

Creating Social and Economic Change



**Soros Economic
Development Fund
Annual Report 2004**

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Message from the Chairman

Since its establishment in 1997, the Soros Economic Development Fund (SEDF) has purposefully followed a risk-taking strategy, investing in ambitious, viable economic development projects for which little or no local financing is available. SEDF conceives of itself as a “social venture” fund, filling resource gaps for innovative, socially responsible investments.

SEDF continued its pioneering efforts in 2004, branching out into new geographic regions, addressing wider areas of need, such as affordable housing, and supporting unique microfinance and small and medium-sized enterprise (SME) development models.

Although SEDF’s portfolio is diverse, its projects share common features that reflect the Fund’s mission: they are locally organized and managed; they address fundamental needs in their respective countries; and they share long-term sustainability as a key goal. It is a testament to SEDF’s selection process that, despite operating in economically precarious environments, all 21 investments in SEDF’s \$41 million portfolio are performing well and achieving their social objectives. We invite you to learn more about them in the pages that follow.

Some recent accomplishments that deserve special mention include two events that occurred in the first weeks of 2005: the sale of Euromarket Banka and the agreement to sell KMB Bank.

SEDF’s investment in KMB Bank dates to 1999 when it was one of the few commercial lenders to small businesses in Russia and was struggling to remain viable after the Russian financial crisis. By matching a \$4.5 million investment from the European Bank for Reconstruction and Development, SEDF helped KMB weather the effects of the crisis and thrive. Today, KMB continues to be the leading Russian provider of finan-

cial services to small enterprises and enjoys a reputation as one of the most transparent and best-managed banks in the country, as evidenced by its sale to Banca Intesa for \$120 million, four times KMB Bank's book value. The sale is scheduled to close in the second half of 2005.

The success of SEDF's investment in Euromarket Banka, currently Montenegro's fifth largest bank, falls along similar lines. In 2000, SEDF helped establish Euromarket with a DEM 7 million equity investment in order to spur economic development in war-ravaged Montenegro, a region whose commercial banking sector was virtually non-existent. Since then, Euromarket has helped finance thousands of small businesses and played a major role in the revitalization of the Montenegrin economy. In early 2005, SEDF sold its 50 percent stake in Euromarket to the Slovenian banking group Nova Ljubljanska Banka.

In 2004, SEDF partnered with Nurcha, the South African housing agency created by the government of South Africa, the Open Society Institute, and other international donors. Established in 1995 to tackle the apartheid-era legacy of informal settlements, squats and backyard shacks, Nurcha has helped finance the construction of over 135,000 homes for low-income South Africans. By engaging a local South African bank and outside investors, SEDF will help Nurcha finance the construction of 100,000 additional homes by 2008 through the development of a groundbreaking Rand 200 million structural revolving loan facility for small, emerging housing contractors. This intricate deal is a benchmark for controlling the prohibitive risks associated with the construction of affordable housing and demonstrates how SEDF helps bring innovative financing solutions to otherwise intractable development problems.

SEDF is also happy to report the achievements of MiBanco, Panama's first private microfinance bank, which is currently expanding nationally. SEDF's \$25,000 equity investment (the maximum allowable under the bank's charter) and \$1 million deposit helped this rapidly growing bank achieve profitability in 2003. Owned by more than 9,000 shareholders, many of whom are themselves customers of the bank, MiBanco has made nearly 18,000 micro and small business loans in its seven-year history. It represents an exciting participatory model that engages local social entrepreneurs and stakeholders on a scale new to microfinance.

SEDF's longstanding involvement in Bulgaria took a new direction last year. In an effort to better serve customers under changing market conditions and to increase operational efficiency, SEDF helped transform the Bulgarian Microcredit Program into a new non-banking lending company, Mikrofond EAD. The company, originally

designed on a private service company model, is currently the only for-profit private micro-lending institution in Bulgaria. Last year, Mikrofond successfully leveraged SEDF's \$300,000 subordinated loan into a \$3 million line of credit from Raiffeisenbank-Bulgaria (RBB) and expanded its operations throughout the country focusing on rural and peri-urban areas with high unemployment.

SEDF reached another milestone in Bulgaria by successfully concluding a five-year relationship with RBB. With SEDF's support, RBB, a repeated recipient of Euromoney's "Best Foreign Bank in Bulgaria" award, adopted an SME credit methodology and instituted SME lending into its corporate finance services. Last year, the European Bank for Reconstruction and Development singled out RBB for the "Best Performance by a New Niche Player SME Finance Facility."

Lastly, in 2004 SEDF launched its first investment in Croatia through a three-year \$500,000 deposit in NOA Savings and Loan, a non-banking cooperative that issues micro and small loans to small businesses and family farms in regions heavily affected by the war of the 1990s.

Looking forward, SEDF is exploring new partnerships, especially with the private sector, to leverage its resources and engage local financing to create additional economic opportunities and support pioneering social investors.

We are pleased to act as a catalyzing social investor and we thank our partnering institutions for their commitment to developing programs that improve the livelihoods of thousands of families in various parts of the world. We maintain our commitment to help disadvantaged communities develop and prosper.

Herbert Sturz

About Soros Economic Development Fund

The Soros Economic Development Fund (SEDF) is a nonprofit private foundation. It is part of the network of charitable foundations founded by investor and philanthropist George Soros. Established in 1997 to complement the work of the Open Society Institute's Economic and Business Development Program, the Fund's mission is to alleviate poverty and community deterioration by investing in local initiatives for economic development worldwide.

ACCESS TO FINANCIAL SERVICES

The economically active poor, workers in the informal sector, and small business entrepreneurs are disproportionately overlooked by mainstream financial institutions. With few tangible assets and negligible credit histories, they are often forced to rely on predatory money-lenders. Access to credit under fair terms is essential to growing a profitable business, becoming self-employed, financing home ownership, and breaking the cycle of poverty. Financial services not only make a critical difference in people's ability to care for themselves and their families, they are also powerful tools for job creation and the revitalization of economically depressed communities.

SEDF hopes to demonstrate to commercial bankers and policymakers that lending to the poor and underserved works. By creating lending programs and supporting existing ones, SEDF helps extend financial services to low-income entrepreneurs, without the requirement of collateral or previous credit experience. SEDF does this primarily by making investments—in the form of equity, loans, guarantees and deposits—in selected commercial banks, microfinance institutions, cooperative networks and social enterprise projects.

PROJECT SELECTION

SEDF seeks out ambitious projects that demonstrate strong social missions and sustainability goals. Our approach is to create social and economic benefit through financial leverage, develop local capacity to manage and expand the program, and exit with a sustainable program on the ground.

