



Spring
Summer
1999

MICROFINANCE CENTRE

for Central and Eastern Europe and the New Independent States

Message from the Executive Director

Greetings everyone! The Year 1999 has been a very busy and fruitful year for the MFC and its members so far:

- Two training courses on financial management for MFIs and how to start a microfinance program were held for the first time in Russian with encouraging feedback,
- The Impact Research Project held two workshops,
- The Microfinance Law and Regulation Project continues with promising results,
- The Second Annual Meeting of MFIs in the region was held in February with great success, and
- Membership has grown from 28 in December of 1998 to 43 as of June 1999 (a 53% increase in members!).

Three more training courses are scheduled for the remainder of the year and the Centre will acquire a new member to the staff in August. Many new programs and services are being considered, and the MFC is always open for feedback on current or potential services from you in the field.

We at the MF Centre do apologize to you for not sending out this issue sooner and promise to be more prompt in the future. We contacted many of you earlier in the year about sending us news contributions to share with the other MFIs in the region and would like to thank all of you that helped make this newsletter happen! The Centre strongly encourages all of you to keep sending us information on your programs and regions (through E-mail or post).

We at the Centre look forward to working with and serving you in the coming months and hope that the rest of 1999 can be as productive as the first half. Thank you!

*Grzegorz Galusek, Executive Director and
The Microfinance Centre Staff*

GENDER: Is this an Issue for Central and Eastern Europe and the NIS?

The provision of micro-credit in the CEE and NIS countries has one main goal: to reduce unemployment and create jobs as the countries transition to market economies. Given this massive task, how can we possibly divert our attention to an issue such as gender? A question put to me more than once.

The word gender often inspires an array of responses. Some see it as the 90's remake of feminist ideology while others perceive it as another nuisance that will not go away. Others assume that in a post-communist society gender issues have already been resolved through policies of an egalitarian work force. By merely labeling it, 50% of the population becomes an issue, if not a problem, according to many. As I see it, the real issue behind gender-sensitive programming, is not gender per se, but fair access to resources. Very few people in the field of micro-finance, or in any sector of economic development for that matter, would object to programs that provide fair access to resources. This is what development is all about, is it not?

So if the real issue is access to resources, how do we address it? There are two approaches, targeting or program design. To make this a little more clear, programs can choose to address inequalities through one of two ways: directly targeting a particular group which is disadvantaged or designing program criteria and parameters so that they provide adequate/ equal access to all populations.

The debate as to which approach to take is ongoing and a resolution or recommendation is beyond this writer's scope. With any debate, there are clear advantages and disadvantages on each side. The one issue both sides can agree upon, however, is that by not doing either, a program does not serve one of the basic tenets of development – addressing the issues of inequality and access.



Photographs (on pages 1 & 3) are Project Enterprise clients in respective order: a bookkeeper, a florist, a hairdresser, a chickenraiser and a cheesemaker.



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MISSION

The Centre's mission is to support existing and future microfinance institutions in CEE and the NIS in their efforts to alleviate poverty, create employment, and privatize the economy through the development of microenterprises and self-employment.

MFC SUPPORTERS

- The International Bank for Reconstruction and Development (IBRD) for the Consultative Group to Assist the Poorest (CGAP)
- The Charles Stewart Mott Foundation (USA)
- USAID (Eastern Europe Department)

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The MFC's WEB PAGE

(<http://www.microfinance-centre.org.pl>) on the Internet has been updated and the Russian version has been developed.

SPECIAL THANKS

Special thanks for the enormous effort of Opportunity International Russia to help make the training courses in the Russian language happen. We also found most valuable the guidance of CGAP, whose representatives were present at the Financial Management course in Nizhni Novgorod. All of the trainers involved: Dima Ponomarenko, Irina Ignatieva, Marina Yoveva, Halyna Kosyura, Olga Tomilova, Ludmila Teterikova and Eugene Smirnov did a wonderful job of delivering the courses. Great start for the process of involving local expertise on the Regional scale (more about building up local training capacity in the next issue of the MFC's newsletter).

Members' Corner

■ With the establishment of three additional Service Centers in January of 1999 and two more planned for the fall, the **AREGAK** program and the United Methodist Committee on Relief-UMCOR/Armenia, currently with over 6,060 female clients, are poised for rapid growth. AREGAK expects to have over 10,000 clients by the first quarter of 2000. Because of the rapid expansion, AREGAK is currently looking for training opportunities and forums for the exchange of information on microfinance programs operating in rural areas but not involved in production credit.

John Irons, irons@umcor.am

■ In the second quarter of this year, **Counterpart Meta Center (CMC-Ukraine)** has become more focused on developing its products by paying attention to the key products of the center, i.e. loans and training workshops. A loan product was developed to become more flexible and client-oriented. The interest rate was decreased from 66.25 to 55 per cent, and the loan process itself was re-arranged to make it faster and less time/effort consuming. A variety of training workshops were added as well: Professional Development for Women, Computer Skills, Basic Internet and Basic Marketing. During this quarter, CMC is offering a special training workshop developed for individual companies/institutions. In addition, CMC established a tenant club which meets monthly to discuss various business topics that might be of interest to CMC office clients.



Participants in one of CMC's recent workshops discuss what they have just learned.

CMC extended its contacts with business institutions and organizations of Lviv area by attending and participating in the Grand Opening of the Woman to Woman Center at the Polytechnic University. CMC also established close links with the business community of Sambir Town offering in-house training and development with the Sambir Branch of Western Ukrainian Commercial Bank (WUCB).

