portfolio</b>					
Outstanding loans - June 30, 2006	233	30	117	35	415
Outstanding loans - September 30, 2006	208	26	105	32	371
<b>Growth (%)</b>	-10.73%	-13.33%	-10.26%	-8.57%	-10.60%
Outstanding loans (volume USD) - June 30, 2006	2,008,381	282,459	251,648	76,129	2,618,618
Outstanding loans (volume USD) - September 30, 2006	1,605,618	248,324	214,193	61,029	2,129,165
<b>Growth (%)</b>	-20.05%	-12.08%	-14.88%	-19.83%	-18.69%
<b>Portfolio quality</b>					
Arrears rate (volume) - June 30, 2006	0.92%	5.19%	6.29%	0.35%	1.88%
Arrears rate (volume) - September 30, 2006	0.80%	0.00%	7.84%	0.47%	1.40%
<b>Loan officers</b>					
No. of LOs under training (up to 6 months)	1				
No. of trained LOs (> 6 months)	6	2	2	3	13
<b>Total no. of LOs</b>	7	2	2	3	14
No. of LOs financed by partner bank					

## 5.4 Anelik Bank

As mentioned in the previous report, it was agreed with the EBRD that TA would no longer be provided to Anelik on any significant scale. Thus, the AMP's activities with Anelik Bank are confined to portfolio monitoring, inviting Anelik's loan officers to seminars, and making proposals regarding the development of new loan products to the bank's top management.

After AMP consultants informed Anelik's CEO about a steady rise in their average loan amounts and about market signals that Anelik is neglecting the micro segment, the bank implemented some changes to improve its approach towards micro clients.

**Table 7: Overview of the performance of AMP lending operations at Anelik**

	Yerevan	Armavir	Shirak	Kotayk	Gegarkunik	Total
<b>Output over last 2 months</b>						
Disbursed loans - June 30, 2006	84		40	13	0	137
Disbursed loans - September 30, 2006	139	12	34	11	34	230
Disbursed loans (volume USD) - June 30, 2006	1,279,955		252,901	92,263	0	1,625,118
Disbursed loans (volume USD) - September 30, 2006	1,426,680	247,364	135,727	37,851	126,920	1,974,542
<b>Development of outstanding portfolio</b>						
Outstanding loans - June 30, 2006	800		248	106	167	1,321
Outstanding loans - September 30, 2006	911	12	259	104	236	1,522
<b>Growth (%)</b>	13.88%		4.44%	-1.89%	41.32%	15.22%
Outstanding loans (volume USD) - June 30, 2006	7,485,739		728,324	437,898	203,801	8,855,762
Outstanding loans (volume USD) - September 30, 2006	9,329,663	247,364	1,019,363	509,809	444,306	11,550,505
<b>Growth (%)</b>	24.63%		39.96%	16.42%	118.01%	30.43%
<b>Portfolio quality</b>						
Arrears rate (volume) - June 30, 2006	0.45%		0.31%	0.00%	3.25%	0.48%
Arrears rate (volume) - September 30, 2006	0.56%	0.00%	0.05%	0.00%	2.07%	0.54%
<b>Loan officers</b>						
No. of LOs under training (up to 6 months)	0	3	0	0	0	3
No. of trained LOs (> 6 months)	23	0	5	4	3	35
<b>Total no. of LOs</b>	23	3	5	4	3	38
No. of LOs financed by partner bank						