Programs are negotiated and clients identified by SEDF's management staff, often with assistance from the Soros foundations network, and recommended to SEDF's board of directors for investment.

SEDF'S REACH

Since its inception, SEDF has invested in over 20 financial institutions, helping poor entrepreneurs in more than 17 countries. Although SEDF's geographical focus has centered on Eastern and Central Europe, its scope extends to Africa, South Asia, Latin America and the Caribbean.

In 2004, the financial institutions that SEDF supported helped more than 200,000 beneficiaries. Among those beneficiaries are more than 45,000 villagers throughout Bangladesh who financed mobile pay-phone businesses through Grameen Telecom's Village Phone Program. They include over 4,000 rural entrepreneurs in Romania, who received small loans through the Center for Economic Development to repair farming equipment, expand their businesses, and withstand droughts. In Panama, the private microfinance bank MiBanco extended nearly 2,000 loans to small business owners, many of whom are also shareholders in the bank. And in South Africa, a Rand 200 million credit facility created by SEDF, the Overseas Private Investment Corporation, and the Soros Charitable Fund has financed the construction of nearly 15,000 low-income housing units. SEDF continues to make a lasting impact in poor communities around the world.

BOARD OF DIRECTORS

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loan

Programs that lend to the economically active poor need financing as much as their clients do. SEDF loans provide the working capital they need to reach more clients, to leverage more financing from local sources, and become financially independent in a shorter period of time.

Loans

LITHUANIA



Turning a skill into a business

Tadas Domarkas is a member of Sedos credit union in the small Lithuanian township of Seda. Sedos is one of 53 credit unions in the Asociacija Lietuvos Kredito Unijos (Association of Lithuanian Credit Unions, ALKU). In 1999, Domarkas lost his job at a diesel engine factory and decided to become self-employed as a diesel equipment repairman. In 2003, Sedos credit union issued Domarkas a \$2,370 loan to buy new assembly equipment. That same year he purchased a commercial space to house his business.

Recently, Domarkas took out an additional \$7,903 loan to expand his premises and open additional shops, employing other mechanics like himself.

Asociacija Lietuvos Kredito Unijos

Contact Information

Ramunas Stankevicius, *Executive Director*
K. Donelaičio g. 2
Kaunas LT-3000, Lithuania
T (8-37) 20 96-37
F (8-37) 200454
E alku@lku.lt
www.lku.lt

Description

Entity	Nonprofit Association
Project Focus	Rural and Urban SMEs
Years in Existence	8
Credit Unions	53
Area of Operation	Lithuania
Employees	166

The Association of Lithuanian Credit Unions (ALKU), a nonprofit membership organization founded in 1997, funds and provides technical assistance to its member credit unions and supports groups attempting to establish new credit unions. Since 1997 ALKU has helped establish nearly 40 credit unions in Lithuania. ALKU has also successfully advocated on behalf of credit unions, spearheading the enactment of legislation that eased barriers to credit union creation and that ensured government guarantee of deposits in credit unions. Strong financial data collection as well as efforts to conform to European Union standards enabled ALKU to establish the Lithuanian Central Credit Union (LCCU).

Key Indicators (2004)

Number of members	43,732
Number of loans issued this year	16,445
Number of loans outstanding	16,634
Amount of loans issued this year, USD	\$45,122,400
Gross loans outstanding, USD	\$51,308,400
Average loan amount, USD	\$3,080
Average loan term	36 months
Number of clients trained	1,200
Operational self-sufficiency	111%
Percentage of commercially funded portfolio	100%
Portfolio at risk (>30 days past due)	1.9%
Write-offs/average gross loan portfolio	0.3%

SEDF Investment

In 2001, SEDF provided ALKU with a five-year, € 1,000,000 loan to support its credit union members' small loans program to rural and urban SMEs, and to stimulate the growth and consolidation of credit unions in Lithuania. In February 2005, ALKU repaid the loan in full, more than one year ahead of schedule.

ROMANIA



Rescuing a family farm

Virginel Toma is a farmer in Ungureni, Romania. A severe drought in 2002 threatened to ruin his crop, his family's only source of income. Having no pension, salary or substantial assets, he was ineligible for a traditional bank loan. He turned instead to the Economic Development Center (CDE) which lent him \$800 for the purchase of watering pumps and hoses so that he could salvage his crop. Soon after, Toma received a second loan for \$1,800 with which he was able to purchase certified seeds and fertilizers, something he had only dreamed of doing before. Today his farm continues to expand. CDE recently made a third loan to Toma for \$3,000 to purchase a new harvester, taking only two weeks to process his application. With his new harvester, Toma hopes to work his land faster and supplement his family's income by selling his services to other farmers.

Economic Development Center

Contact Information

Anca Ciobanu, *Executive Director*
 Strada Caderea Bastiliei,
 33 Bucharest, Romania
 T +(4-021) 212.07.30
 F +(4-021) 221.07.29
 E info@cde.ro
 www.cde.ro

Description

Entity	Nonprofit Foundation
Project Focus	Rural Entrepreneurs
Years in Existence	5
Branches	11
Area of Operation	Romania
Employees	35

The Economic Development Center (CDE) is a Romanian nonprofit foundation established in 2000. Its overall objective is to provide financial services to disadvantaged groups and rural entrepreneurs located in economically deteriorating communities. Initially, the Center operated in northeast (Iasi County) and southern Romania (Prahova, Dambovita and Calarasi counties). In 2003, its operations expanded to 26 counties throughout the country. The Center's lending methodology, based on village banking, has proven successful, as shown by its high repayment rate (100 percent) and Portfolio at Risk of less than 0.1 percent. In addition, the Center offers specific training services to its clients, such as loan application, loan repayment scheduling, business planning and cash flow projection, which ensure better credit performance. At present, CDE administers two World Bank-funded programs in rural finance and revitalization of mining areas for a total amount of \$6 million.

Key Indicators (2004)

Number of loans extended this year	3,123
Number of loans outstanding	3,093
Amount of loans issued this year, USD	\$3,967,330
Gross loans outstanding, USD	\$2,432,997
Average loan amount, USD	\$1,270
Average loan term	11 months
Number of clients trained	4,292
Operational self-sufficiency	68%
Percentage of commercially funded portfolio	100%
Portfolio at risk (>30 days past due)	0%
Write-offs/average gross loan portfolio	0%

SEDF Investment

In 2001, SEDF issued a US \$2 million interest-free loan to CDE which allowed the Center to pilot test its village banking methodology and expand its rural lending program throughout Romania.