Results of all activities since May 1999 opening:
12 tenants (100% occupancy rate)
13 loans made (4 loans in process)
3420 training hours and 670 consulting hours

Svitlana Kubiv, svitlana@meta.lviv.ua

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GENDER: Is this an issue for Central and Eastern Europe and the NIS? (continued from page 1)

Rather than open the debate here about targeting or program design, I will present one approach used by Project Enterprise, a



local affiliate of the International Catholic Migration Commission, in Bosnia and Herzegovina that combines them. Project Enterprise was established in 1997. It has disbursed over 2,000 loans to date, maintains a 99% repayment rate

and is unable to meet the demand for its products.

Project Enterprise targets female entrepreneurs. Why, you ask? Simple, it has been proven the world over that women are the majority of the poor AND are more likely to repay AND are more likely to use profits from their business on their households. So, the decision to target women addresses two critical issues for Project Enterprise, sustainability and maintaining the mission of the agency to assist the poor.

Project Enterprise also sets its parameters and loan criteria to allow



for easier access for the client profile it wishes to reach. That is, Project Enterprise does not require business registration, guarantors or physical collateral. Instead, Project Enterprise welcomes informal businesses and uses solidarity group lending

which allows a group of borrowers to guarantee each other.

By directly targeting women, doesn't Project Enterprise discriminate against men, you may be asking? Once again, there is a simple answer, no. In Bosnia, and I presume in many cultures in CEE and the NIS, the family continues to be the basic unit in society. Businesses are therefore often the property of the whole family and everyone has a stake in the labor as well as the profits. Project Enterprise therefore recognizes that most of its loans are going toward family businesses. It requires that the woman involved in (and frequently the driving force of the business) is the loan holder for the reasons I stated earlier. Inevitably, a few



single men who are poor and have a fabulous business will be neglected, but considering their number in comparison to that of the majority of women, the trade-off is well worth it. It is clear that Project Enterprise resources go farther in

providing fair access to resources than they would without a target on women and flexible criteria.

Mayada El-Zogibi, Program Advisor ICMC, Bosnia-Herzegovina

Project Enterprise Statistics

Total number of loans disbursed to date :	2.028
Number of active clients:	1.037
Average initial loan size:	1.769
Repayment rate:	99,76%

Microfinance Legal Reform Moves Forward in Bosnia and Herzegovina



The robust growth of the microfinance sector in Bosnia and Herzegovina ("BiH") in recent years owes more to the vitality of the country's microentrepreneurs than to a hospitable legal and

regulatory environment for microfinance. In fact, in each of the two constituent Entities of BiH, Republika Srpska ("RS") in the North and East and the Federation of Bosnia and Herzegovina (the "Federation") in the West and South, the existing legal and regulatory framework presented one the greatest immediate barriers to the development of microfinance and microfinance institutions ("MFIs") following the signing of the Dayton and Paris Peace Accords three and a half years ago. Now, legal and regulatory reforms are about to be introduced which, if completed as planned, will leave both the Federation and RS with legal and regulatory frameworks for MFIs that can rival any in the world in terms of clarity and rationality.

The situation in BiH in 1996 combined all of the legal and regulatory issues that frequently impede the development of microfinance in other transition economies in the region (poorly developed and poorly understood laws on nonprofit organizations, a largely unreformed regulatory apparatus for the financial sector, a tendency for government officials to view credit activities as "illegal" if conducted without a banking license, ambiguous and often even punitive legal rules governing small-scale entrepreneurial activity of any sort, to name a few) with special problems unique to the country's war-time experience and the terms of the negotiated peace. The Peace Accords, which include the BiH Constitution itself as an annex, describe a governmental structure that leaves to the two Entities, RS and the Federation, law-making authority with respect to most issues that directly affect microfinance. In both cases, the Entity-level laws that

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■ During the past eighteen months, **Fundusz Mikro (FM)** has not only grown, developing its network (32 outlets with 90 staff) and enlarging its portfolio (25 000 loans distributed worth over 41 million dollars) but has also made several more steps in developing new products and back-office support. All efforts are aimed to provide commercial support to the largest number possible of micro-enterprises which are able to use it in the most effective way. A new elastic computer system tailored especially to the needs of micro-loans has not only improved information flow but also opens up many other possibilities. FM is currently working on introducing new products and looking towards local societies, rural areas and start-ups. Up till now Fundusz Mikro mainly operated through branches located in cities, but today we are entering small towns. Loans made within groups (which are the majority of loans distributed by FM) have now also gained a new dimension. A closer partnership cooperation with clients helps in building very stable long-term relationships. Fundusz Mikro is developing a financially self-sustainable market oriented institution, which can serve as an useful example. FM thinks its expertise can be useful for new programs home and abroad.

Agata Szostek, International Relations Director, Fundusz Mikro
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■ The **Rural Credit Program** was created in 1992 by the **Albanian Development Fund**, a foundation established by the Albanian Government (and the World Bank, IFAD, European Union, U.N.D.P. and Italian government), to implement three main programs:

1. Infrastructure Rehabilitation;
2. Rural Credit and
3. Urban Credit.

Its mandate consists of the following: to help the rural areas progress through new employment creation and strengthening of economic activities; to assist private sector development; to promote the creation of village associations and to establish a decentralized financial system at the village level. Credit beneficiaries are the inhabitants of the village who do not have access to the formal credit (without considering sex, age, ethnic and culture differences). Activities

consist of establishing village associations; providing training courses in microcredit and small business and disbursing small loans aimed at profitable activities.