SOUTH AFRICA



Entrepreneurial dreams

In 2002, Shaawn Mkhize, an accountant in Durban, South Africa, decided to start her own business. Her company, Zikhulise Cleaning Transport and Maintenance, initially received small contracts to renovate schools. But in March 2003, the company branched out into construction, building 117 housing units in Province of KwaZulu-Natal.

Not long after, Zikhulise received another construction contract worth \$677,136 to build 307 subsidized low-income housing units. In order to finance the start-up costs of materials and labor for the contract, Ms. Mkhize negotiated a \$213,004 loan with Nurcha (formerly the National Urban Reconstruction and Housing Agency), through a revolving credit facility supported by the South Africa Financing Enterprise (SAFE) and the Overseas Private Investment Corporation (OPIC). The credit facility was created to help small builders obtain bridge financing to construct low-income housing. With the loan provided by Nurcha, Zikhulise completed construction of the 307 housing units seventy-two days ahead of schedule. As a result of the accelerated construction schedule, Mkhize netted a profit per unit of \$135. With her reputation for project management firmly established, she continues to work with Nurcha, currently undertaking two additional housing contracts.

South Africa Financing Enterprise Inc. (SAFE)

Contact Information

Stewart Paperin, *Chairman*
400 West 59th Street
New York, New York 10019

Description

Entity	Special Purpose Vehicle
Project Focus	Low-Income Housing
Years in Existence	2
Area of Operation	South Africa

South Africa Financing Enterprise Inc. is a special purpose vehicle incorporated in Delaware in 2003. It was created by SEDF and the Soros Charitable Foundation for the sole purpose of providing a \$5 million loan guarantee (together with a \$15 million loan guarantee issued by OPIC) to support Nurcha, a leading financier of affordable housing in South Africa. The SAFE/OPIC guarantee helps Nurcha extend revolving lines of credit to small, emerging developers throughout South Africa to build low-income housing. Though these housing projects are often subsidized by public funds, contractors receive payment on a milestone basis. The Nurcha credit facility provides easily accessible bridge financing for developers' start-up costs, materials and labor. In 2004, Nurcha doubled the number of homes financed in 2003 and extended the program to seven of South Africa's nine provinces.

SEDF Investment

SEDF capitalized SAFE through a \$525,000 equity investment and a \$2 million, five-year loan. With a \$2.5 million contribution from the Soros Charitable Fund and a \$15 million guarantee from OPIC, SAFE in turn has helped provide a \$20 million revolving credit facility to Nurcha. Since 2003, the facility has financed the construction of 22,403 affordable housing units, providing shelter for an estimated 100,000 low-income people. It is expected that the facility will underwrite the construction of 100,000 additional homes by 2008.

Key Indicators (2004)

Loans issued this year through Nurcha facility	35
Number of loans outstanding	32
Amount of loans issued this year, USD	\$15,601,647
Gross loans outstanding, USD	\$3,053,920
Average loan amount, USD	\$283,666
Housing units financed	14,960
Percentage of commercially funded portfolio	100%
Portfolio at risk (>30 days past due)	0%
Write-offs/average gross loan portfolio	0%

deposit

SEDF makes substantial deposits at selected commercial banks and savings and loans that wish to establish or expand microlending programs. Using SEDF deposited funds as lending capital, these institutions are able to bring financial services to a greater number of poor clients, taking advantage of their existing staff and systems.

Deposits

MACEDONIA



A more efficient farm

Blagica Todorovska and her husband Dragan are farmers in the village of Ilinden, near Skopje, Macedonia. They own 10 cows and sell milk to the nearby milk distributor. In 1999, after years of purchasing feed for their cattle, the Todorovskis decided to grow and harvest their own feed. With a \$10,642 loan from IK Bank, they were able to purchase additional land and a baler for their tractor. They soon harvested more than enough feed for their cattle, at a fraction of the purchase price. They were so successful in fact that they set up a small shop adjacent to their house selling their surplus feed to neighboring farmers. Today, the Todorovskis operate two successful businesses: milk and feed production. They soon plan to start another enterprise, having recently added 6 pigs and 48 turkeys to their growing farm.

IK Banka Micro-Lending Program

Contact Information

Pance Mancevski, *Chief Executive Officer*
 Bul. "Partizanski Odredi" 3,
 blok 11, PO Box 421,
 Skopje, Republic of Macedonia
 T +389 2 31 22 207
 F +389 2 31 22 393
 E ikbanka@ikbanka.com.mk
www.ikbanka.com.mk

Description

Entity	Private Commercial Bank
Project Focus	Agricultural SMEs
Years in Existence	11
Branches	10
Area of Operation	Macedonia
Employees	124

Formerly the Macedonian branch of Yugoslavia's foreign trade bank, IK (Export and Credit) Bank is one of the largest commercial banks in Macedonia, with branches in two-thirds of the country. In 1999, SEDF helped IK Bank design and implement a micro-lending program for small farmers and independent agricultural producers. It is the first commercial bank in Macedonia to establish such a program. In 2004, its micro-loan program represented one quarter of its total loan portfolio. Overall, IK Bank's 2004 net portfolio increased by 44 percent, its number of clients rose by 103 percent and its net profit increased by 45 percent over the previous year. The Macedonian Chamber of Economy named IK Banka the "Most Organized Bank in Macedonia" in 2004.

Key Indicators (2004)

Number of loans issued this year	92
Number of loans outstanding	181
Amount of loans issued this year, USD	\$339,521
Gross loans outstanding, USD	\$596,255
Average loan amount, USD	\$3,294
Average loan term	24 months
Percentage of commercially funded portfolio	100%
Portfolio at risk (>30 days past due)	9%
Write-offs/average gross loan portfolio	0%

SEDF Investment

Beginning in 1999, SEDF made deposits in IK Bank totaling € 750,000 for the purpose of funding a micro-lending program targeting small private farmers and agricultural producers in economically depressed areas.



A family affair

Three years ago, José Amaya Castillo gathered his family together in his home in Pueblo Nuevo, Panama to make an important announcement: he had decided to open a restaurant. With a \$2,000 loan from MiBanco, he soon opened *Asados Pope*, selling hamburgers, tacos, and roasted chicken prepared by his wife and daughter.

Last year, Castillo received another loan from MiBanco for \$6,000. With it he opened a car wash, operated by his two sons, adjacent to his restaurant. His business is now known throughout Pueblo Nuevo as *Asados and Car Wash Pope*. With creativity and the support of MiBanco, Castillo has turned an idea into a family business.

MiBanco, BMF

Contact Information

Roberto Anguizola, *President*
Calle Principal y Calle E. Paraíso
San Miguelito, Panama

T (507) 274-8131

F (507) 274-2601

E mibanco@mibancopanama.com

www.mibancopanama.com

Description

Entity	Private Microfinance Bank
Project Focus	Rural and Urban SMEs
Years in Existence	7
Branches	5
Area of Operation	Panama
Employees	58

MiBanco, founded in 1998, is the brainchild of a group of Panamanians committed to the establishment of a bank for the poor. It has made loans to nearly 18,000 clients, most of whom are now small business owners. The bank is owned by a diverse group of more than 9,000 shareholders, including employees and borrowers, through its holding company, Corporación Microfinanciera Nacional (National Microfinance Corporation), whose shares are traded on the Panamanian Stock Exchange. In 2003, MiBanco reached an important benchmark by achieving profitability. In 2004, its growth continued unabated with a 57 percent increase in deposits and a \$2.9 million growth in its loan portfolio while maintaining a loan-repayment rate of 98 percent.

Key Indicators (2004)

Number of clients	2,069
Number of loans issued this year	1,828
Number of loans outstanding	1,449
Amount of loans issued this year, USD	\$8,439,449
Gross loans outstanding, USD	\$8,439,449
Average loan amount, USD	\$4,620
Average loan term (micro-enterprise)	12 months
Average loan term (small business)	24 months
Operational self-sufficiency	100%
Percentage of commercially funded portfolio	100%
Portfolio at risk (>30 days past due)	12.3%
Write-offs/average gross loan portfolio	2%
Operational cost per unit of money lent, USD	\$0.13

SEDF Investment

In 2003, SEDF purchased a \$25,000 equity interest in MiBanco's holding company and made a \$1,000,000 deposit in the bank. Through SEDF's support, MiBanco expanded its micro- and small-business lending activities and became profitable in 2003.

CROATIA



A second chance

Amalio Dunić is a zoologist by training. For three years he struggled to find a job in his field of study, to no avail. He finally decided to fall back on skills he had learned as a young man working in his father's locksmith shop. He was confident there was a market for ornamental metal goods, such as the decorative balconies, fences and garden garnitures that he saw in South American soap operas. So, in 2003 he took out a 60 month, \$13,644 loan from NOA and opened *Kovalos*, his own ironworks. Now his business is thriving. Along with acquiring a commercial space and a delivery van, Dunić has hired two full-time assistants.

NOA Štedno-Kreditna Zadruga

Contact Information

Tomislav Flegar, *Executive Director*
Županijska 19/1, Osijek, Croatia

T +385 031 200 466

F +385 031 200 477

E noa@os.htnet.hr

www.noa.hr

Description

Legal Entity	Savings and Loan Cooperative
Branches	3
Focus	Micro- and Small Business Loans
Area of Operation	Croatia
Years in Existence	9
Employees	10

NOA is a savings and loan cooperative founded in 1996 as a joint venture by a Croatian citizens' group, USAID, and Opportunity International. It offers loans for start-up businesses, SMEs and family farms, targeting the unemployed and other socially vulnerable groups in war-torn regions in Croatia. In 2004, NOA experienced a sudden financial crisis due to the Croatian Tax Authority's decision to levy a substantial tax on USAID funds. It was in this context that the Soros Economic Development Fund made a \$500,000 deposit to strengthen NOA's capital position. The investment allowed NOA's loan activity to return to pre-2004 levels.

Key Indicators (2004)

Number of loans issued this year	168
Number of loans outstanding	585
Amount of loans issued this year, USD	\$1,250,000
Gross loans outstanding, USD	\$4,297,076
Average loan amount, USD	\$7,430
Average loan term	40 months
Operational self-sufficiency	114%
Percentage of commercially funded portfolio	25.7%
Portfolio at risk (>30 days past due)	15.7%
Write offs/average gross loan portfolio	5.7%

SEDF Investment

In 2004, SEDF deposited \$500,000 in a NOA account to support the organization's lending to SMEs and family farms in regions of Croatia heavily affected by the war of the 1990s.

equity

SEDF makes equity investments in financial institutions with strong social missions and commitments to local economic development. The investments help these institutions weather macroeconomic crises, as experienced in Russia and the former Yugoslavia during the late 1990s. The investments also give new institutions the credibility and capacity necessary to attract other investors.

Equity Investments

MONTENEGRO



Fostering long-term relationships

The Celebic Company, a construction firm in Podgorica, Montenegro, is one of Euromarket Banka's oldest clients. Euromarket has supported most of Celebic's construction projects since 2000 through short-term loans, mid-term investment loans and guarantees.

Some of Celebic's projects financed by Euromarket include the erection of a distribution center for the Slovenian firm, Gorenje, the renovation of the official presidential residence in Ceinje, and the construction of a Hyundai car dealership.

Celebic has rapidly increased its capital and has recently become the majority owner of two companies, INIS and Tehnomarket.

Euromarket Banka

Contact Information

Branimir Pajkovic, *CEO*
 George Washington 83 Bulevard,
 Cetinjski put bb
 Podgorica, Montenegro
 T + 381 81 235-060
 F + 381 81 235-072
 E euromarketbanka@cg.yu
 www.euromarketbank.com

Description

Legal Entity	Private Commercial Bank
Focus	Small and Medium Enterprises
Years in Existence	5
Branches	8
Area of Operation	Montenegro
Employees	121

When SEDF helped establish Euromarket Banka in 2000, its objective was to help ensure that companies, non-governmental organizations and individual citizens had access to basic financial services in Montenegro, a region heavily impacted by civil strife with an underdeveloped commercial banking sector. Without well managed banks, the economic development of Montenegro, as well as the viability of small and medium sized businesses, was in jeopardy. As the first bank in Montenegro to be launched entirely with foreign capital, Euromarket's mission was to foster entrepreneurship by targeting small and medium sized businesses. Its network of eight branches gives it a presence throughout the entire territory. It is presently the country's fifth largest bank, helping thousands of SMEs each year.

Key Indicators (2004)

Number of clients	16,489
Number of loans issued this year	6,200
Number of loans outstanding	7,791
Amount of loans issued this year, USD	\$50,755,680
Gross loans outstanding, USD	\$22,115,560
Average loan amount, USD (Retail)	\$1,637
Average loan amount, USD (Corporate)	\$73,405
Average loan term	11 months
Operational self-sufficiency	81.3%
Percentage of commercially funded portfolio	58.5%
Portfolio at risk (>30 days past due)	7%
Write-offs/average gross loan portfolio	0.2%

SEDF Investment

In 2000, SEDF invested \$3.1 million in Euromarket Banka, becoming its largest shareholder. In early 2005, SEDF sold its 50 percent stake to Nova Ljubljanska Banka (NLB) for a total purchase price of \$8.09 million.