Duration:	3 years (Average: 2.55 years)
Amount:	up to \$ 2 000
Monthly interest rate:	1,5% & 2%
Guarantee:	Solidarity
Number of villages:	227
Total No. of loans made:	17 164
No. of clients:	14 046
Active loans:	9 300
Repayment rate:	99.48%
Outstanding portfolio:	437 146 310 leke
Average loan outstanding:	47 005 leke

Additionally given the current positive results and rural areas' increased demands, the World Bank and the Albanian government approved the financing of a new independent project, the **Rural Finance Fund**, following these objectives: establish self-sustainable Savings and Credit Associations; mobilize savings; extend geographically and quantitatively and train all partners.

Zana Konini, Executive Director, Rural Finance Fund
E-mail: root@adftirana.al

■ During the war in Kosovo, thousands of refugees were waiting for help on the borders and placed in the temporary camps. The result from the war, for Macedonia, is a destroyed economy that will leave many consequences for the future.

Hillary Clinton visited Macedonia twice during this time. She was interested mostly in microlending programs and visited a small exhibition of clients' work held by **Moznosti**. She was so satisfied with its work that when she came for the second time, she invited one of **Moznosti's** clients to be her special guest of honour.

Snezana Andora, moznosti@lotus.mpt.com.mk

■ MC/SEA Economic Development Department has been working with microcredit since April 1997. They currently have 9 branch offices and cover 22 municipalities of northeast Bosnia. Total staff numbers 30 persons. MC/SEA has issued 2,356 loans for over 7,400,000 DM as of June 30, 1999. They have six donors: the World Bank-sponsored Local Initiative Project, US Department of Agriculture, UNHCR, US Bureau of Population, Refugees and Migration, and the Mott and Fred Foundations. Their average loan size is 3,100 DM. MC/SEA also operates two business centers where computing, accounting, and languages are taught.

Pamela Eser, paeser@compuserve.com

■ *This section of the newsletter has been reserved for information sent in from member organizations throughout the region, and we invite all members to submit any news they want to communicate to other MFIs in the region. This news could be about a new addition to your staff, a new product or service, a general profile on your programme or relevant events/experiences that happened to your organization or in the area. This news should be written in two to three paragraphs (or less) and can be sent by e-mail or post to the MFC. (Photographs are welcome, too!) The Centre does reserve the right to edit submitted passages before final publication.*

Happenings at the MFC

■ **The Second Annual Meeting of Microlending Institutions**, held during the 25th to the 27th of February, was an extraordinary success in which over 150 participants representing over 60 organizations and 25 countries took part in workshops and discussions on impact assessment, legal issues and MFI industry best practices. The Centre can send workshop materials to any party interested. **Next planned meeting: April 2000 Working Language: English**

■ The training module, **"How to Start a Microfinance Programme"**, was last held in March and conducted in Russian for the first time. 20 participants hailing from Azerbaijan, Belarus, Kazakhstan, Tajikistan and Uzbekistan learned about subjects in loan analysis and processing, lending methodologies, operational efficiency, organizational structure and financial modeling. **Next planned seminar: November 29th to December 4th 1999 in Ukraine Working Language: English**



Participants discuss various MF methodologies during the 2nd Annual Meeting of MFIs.



Participants of the course, Financial Analysis for MFIs, have a little "fun while learning" in Nizhni Novgorod, Russia.

■ An additional training module, **"Delinquency Management and Determination of Interest Rates"**, was added to the MFC's existing training program, "Financial Analysis for MFIs" with a "kick-off" course in Russian during the weeks of the 24th of May to June 1st, 1999. 23 participants from 5 countries discovered how to:

- create and analyze financial statements,
- adjust statements for inflation and other extraordinary items,
- apply tools learned to improve decision making, performance and sustainability,
- apply delinquency control tools, and
- determine interest rates to attain sustainability.

Participants of these two particular courses gave feedback scores for methods, content, materials and facilitators ranging (on average) from 4.5 to 4.7 on a five-point scale (five being the highest). Igor Kovalevitch from Belarus added, "The training... turned out to be the most useful... course I have ever attended. Everything - from the content of the course to the methods used by the trainers - was merely perfect."

Next planned seminar:
November 8th to the 11th, 1999 (Financial Analysis)
November 14th to the 16th, 1999 (Delinquency Management)
Working Language: English

■ The MFC will add a new training module, **"Business Planning for MFIs"**, to its portfolio on **October 25th to the 30th in Warsaw, Poland**. This training course will be conducted in English and cover the following topics:

- developing a strategic plan,
- operational planning,
- defining products and services,
- projecting credit and savings activities,
- budget planning, and
- developing a financial strategy.

■ The MFC is also in the process of assessing the need and feasibility for training modules in Management Information Systems for MFIs and Crisis Management for MFIs for the Year 2000. Suggestions about these or other possible trainings are most welcome.

Members are also encouraged to send in additional feedback about the services provided by the MFC and CGAP and may request summaries of feedback for each seminar previously held. Please note as well that if interested in attending, organizations should reserve places within three weeks of the training start-date.

[All training workshops are currently held with the aid of CGAP.]