AFRICA & LATIN AMERICA



Helping a canteen meet demand

Andrea Argueta and her daughter operate a canteen in San Miguel, El Salvador, 160 kilometers from San Salvador. The Arguetas prepare and sell *pupusas*, traditional Salvadoran pork pastries. Since 2002, they have received two loans worth a total of \$2,629 from Sociedad Cooperativa de Ahorro y Crédito AMC de R.L., a Salvadoran microfinance institution dedicated to helping the poorest townships of El Salvador. The Arguetas used the loans to meet the growing popularity of their dishes, buying an oven for their kitchen as well as more tables and chairs for their customers. With the increased sales made possible through their loans, they were able to hire two new employees.

AMC de R.L. holds a \$24,300 guarantee from the International Guarantee Fund, leveraging a loan of \$497,172.

International Guarantee Fund

Contact Information

Epaminondas Jacome, *Secretary General*
c/o Fondation RAFAD
Rue de Varembe, 1, C.P. 117 CH-1211
Genève 20, Switzerland

T +41-22-733-5073

F +41-22-734-7083

E info@fig-igf.org

www.fig-igf.org

Description

Entity	Nonprofit
Project Focus	Cooperatives, MFIs & NGOs
Years in Existence	9
Offices	3
Areas of Operation	Africa & Latin America
Employees	4

Founded in 1996, the International Guarantee Fund (IGF) is a nonprofit cooperative founded to fight poverty by providing guarantees to microfinance institutions, small producer cooperatives and nonprofit organizations located in the Southern hemisphere. Since its inception, it has issued approximately \$53 million in guarantees, leveraged into \$216 million in loans, benefiting over 250,000 low-income entrepreneurs and small producers. IGF currently operates in eleven countries in Africa and Latin America. In 2004, IGF increased its capital by 25 percent, and raised its leverage effect from \$5.30 in loans for every IGF dollar guaranteed to \$5.50.

Key Indicators (2004)

Active guarantees this year	24
Amount of guarantees issued this year, USD	\$2,532,814
Loans mobilized by guarantees this year	30
Loans mobilized by guarantees, USD	\$15,431,589
Leverage effect (loan : guarantee)	5.5 : 1
Average amount of guarantee, USD	\$98,754
Bank partnerships	17
Countries where IGF made guarantees	11
Operational self-sufficiency	63%
Percentage of commercially funded portfolio	45%
Portfolio at risk (>30 days past due)	\$46,756
Rate of default	0%

SEDF Investment

As of 2004, SEDF had purchased membership interests in IGF totaling CHF 1,500,000 representing 59 percent of IGF capital. SEDF's support provided bridge financing to help IGF become a sustainable guarantee fund.

RUSSIA



A shop becomes an industry leader

Otkrytoye Pis'mo ("Open Letter") was founded in 1995 by spouses Anastasiya Goremykina and Pavel Shebanov, specializing in the sale of greeting cards. In 2000, Goremykina and Shebanov decided to produce their own line of cards. With a \$150,000 loan from KMB Bank, the couple purchased printing equipment and today their company is at the forefront of a rapidly developing new industry in Russia. By 2003, the company had received \$1,004,000 in loans from KMB Bank for equipment and overhauls. Otkrytoye Pis'mo's clients now include 5,565 stores and twelve wholesale companies. The business receives monthly revenues of \$1.3 million and employs over 300 people.

KMB Bank

Contact Information

Reiner Mueller-Hanke, *CEO*
 31 Shabolovka St., Bldg. B
 Moscow, 115162, Russia
 T +7(095) 967-6707
 F +7 (095) 789-6827
 E info@kmb.ru

Description

Entity	Private Commercial Bank
Project Focus	Small Businesses
Years in Existence	10
Offices	53
Area of Operation	Russia
Employees	1,045

In the aftermath of the Russian financial crisis of the late 1990s, KMB (Small Business Credit) Bank emerged as one of the few commercial lenders to small businesses in Russia. Today, KMB Bank continues to be the leading provider of banking services to small private enterprises across Russia. Its competitive advantage lies in its branch network and its continuous adaptation of lending products to meet the changing needs of its clients. In 2004, KMB expanded its presence in the retail banking market by introducing consumer loans and debit cards. It also increased its financial transparency by creating a Corporate Governance Committee to review risk management and adopting stringent anti-money laundering procedures.

Key Indicators (2004)

Number of clients	47,754
Number of loans issued this year	37,810
Number of loans outstanding	33,760
Amount of loans issued this year, USD	\$315 million
Gross loans outstanding, USD	\$262 million
Loans of \$50,000 or less/portfolio volume	96%
Loans of \$50,000 or less/portfolio value	58%
Average loan term	25 months
Percentage of commercially funded portfolio	81%
Portfolio at risk (>30 days past due)	0.8%
Write-offs/average gross loan portfolio	0.6%

SEDF Investment

From 1999 to 2004, SEDF invested \$9 million in KMB Bank, acquiring a 36.8 percent equity stake. In addition, SEDF issued a short-term \$3 million loan to KMB in 2004, which was repaid in full in January 2005. In February 2005, Intesa International Holding Luxembourg SA, a leading European commercial bank, agreed to purchase SEDF's stake for \$44.1 million

guarantee

Microlending institutions often experience difficulty obtaining financing from local banks. SEDF helps solve this problem by guaranteeing lines of credit. By issuing a guarantee, rather than making a loan directly, SEDF helps strengthen the institutions' relationships with local banks. It also allows the institutions to borrow in their local currencies rather than US dollars, avoiding the risk of currency fluctuations.

Guarantees

HAITI



A grocery thrives

Barron Clairemante, a married mother of two, runs a grocery stand in Port-au-Prince, Haiti. In 2000, she received her first loan from Association Pour la Coopération avec la Micro Entreprise (ACME) in the amount of \$235. As her business expanded rapidly, she received and successfully repaid another \$8,000 worth of loans from ACME. Her business now encompasses a second grocery stand in a neighboring market and a depot for her inventory. With the income she has earned in the last four years, she recently purchased a home in the suburban area of Fontamara.