News In the World of Microfinance

■ Announcement for MF Assistance Over the Internet

Micro-Finance Institutions face many problems such as: risk management, financial analysis, human resources management, etc. PlaNet Finance (in collaboration with the Saint Louis University (US) Entrepreneurship Department) is testing a new project, Micro-Finance Help Desk, dedicated to free MFI assistance in day-to-day business operations. PlaNet Finance invites all interested MFIs to participate, by sending inquiries to: ibance@planetbank.org. Please send a detailed description of the problem, your e-mail address and fax number. The consultancy will be provided via the Internet.

Each inquiry will be addressed by Saint Louis University Master of Business Administration (MBA) candidates and micro-finance practitioners.

Main areas of assistance:

1. Designing Lending Products (ex. calculating interest rates, alternative forms of collateral, how does the loan affect client's ability to repay and client cash patterns)
2. Risk Management (ex. problems with risk covering, foreign rate of exchange, operating risk management)
3. Management Information Systems (ex. rescheduling and refinancing loans, costs management)
4. Designing Savings Products (ex. marketing, savings services, deposit insurance)
5. Financial Systems (ex. credit funds management, gap analysis, assets and liability management)
6. Management (ex. strategy, human resources, client targeting)

If you have any questions, please write:
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■ MF Programme in Kazakhstan

UNDP-MCI started a MicroFinance Programme in Semipalatinsk, Kazakhstan - along the borders of Russian Federation - in March 1998. Within the first 10 months over 2,000 clients received credit.

The project started employing the group approach with the "learning-by-doing" implementation methodology which was gradually designed using the process approach to developing and streamlining management and operations.

The process approach to design the project was highly received by the clients. Within the first six months, based on the initial results, the Semey model was replicated in the Aral Sea, in southern Kazakhstan and in Almaty. Furthermore, UNDP/UNIDO and Chevron have now also started to replicate the model in Atyrau near the Caspian Sea.

An Interim Report, February 1999, briefly looks at some of the critical issues - highlighting the achievements, challenges, and lessons learnt. The

report will be emailed to those interested. Requests should be sent to kkqmar@compserve.com.

It is some 12 pages (in Rich Text Format - rtf) and can be easily opened by MS Word 6.0 or higher version. Appendices of tables and graphs within the report have been removed so as to reduce the bulkiness of the report for easier email transmission - yet it is some 180k.

from Dev Fin Listserve, June 16, 1999

■ New Job Openings with FINCA International

Country Director, Russia

The new director will manage microenterprise programs in Sahkalin, Russia. Qualified candidates will have a combined level of international and community banking experience of at least 10 years. Other requirements are: 4 years senior finance management, MBA, related Masters degree or equivalent, work abroad; USAID grants/regulations; transitional economy and institutional development, English fluency. Preferred: Russian fluency.

Country Director of Kosovo (posted in Albania)

Qualified candidates must have an MBA or related Masters degree or equivalent work experience and fluency in English. Also required is a minimum of 5 years international development finance/banking (of which 4 years were as senior management) or in post-war/crisis management. Preferred: local language abilities; Balkans work experience; USAID; work with refugees.

Operations Manager of Kosovo

Qualified candidates must have a Masters degree in Business, Finance, or Accounting or equivalent work experience, a minimum of 5 years International development/microcredit experience, and fluency in English. Candidate must also have 2 years experience working in either finance or banking, in post-war/crisis management, or experience working with refugees. Local language abilities and experience in the Balkans are assets.

Financial Manager of Kosovo

Qualified candidates must have a BA degree in accounting/finance, a minimum of 5 years in financial management position, a minimum of 2 years international experience, and be fluent in English. Local language abilities, experience working in the Balkans and post-war/crisis management are all assets.

For more information about FINCA visit the website at <http://www.villagebanking.org>. Please e-mail cover letter, resume, and salary history to: jobs@villagebanking.org

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from Dev Fin Listserve, June 14, 1999

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existed as microfinance got its start in the country in 1996 presented practitioners with a confusing and often internally inconsistent combination of provisions "received" from the former Yugoslav Socialist Republic of Bosnia and Herzegovina, war-time enactments designed to serve war-time needs, and postwar legislation already aimed in the direction of transition to a market economy.

This was the legal and regulatory environment into which the Local Initiatives Project - BiH's first large-scale experience with microfinance - was introduced at the end of 1996. The Project's planners immediately recognized that microfinance would require more than just sources of capital to get a good start in BiH. From the beginning, the Local Initiatives Project sought to combine two other, equally important, objectives: institutional capacity building for nonprofit institutions that might aspire to develop into independent, self-sustaining MFIs in the longer term; and improvements to the relevant laws and regulations in both Entities to create a hospitable legal and policy environment for independent MFIs.

This last objective - improvements to the legal and regulatory framework - had to be approached with certain facts in mind concerning the broader context in BiH. The financial sector in both Entities emerged from the war in an extremely fragile state, and entirely without the confidence of consumers of financial services, who had lost their entire savings during the war. Microfinance legal and regulatory reform would therefore have to be accomplished in a manner that complemented broader financial sector reforms. These, in turn, needed to strike an appropriate balance between the flexibility that would encourage innovation and investment and the regulatory and supervisory controls that would prevent further losses of the general public's funds (as seen, for example, with the pyramid schemes common elsewhere in the region). The nonprofit sector - the base from which microfinance was to be developed in BiH (as is common elsewhere in the world) - also required careful consideration. Nonprofit institutions had hardly existed in prewar BiH in a form recognizable to observers from free market economic systems. The so-called "NGO sector," however, had developed rapidly during the war, but largely to serve humanitarian needs. In the process, legal and regulatory provisions applicable to these organizations had become closely linked in people's thinking with humanitarian objectives and methods of serving them. Now, with the advent of peace, both government policy makers and microfinance practitioners and advocates argued over the use of the same legal rules and structures for the creation of MFIs - even if the borrowers were from the same needy groups the humanitarian assistance had served.

A conceptual framework was needed to plan MFI-related legal and regulatory reforms that would

take all these factors into consideration. After a detailed baseline study of the relevant presently existing laws and regulations in BiH, Local Initiatives Project participants and advisors began discussions with a group within The World Bank who were working on a discussion paper examining "best practices" for the legal and regulatory environment for MFIs worldwide. These discussions, and the analyses of a Mid-Term Review Team with respect to the experience of the institutions participating in the Local Initiatives Project, led to a number of conclusions: (1) MFIs in BiH should have a range of permissible legal forms to choose from, from the simplest "credit only" nonprofit MFIs through licensed depository institutions much like full service commercial banks; (2) the legal and regulatory provisions applicable to the different types of institutions along this continuum should be carefully designed to address the specific risks presented by the type of institution in question; and (3) in determining the risks presented and fashioning provisions to address them, the focus should be on the narrow objective of protecting public confidence in institutions mobilizing capital from public sources - most notably deposits from the general public.

Working from these premises, working groups met periodically throughout the second half of 1998 and the first half of 1999. The working groups included broad representation of institutions in the growing BiH microfinance sector, representatives of and advisors to multilateral institutions and donor governments, and (importantly) representatives of key governmental constituencies in RS and the Federation - including both their Ministries of Finance and Banking Agencies. The results of this unusually open and participatory consultative process is a framework proposal that will ultimately permit four different types of legal institutions appropriate for the formation and operation of MFIs: (1) "microcredit organizations" - a simple form of nonprofit, "credit only" MFI; (2) "finance companies" - a form of privately owned "credit only" lending institution (not necessarily limited to microfinance lending); (3) "savings and credit associations" - a flexible form of member-owned and governed lending institution that would also be permitted to mobilize capital from its members; and (4) "microfinance and savings institutions" - a form of microfinance lending institution that would also be authorized to accept deposits from the general public.

The process of turning such a framework proposal into concrete provisions of law and regulation that fit smoothly within the surrounding local legal context is as important as the elements of the framework itself. Certainly all transition economies of the region know first-hand of the problems caused when new legal and regulatory concepts are not accompanied by the necessary changes to related previously existing legal and regulatory

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MFI Profile: Mercy Corps International, Almaty, Kazakhstan

■ Target Group Characteristics:

- microentrepreneurs with needed skills but lacking cash
- no access to traditional credit market
- lack collateral

■ Product:

- 3% monthly interest rate
- group guarantee
- three month term (first loan)
- 100 USD maximum for first loan
- 250 USD and 500 USD maximum for second and third loans respectively

■ Penalties for non-payment:

- expensive fines
- group members pay for the non-paying member
- or entire group is disqualified for subsequent loans (depending on the severity of the delinquency)

■ Requirements for Loan:

- form a group of a minimum of five trustworthy individuals that are not related
- copy of passport, certificate of home address and one recent photograph for every member
- each must have own business
- each must submit a credit application, a profit and loss statement and a balance sheet
- each member reviews the other's documents and signs each application as a guarantee

■ The Process:

(From Information to Disbursement)

- staff explains product and suggests that client forms a group
- group meets with loan officer who explains process
- group creates by-laws and fills out credit forms
- forms are submitted and analysed by loan officer
- officer returns for follow-up questioning and business site-visits
- officer summarises information and makes recommendation to loan committee
- credit committee reviews and decides on loan
- within 1-2 days contract is signed and loan is disbursed.

Microfinance Legal Reform Moves Forward in Bosnia and Herzegovina

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provisions. To avoid such problems, the last step in the process of developing sets of reform proposals, one for RS and one for the Federation, has been intensive review by local lawyers in both Entities of the surrounding legal and regulatory context, so that the specific proposals put forward for adoption harmonize with other relevant existing laws and pending reforms.

In each BiH Entity, the local legal team has identified specific legislation that will need to be amended and new legislation that will need to be adopted to make available the four separate institutional forms for MFIs outlined above. In both Entities, the initial focus will be on the adoption of provisions governing the nonprofit, "credit only" microcredit organizations. In the Federation this will be through the adoption of a new "law on microcredit organizations" soon to be introduced in the Federation Parliament and a small technical amendment to the existing banking law; in RS this will be through the adoption a new general banking law that will specifically provide for the RS Banking Agency to issue regulations permitting the formation and operation of microcredit organizations upon the same basic terms as will apply under the new Federation law. Meanwhile, work will continue on the provisions necessary for the enactment of the other three organizational forms (finance companies, savings and credit associations, and microfinance and savings institutions), and on crafting a parliamentary and regulatory strategy for their enactment in RS and the Federation.



Tim Lyman of the law firm, Day, Berry & Howard debriefs annual meeting participants about the regulatory issues MFIs face in the CEE and NIS.