Association pour la Coopération avec la Micro Entreprise

Contact Information

Sinior Raymond, *Executive Director*

11 rue Bois Patate

Port-au-Prince, Haiti

T +509 2454584

F +509 2454584

E siniorr@hotmail.com

Description

Entity	Nonprofit Association
Project Focus	Informal Urban Businesses
Years in Existence	8
Branches	8
Area of Operation	Port-au-Prince, Haiti
Employees	83

Founded in 1997, the Association pour la Coopération avec la Micro Entreprise (ACME) operates in the metropolitan area of Port-au-Prince, meeting the capital needs of urban entrepreneurs working in the informal sector. In the past eight years, ACME has expanded from a staff of four (one bookkeeper and three credit officers) to eighty-three in eight branches throughout Port-au-Prince. ACME reached operational self-sufficiency in 1999 and became profitable in 2002. With the entry of commercial banks in the micro-credit sector in the last five years, ACME has been able to compete and grow thanks to its cultivation of personal relationships with its clients and the dedication of its staff. In 2004, the World Bank-based Consultative Group to Assist the Poor (CGAP) awarded ACME a Financial Transparency Award for excellence in disclosure and financial reporting.

Key Indicators (2004)

Number of loans issued this year	10,488
Number of loans outstanding	6,837
Amount of loans issued this year, USD	\$9,238,795
Gross loans outstanding, USD	\$3,462,000
Average loan amount, USD	\$519
Average loan term	6 months
Operational self-sufficiency	123%
Percentage of commercially funded portfolio	90%
Portfolio at risk (>30 days past due)	12.3%
Write-offs/average gross loan portfolio	4.2%

SEDF Investment

Since 2001, SEDF has provided 100 percent guarantees on commercial loans to ACME. The purpose of these guarantees has been to increase ACME's lending to micro-enterprises in Haiti. Currently, SEDF guarantees two loans to ACME totaling \$1,000,000.

BULGARIA



A new beginning for an old business

Ibriam Iosein has operated a barber shop in Kurdjali, Bulgaria for the last 16 years. In 2002, Iosein decided to open a second shop, but found that commercial banks were not interested in extending him a loan. He turned to Mikrofond's Micro Credit Program, where he received a \$3,484 loan using his home as collateral. With the loan from Mikrofond he was able to rent and refurbish a new barber shop in the center of town. After a few months, Mr. Iosein repaid his loan ahead of schedule, and took out an additional \$3,485 worth of loans with which he purchased a third barber shop. Thanks to the loans from Mikrofond, he now owns the town's most popular barber shops, employing several barbers, including members of his family.

Bulgarian Micro Credit Program

Contact Information

Georgi Breskovski, *Executive Director*
Mikrofond Foundation/
Mikrofond EAD 20 Serdika str.,
Sofia, Bulgaria
T (359 2) 915 48 30
F (373 22) 915 48 10
E breskovski@ngorc.net

Description

Entity	Service Company – Bank Partnership
Project Focus	Micro to Small Enterprises
Years in Existence	6
Offices	15
Area of Operation	Bulgaria
Employees	46

The Bulgarian Micro Credit Program began in 1999 through the efforts of SEDF and United Bulgarian Bank (UBB). Mikrofond Foundation, a nonprofit, was established to administer the program and review applications from small business entrepreneurs, especially those located in regions with high unemployment and low economic growth. Successful applicants received UBB loans for up to \$2,000.

In 2003, Mikrofond Foundation founded Mikrofond EAD, transforming itself from a technical assistance provider to a direct micro-lender. The new entity, supported by a \$3 million line of credit from Raiffeisenbank-Bulgaria backed by a 75 percent guarantee from SEDF, is currently the only private micro-lending institution in Bulgaria.

Through these joint projects and a combined lending volume of \$16 million, the Micro Credit Program has financed entrepreneurs in 215 municipalities. In late 2004, the Program expanded its mission to become an enterprise development trainer, competing for government contracts.

SEDF Investment

Since 1999, SEDF has provided United Bulgarian Bank with € 5 million in loan guarantees for the micro-credit program administered by Mikrofond. In 2003, SEDF provided a \$300,000 subordinated loan to Mikrofond EAD to support Mikrofond's equity position and help attract funding from other banks. SEDF also provided a 75 percent guarantee on Raiffeisenbank-Bulgaria's \$3 million loan to Mikrofond EAD.

Key Indicators (2004)

Number of loans issued this year	1,615
Number of loans outstanding	1,300
Amount of loans issued this year, USD	\$5,310,000
Gross loans outstanding, USD	\$4,615,000
Average loan amount, USD	\$3,550
Average loan term	14 months
Operational self-sufficiency	88%
Percentage of commercially funded portfolio	100%
Portfolio at risk (>30 days past due)	5.1%
Write-offs/average gross loan portfolio	0%

BANGLADESH



Bringing the world to a village

Laily Begum and her husband Atiqullah started their lives in poverty in the village of Dakshin Khan, on the outskirts of Dhaka city. Their prospects improved when Begum joined the Grameen Bank (GB), the institution that pioneered micro-credit, taking a \$77 loan to buy a cow. By selling milk, she earned extra cash, and she soon took out an additional \$103 loan to buy a second cow.

In 1997, the local Grameen Bank branch manager encouraged Begum to apply for a mobile phone from Grameen Telecom (GTC) which she could rent to her neighbors like a public pay phone. GB provided loan financing and GTC gave her training on how to operate the mobile phone.

At first, her business grew very fast as she was the village's sole telecommunications provider. However, as more fixed lines and mobile phones became available, her income stabilized. By investing their savings, Begum and her husband have now set up five shops including two grocery stores, one laundry, a pharmacy and a phone booth. From these businesses, she now earns approximately \$130 per month. The extra income enables her to make a decent living and plan ahead for a brighter future. To improve her family's position even further, Begum and her husband have applied for an Internet connection from GTC.

Grameen Telecom

Contact Information

Masud Isa, *Managing Director*
 Grameen Bank Complex
 Mirpur 2, Dhaka 1216, Bangladesh
 T 880-2-9005347
 F 880-2-9005388
 E gtelecom@grameen.net
www.grameen-info.org

Description

Entity	Nonprofit
Project Focus	Rural Villagers
Years in Existence	8
Unit Offices	18
Area of Operation	Bangladesh
Employees	64

Since 1997, the Village Phone (VP) Program, implemented by Grameen Telecom (GTC), has given Grameen Bank borrowers access to mobile phones for use as owner-operated pay phones. This not only provides income for the operators, but brings telecommunications services to isolated rural villagers who otherwise must physically travel outside their communities to conduct business. The VP operators finance their phone subscriptions through loans from Grameen Bank (in the average amount of \$206). GTC trains the operators on the use of the phone and also provides business management counseling. By the end of 2004, the number of VP operators stood at 94,003, a 103 percent increase over 2003.