Microfinance advocates from elsewhere in the region and the world should avoid trying to extract from the reform efforts in BiH a specific prescription for legal and regulatory reform in other countries. Certainly the principles on which the BiH reform efforts rest - particularly providing a range of institutional options, and matching the regulation and supervision of the various institutional options closely to the differing types of risk they present - can appropriately guide reform efforts elsewhere. However, each country's existing laws and regulations will vary, and generally broader reform efforts will succeed best where

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The Experts of Crisis Management: MFIs in Bangladesh

Microfinance institutions not only take on added risk from their portfolios but often times operate in an environment that poses enormous risks and potential crises. These crises can stem from economic shortfalls, political instability or natural events, and Bangladesh, in particular, is known for its exposure to natural crises (such as floods and cyclones). Yet Bangladesh remains having one of the largest microfinance infrastructures in the world, enduring many such incidents year after year. The question that arises is how do these MFIs survive these crises and keep to the principles on which they were founded? The answer may lie in the methods the four main microfinance institutions in Bangladesh (BRAC, ASA, PROSHIKA and the Grameen Bank) use to protect themselves and mitigate effects of natural crises.

Most important of any action to take is not just react but plan and prepare for a crisis to which an MFI knows that it is exposed. All four of the aforementioned devise programs for the planning of crisis management and carrying out of such plans. They then extensively train their own staff (with promise of special incentives for the extra work) and clients in how to prepare for and react to a crisis. These trainings attempt to convince clients to diversify their business activities and move to areas lacking the high risks of natural disasters occurring (often with new home loan enticements).

The four also designate funds (whether from donors or operations) to be liquidated once the need arises for emergency loans and momentary relief. Grameen Bank, for instance, has a three-tiered system in which the group, the local center and main office all have funds designated for catastrophes. However, these funds rarely suffice for the immediate needs of its clients, as seen with the 1998 floods, in which the four primary MFIs had a shortfall of over \$180 million dollars for more than 3 million affected clients.

Once a crisis does arise, BRAC (and its Post Cyclone Rehabilitation and Development Program), for instance, has a five-step process allowing for brief emergency intervention for all affected parties (despite membership) during the first few days. It then allows clients to withdraw compulsory savings and begins to assess the damage and needs through a temporary loan committee. Next it disburses emergency loans (with very strict terms and only for long-term clients) based on those needs and carefully allows for the restructuring (not forgiving) of older loans. Once in the later stages, it aids the community in rebuilding vital infrastructure and begins to disburse longer-term loans to replace lost assets. It is important to note that BRAC is able to carry out these operations with the help of government and relief agencies, its "higher-than-most" capitalization base and extensive experience in the area of crisis management.

These crises may be natural disaster specific, but the techniques used by these MFIs can be easily applied by MFIs in the CEE and NIS for the prevention and preparation of many different crises, like the 1998 financial dilemma in Russia. It is virtually impossible to prevent a crisis entirely from happening and the techniques used by MFIs in Bangladesh are far from being perfect. Yet, the stamina of these MFIs is proof enough that they must be doing something right.

MFC members are invited to request the list of research available on this subject and on risk and crisis management in general if interested in further investigation. The MFC is now in the process of gauging the need for crisis management training and invites any feedback members may have on this subject.

Works used for this article:

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Nagajaren, Geetha, "Microfinance in the Wake of Disasters: Challenges and Opportunities," Microenterprise Best Practices, March 1998.

Popham, Peter, "Financial Consultant Makes Money Work for Bangladeshi Slum Dwellers," The Independent: London, October 1998.

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by *Chris Linder, MFC Summer Intern*

Local Crisis Management: Fundusz Mikro and the 1997 Floods in Western Poland

Fundusz Mikro (FM) and its clients were severely affected by heavy rains and flooding in the summer of 1997 in Western Poland. Fortunately through prior diversification of risks and a rapid response, Fundusz Mikro was able to minimize the effects of the floods on the livelihoods of small entrepreneurs in Western Poland. Following are some of the most important factors that helped in the mitigation of such a crisis:

- Fundusz Mikro is most importantly a diversified institution in terms of geography, industry sectors and other demographic categories,
- FM spreads the risk evenly between the institution and the clients (through its group lending guarantees),
- FM maintains close relations with its largest shareholder, the Polish-American Enterprise Fund (allowing for a rapid response in additional funding needs), and
- FM created a simple, emergency loan product available to groups of entrepreneurs who carried out themselves the verification of damage, assessment of need and ability to repay.

These factors and FM's general ability to react quickly to the needs of its target market allowed it to help 1835 entrepreneurs rebuild within a relatively short time after the damage incurred by the floods.

Microfinance Legal Reform Moves Forward in Bosnia and Herzegovina

(continued from page 8)

“credit only” MFIs have already found a means to show how microfinance can succeed, working within (or with minor changes to or exemptions from) the existing legal and regulatory framework.

The credit for the reform efforts in BiH may be shared among the many constituencies who participated in the process, from microfinance practitioners through the highest levels of government in both Entities. If there are models to be found here for microfinance legal and regulatory reform efforts elsewhere in the region and the world, they should not be sought just in the specific reforms proposed. Rather, they should be looked for in the open and participatory consultative process by which the reform proposals were developed, which allowed all the key stakeholders the opportunity to participate, directly or through representatives, from the staff of the institutions that will be the subject of the laws and regulations in question to the specific officials who will be responsible for governmental oversight of the sector. Models should also be sought in the open-mindedness of policy makers in both BiH Entities, who were willing to suspend skepticism and overcome reservations about the initial adequacy of the legal and regulatory framework to give the microfinance concept a chance to work in BiH. It is the success that the concept has already had that now creates the necessary political impetus for adoption of the needed reforms.