Key Indicators (2004)

Number of VP operators	94,003
Number of villages where phones operate	38,000
Average annual revenue per VP operator, USD	\$1,080
Number of phones distributed this year	47,706
Number of villages served this year	8,000

SEDF Investment

In 1999, SEDF issued a seven-year, \$10.6 million interest-bearing loan to Grameen Telecom. The loan allowed Grameen Telecom to purchase a 35 percent stake in Grameen Phone, Bangladesh's leading mobile phone operator. In January 2004, Grameen Telecom repaid to SEDF the outstanding principal and interest then owing on the loan as part of a refinancing designed to replace Grameen Telecom's costly, US dollar obligation with a local currency obligation. As part of the refinancing, SEDF guaranteed repayment of a Standard Chartered Bank loan to Grameen Telecom in the Taka equivalent of \$6,709,524.

Financial Information

SEDF Investments

INVESTMENT	COUNTRY	DESCRIPTION	YEAR STARTED	TOTAL PROGRAM AMOUNT	AMOUNT OUTSTANDING
LOANS					
Association of Lithuanian Credit Unions	Lithuania	Small loans program through credit unions	2001	\$1,364,400	\$1,364,400 ¹
Center for Economic Development	Romania	Rural microfinance program	2001	\$2,000,000	\$2,000,000
Emergency Liquidity Facility	Latin America	Insurance for microfinance institutions	2004	\$250,000	\$0
KMB Bank	Russia	SME lending program	2004	\$3,000,000	\$3,000,000 ²
Mikrofond EAD	Bulgaria	Peri-urban micro-small business lending program	1998	\$300,000	\$300,000
South Africa Financing Enterprise	South Africa	Nurcha credit facility for housing	2003	\$2,000,000	\$2,000,000
DEPOSITS					
IK (Export and Credit) Banka	Macedonia	Agricultural SME lending program	1999	\$1,070,079	\$1,070,079
MiBanco	Panama	Micro and small business lending program	2003	\$1,000,000	\$1,000,000
NOA Stedno Kreditna Zadruga	Croatia	Micro and small business lending program	2004	\$500,000	\$500,000
EQUITY INVESTMENTS					
Euromarket Banka	Montenegro	SME lending program	2002	\$5,869,052	\$5,869,052 ³
International Guarantee Fund	Africa & Latin America	Guarantee fund for MFIs	2002	\$1,325,791	\$1,325,791
KMB (Small Business Credit) Bank	Russia	SME lending program	2002	\$12,082,626	\$12,082,626 ⁴
MiBanco	Panama	Micro and small business lending program	2003	\$25,000	\$25,000
South Africa Financing Enterprise	South Africa	Nurcha credit facility for housing	2003	\$355,311	\$355,311
SUBTOTAL LOANS, DEPOSITS, EQUITY INVESTMENTS				\$31,142,259	\$30,892,259
GUARANTEES					
Association pour la Coopération de la Micro Entreprise	Haiti	Informal urban business lending program	2001	\$1,000,000	\$1,000,000
Budapest Bank	Hungary	Urban micro and small business lending program	2001	\$750,000	\$16,854 ⁵
CIDA City Campus	South Africa	Student loans for low-income business students	2003	\$250,000	\$0
East-West Management Institute	Eastern & Central Europe	Working capital financing for development projects	1998	\$1,000,000	\$650,000
Grameen Telecom	Bangladesh	Mobile phones for microfinance clients	2004	\$6,709,524	\$6,374,571
Raiffeisenbank/Mikrofond EAD	Bulgaria	Peri-urban micro-small business lending program	1998	\$3,000,000	\$2,250,000
United Bulgarian Bank Facility	Bulgaria	Peri-urban micro-small business lending program	1999	\$5,000,000	\$1,071,510
TOTAL				\$48,851,783	\$42,255,194

1 Repaid in full Feb. 2005

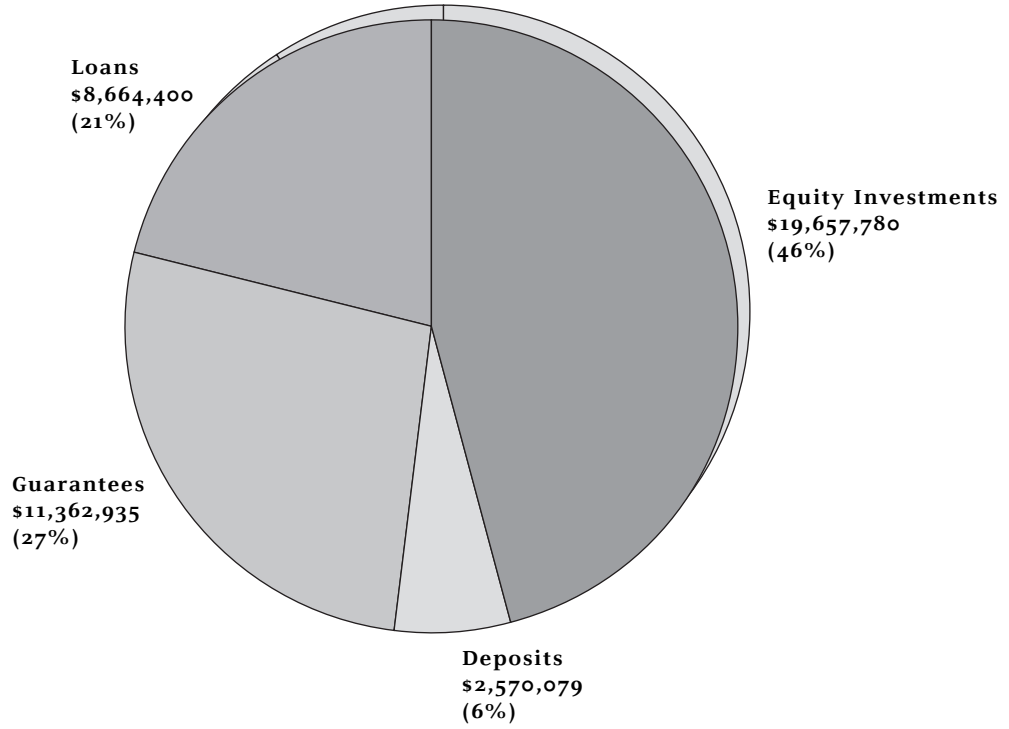
2 Repaid in full Jan. 2005

3 Sold May 2005

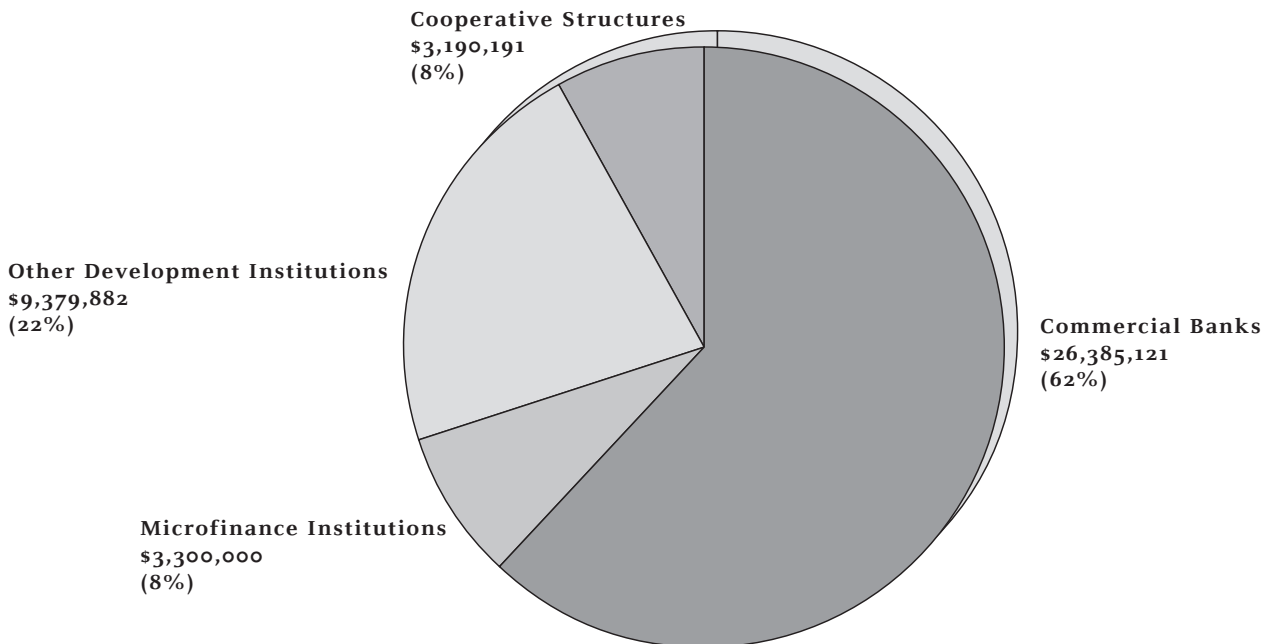
4 Sale to be completed in 2005

5 Program activity ended 2003

VALUE OF INVESTMENTS BY TYPE



VALUE OF INVESTMENTS BY COUNTERPARTY



Statements of Financial Position

December 31, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents	\$ 1,940,837	\$ 9,000,749
Interest receivable	119,636	251,472
Other receivables	—	343,306
Investments, at fair value	57,073,529	51,101,424
Program-related investments		
At equity:		
KMB (Small Business Credit) Bank, Russia	12,082,626	6,276,344
Euromarket Banka A.D., Montenegro	5,869,052	4,944,235
South Africa Financing Enterprise, Inc.	355,311	353,408
	18,306,989	11,573,987
At lower cost or fair value:		
Loans	8,664,400	12,191,481
Deposits	2,570,079	2,954,956
Mandatorily redeemable shares	1,325,791	724,813
Other	25,000	25,000
	12,585,270	15,896,250
Total program-related investments	\$30,892,259	\$27,470,237
Allowance for estimated losses on program-related investments	(884,603)	(3,057,719)
Program-related investments, net	30,007,656	24,412,518
Total assets	\$89,141,658	\$85,109,469
Liabilities and Net Assets		
Liabilities		
Payable for purchase of investment	—	\$3,750,000
Accrued expenses	165,348	448,708
Deferred Federal excise tax	286,241	233,950
Fair value of guarantees issued	222,000	222,000
Allowance for estimated losses on guarantees under program-related investments	1,299,461	772,185
Total liabilities	1,973,050	5,426,843
Net assets – unrestricted	84,004,059	77,659,798
Cumulative translation adjustment	3,164,549	2,022,828
Total net assets	87,168,608	79,682,626
Total liabilities and net assets	\$89,141,658	\$85,109,469

Statements of Activities

Years ended December 31, 2004 and 2003

Revenues	2004	2003
Contribution services from Open Society Institute	\$ 821,574	\$ 743,889
Contribution income from Open Society Institute	—	25,000
Income from investments:		
Interest and dividends	33,495	49,787
Net realized and unrealized gains on investments	3,600,912	8,049,377
Income from program-related investments:		
Interest	415,314	699,332
Service and other fees	161,824	378,643
Equity interest in net income of investees	1,343,028	1,444,643
Gain on foreign currency transactions	259,408	662,850
Total revenues	6,635,555	12,078,359
Expenses		
Program expenses:		
Recovery of estimated losses on program-related investments	(1,406,100)	(3,311,614)
Fair value of guarantees issued	—	222,000
Amortization of goodwill	251,998	251,998
Other, including donated services	977,178	1,160,770
	(176,924)	(1,676,846)
General and administrative expenses, including donated services	351,260	263,375
Provision for Federal excise tax	116,958	154,558
Total expenses	291,294	(1,258,913)
Increase in net assets	6,344,261	13,337,272
Net assets, beginning of year	79,682,626	65,064,013
Foreign currency translation gains and other transactions	1,141,721	1,281,341
Net assets, end of year	\$87,168,608	\$79,682,626

Definition of Terms

All amounts are in USD or USD equivalents of foreign currency using December 31, 2004 rates of exchange.

Operational Self Sufficiency: This figure indicates the ability of the organization to cover the costs of its own operations through self-generating income. For example, at 100 percent, an organization is meeting all of its cost of operations through its lending activity.

Percentage of Commercially Funded Portfolio: This percentage represents the portion of an organization's lending capital that is derived from commercial sources.

Portfolio at Risk (>30 days past due): This figure indicates the percentage of loans that are in arrears by 30 days or more.

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Access to credit under fair terms is essential to growing a profitable business, becoming self-employed, financing home ownership, and breaking the cycle of poverty. Financial services not only make a critical difference in people's ability to care for themselves and their families, they are powerful tools for job creation and the revitalization of economically depressed communities. By creating lending programs and supporting existing ones, Soros Economic Development Fund helps extend financial services to low-income entrepreneurs, without the requirement of collateral or previous credit experience. It does this primarily by making investments—in the form of equity, loans, guarantees and deposits—in selected commercial banks, microfinance institutions, cooperative networks and social enterprise projects.

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Soros Economic Development Fund

400 West 59th Street
New York, New York 10019
TEL (212) 548-0619
FAX (212) 548-4651