By Timothy R. Lyman

Timothy R. Lyman (trlyman@dbh.com) serves as international legal advisor to the Microfinance Centre. He has served as international legal advisor to the World Bank financed Local Initiatives Project in Bosnia and Herzegovina since 1996. He is a partner in the U.S. law firm of Day, Berry & Howard, Boston, MA and Hartford and Stamford, CT.

Announcement for the Regional Assembly of the NGO Working Group on the World Bank for the Europe and Central Asia Region

The NGO Working Group on the World Bank (NGOWG), created in 1984, is one of the oldest forums for advocacy consensus building among worldwide NGOs regarding the World Bank. It is also one of the oldest dialogue mechanisms between NGOs and the World Bank (WB) regarding crucial development issues worldwide. The Group is working mainly through regional Assemblies that elect representatives for the Global Committee. The “ECA Region NGOWG on the WB” does not exist at the moment; however, and we hope to create it during the Assembly. The Europe and Central Asia (ECA) region covers countries of Baltic States, Central and Eastern Europe, Commonwealth of Independent States, Central Asia, Turkey and Cyprus. We believe “ECA Region NGOWG on the WB” should be an independent advocacy group, part of Global NGO movement working on behalf of participating NGOs on issues such as:

- civil society participation in WB projects and policy decision-making;
- poverty impact of WB policies and lending practices;
- WB accountability and transparency;
- addressing issues of common interest on the regional and global level;
- introducing new issues and perspectives to the World Bank and to the Global NGOWG;
- empowering NGOs in their relationship with the WB and governments and
- networking with other NGOs on issues related to WB.

It will meet regularly with representatives of the World Bank on the forum of the joint WB-NGO Committee to discuss issues that are related to WB policies and activities.

The Organizing Committee for the ECA Region WG on WB would like to invite representatives of the NGOs concerned about and working on World Bank activities in the region to the first Assembly of the ECA Region NGOWG on WB. The Assembly will be held most probably in March 2000. The precise date and location is still to be determined.

The Organizing Committee believes the objectives of this first Assembly should be to:

- form the ECA Region Working Group on World Bank;
- elect representatives to the ECA Regional WG on WB;
- provide a forum for interaction between the ECA NGOs and representatives of the WB;
- discuss issues that are related to WB activities and importance to ECA region NGO;
- provide some basic information about WB activities in the region and its social and environmental impacts and
- make decisions related to future functioning of the ECA Regional WG on WB including revising the mandate of the Group, planning of future activities and organizational structures of the Group.

Precise agenda and all the details of the Assembly will be worked out with participation of all interested NGOs. All NGOs interested in participating in the process of preparation of the Assembly, joining the Working Group or participating in the Assembly are invited to contact the Secretariat of the Organizing Committee:

*Tomasz Terlecki, Executive Director, CEE Bankwatch Network
E-mail: ngowbwg@bankwatch.org
Web site: www.bankwatch.org/nwowbwg*

THE CLIENT OF THE MONTH

The beginning of the MC/SEA micro-credit program in Lukavac, BiH had a great impact on the Izet Jusufovic family. The war forced Izet and his family to leave their place of origin. Their home on the front line was and still is their only "desire". They still feel homesick. The only memory of their home and life before the war is this beehive. Today, it is the only resource of their income and that is where the story begins: the story about Izet and the MC/SEA EDD Branch office in Lukavac.

At the end of war, Izet started to work in KHK Lukavac, but a couple of months ago, he was put on the waiting list. Their return home in Devetak brought the Jusufovic family even more problems. Apart from the problem for survival, their family had another tragedy: cleaning the land, their son Emir was killed by an unexploded mine.

Besides all these problems, the Jusufovic family is still in Devetak. They believe in the better future and say the bees are their one and only hope.

The story about the bees began before the war. Izet established three beekeepers associations. At that time, he considered bee-keeping as his hobby. The war destroyed everything, and Izet managed to take with him at least one beehive. Upon his return to Devetak, he became one of MC/SEA first clients in Lukavac. He invested 2000 DM into 10 new associations. 300 kg of honey produced this year helped provide a first income to the Jusufovic family. His application for a second loan is another story related to this great client: "I attended all seminars for beekeepers organized in our Canton. Owing to MC/SEA, I will be able to start with professional honey production. By the end of this year, I am planning to expand the capacities of honey production to 50 beehives that will help me to produce 600-700 kg of honey. I think your Agency has helped and contributed to small business development. Using your loan, I purchased "kranjska queen-bees" that will increase my production."

Using Izet's example, many people were encouraged to apply for the loans, especially people from Devetak and the surrounding villages. This is only one story in thousands of others. MC/SEA is making a lot of effort to help the development of small business. This is only one example on how to help and recover the local economy in BiH. Perhaps, it is a small step but is very important for all of us.



MFC Calendar of Events until the End of 1999

Course Name	Location	Dates
Business Planning for MFIs	Warsaw, Poland	25-30 October
Phase III of Impact Study Project: Data Analysis Seminar	*Dubrovnik, Croatia	*End of October
Financial Analysis for MFIs	Warsaw, Poland	8-11 November
Delinquency Management and Determination of Interest Rates	Warsaw, Poland	14-16 November
How to Start a MF Programme	Lviv, Ukraine	29 November - 4 December

* Location and dates are subject to change.

THE NGO REGIONAL NETWORKING PROJECT

Freedom House's NGO Regional Networking Project encourages cross-border cooperation and communication among Central and East European NGOs. The project began as a component of the Democracy Network Program (DemNet), an initiative launched in 1995 by the U.S. Agency for International Development (USAID) to help build a tradition of participatory democracy in the region. In 1998, the Regional Networking Project was renewed by USAID for three additional years with a narrowed set of priorities and objectives. NGOs from Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Slovakia and Yugoslavia (Serbia-Montenegro) are eligible for support.

The project supports cross-border, multi-country activities conducted by Central and Eastern European NGOs promoting democratization and economic development. In order to help secure and accelerate the region's transition to open political and economic systems, Freedom House strengthens the efforts of select groups of important NGOs – such as independent policy institutes or "think tanks" – to cooperate with their counterparts in other countries to inform public opinion and influence significant public policy issues. These include key developments and problems in the areas of foreign policy and security; civil society and governance; economic transformation and development; and minority rights.

The project's primary objectives:

1. to support multi-country NGO research and educational programs addressing joint or common public policy issues;
2. to enhance cross-border information-sharing and cooperation between CEE NGOs which address critical regional public policy issues.

FH supports CEE NGOs through the following programs:

- NGO Regional Project Grants Program
- Regional Exchange Program
- US Visiting Fellows Program
- American Volunteers for International Development (AVID) Program
- NGONews, a regional newsletter

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AFFILIATED MEMBER ORGANIZATIONS

(43 members as of June 30, 1999)

ALBANIA

Albanian Development Fund
BESA Foundation

ARMENIA

Catholic Relief Service / Caucasus
UMCOR / AREGAK – Sustainable Guaranteed
Agricultural Assistance for Women

AUSTRIA

Opportunity International - Eastern Europe

BELARUS

UNDP SME and Microcredit Project

BOSNIA & HERZEGOVINA

AMK PLUS Posusje
Bosnia Enterprise Fund (World Vision)
BOSPO – Bosnian Committee for Help - Tuzla
Catholic Relief Services - Bosnia Program
International Catholic Migration Commission
International Rescue Committee B i H
Local Initiatives Project
LOK Microcredit Agency
Mercy Corps / Scottish European Aid
Women for Women in Bosnia

BULGARIA

Catholic Relief Services – Bulgaria
Nachala Cooperative

CROATIA

Catholic Relief Services, USCC, Croatia Program
NOA Stedno Kreditna Zadruga

FRANCE

ADIE – Association pour le Droit à l'Initiative
Economique
FIDES – Finances pour le Developpement Economique
et Social

MACEDONIA

Humanitarian Association MOZNOSTI

MOLDOVA

Moldavian Microfinance Alliance

POLAND

Foundation for the Development of Polish Agriculture
Fundusz Mikro
Inicjatywa Mikro Sp. z o.o.
The Water Supply Foundation

ROMANIA

Asociatia IZVOR
Civil Society Development Foundation - Romania
Fund for Development of the Carpathian Euroregion
Romanian-American Enterprise Fund

RUSSIA

Center for Citizen Initiatives
Opportunity International Russia
Russian Women's Microfinance Network

SLOVAKIA

ACDI / VOCA Slovakia
Regional Advisory and Information Center, Presov
Regional Advisory and Information Centre, Povazska
Bystrica
The Integra Foundation

UKRAINE

Counterpart Meta Center

USA

Women's World Banking

YUGOSLAVIA

JEN – Japanese Emergency NGOs
Micro Business Fund

Impact of Microfinance: How do you measure it?

The MFC and the AIMS Project (Assessing the Impact of Microenterprise Services-USAID) are currently completing the initial stages for applying and teaching "Impact Study" techniques to MFIs in the region. The first two phases of this regional project have been completed and the remaining two phases will be completed by the end of this year. Following are descriptions of achieved tasks and near-term plans.

In keeping with the impact research project objectives of Phase I, an introductory workshop was held in Warsaw (from January 14th to the 16th) in which 16 MFC member organizations learned about the following:

- the AIMS Project experiences,
- how to set-up an impact monitoring system,
- how the five key tools of impact studies (which are surveys, loan usage, exit interviews, focus groups and case studies) operate, and
- how to use impact study data as a way for measurement and improvement.

For Phase II, the AIMS team worked with MFC staff and Inicjatywa Mikro (IM of Poland) to modify and pre-test tools during the week of the 10th to the 16th of May. Selected participants (12 of the original 16 participants from Phase I) then met during the period of the 16th to the 21st of May to do the following:

- learn how to design impact tools, interviews and sampling procedures,
- create teams to observe IM staff carrying out surveys to IM client groups,
- review initial findings, experiences and examine ways to analyse and present data from surveys.

Phase III (to be carried out this summer with four programmes: two in Bosnia/Herzegovina, Mercy Corps Scottish European Aid and ICM Inter Catholic Migration Commission; one in Russia, Opportunity International-Russia-Vozmozhnost; and one in Poland, Inicjatywa Mikro) will further test and modify the tools learned during Phases I and II. The results of this final testing and data collection will be examined during the Data Analysis Seminar in October of 1999.

The fourth and final phase will call for the AIMS project team and the MFC to conduct a Dissemination of Information Seminar to present the findings of the research to other members of the MFC. It is hoped that this final stage of the project will only be a beginning for which any microfinance programme in the region can learn how to conduct and use impact studies.

For more information call or write to:

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