



Winter  
Spring  
2000

# MICROFINANCE CENTRE

for Central and Eastern Europe and the New Independent States

## Message from the Executive Director

Greetings Everyone! The Microfinance Centre completed a very busy and fruitful year! Seven microfinance courses were delivered, three of them in the Russian language, in addition to the Second Annual Conference held in February in Sarajevo attended by about 200 microfinance practitioners. We have nearly completed the research on impact assessment (with plans to add the impact expertise to MFC product offering) and added the Polish component to the Regional Study on Legal and Regulatory environment for microfinance in the Region. Above all we created a network of regional trainers – microfinance experts – who made the success of the training program possible. The Centre has now 46 affiliates – more than 50% increase in comparison with 1998.

Plans for 2000 are even more ambitious!

We scheduled delivery of the first course in the local language of Bosnia and Hercegovina, with the ultimate goal of creating 3 language tracks of training courses: English, Russian and Serbo-Croatian. This will reduce the course price and allow for adjusting the courses to the needs of local programs. While meeting with participants of the courses we learned about the diverse needs for development of new courses. Based on this information, MFC will add a course on Accountancy Fundamentals to its course portfolio. Together with the Microbanking Bulletin we would like to engage in creating the regional industry standards. We contacted many of you about sending program information – your co-operation is essential. We would also like to expand the existing group of trainers, and are relying on your recommendations for involving microfinance talents.

Thank you for all of your comments and suggestions. We are constantly open to your feedback.

The Microfinance Centre staff looks forward to working with you in 2000. We hope to meet all of you at the Third Annual Meeting of Microfinance Institutions in C&EE and the NIS in Dubrovnik, 5-6 May, 2000 and discuss the hot microfinance topics.

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

## Microfinance Performance Standards

The MFC in co-operation with the MicroBanking Bulletin invites the leading regional MFIs to participate in the Project on **Microfinance Performance Standards**. The main objective of this project is to establish a framework, based on the statistical and financial information provided by your institutions, which will allow comparisons among the MFIs in our region.

**WE WOULD LIKE TO WELCOME YOUR PARTICIPATION IN THE PROJECT!**

*For more information please contact: Katarzyna Pawlak  
microfinance@zigzag.pl*

The article below written by Geetha Nagarajan from the MicroBanking Bulletin discusses the idea in detail.

Increased competition and scarce resources have led the microfinance industry to recognize the need for improved transparency and the assessment of individual MFI's performance in relation to the industry.

Microfinance performance standards are benchmarks or standardized reference values that capture the best practices at the process level such as methodology, and at the output/results level such as financial performance. Microfinance performance standards can be generated using data gathered from leading microfinance institutions worldwide and adjusted for comparative purposes. The standards are dynamic and change over time as the industry matures.

Performance standards are valuable tools for both MFIs and those that fund and supervise them:

- The MFI management and board of directors can compare their performance with the benchmarks to set targets, monitor and evaluate their strengths and weaknesses and make informed decisions.

### Overall Financial Performance

Statistics	Unadj. Returns on Assets	Adj. Returns on Assets	Adj. Returns on Equity	Operational Self Sufficiency	Financial Self Sufficiency
<b>8 Leading MFIs in C&amp;EE and the NIS (1998)</b>					
Average	<b>-4,5%</b>	<b>-9,3%</b>	<b>-10,2%</b>	<b>71,6%</b>	<b>57,2%</b>
Standard deviation	0,03	0,18	0,20	0,13	0,12
N	6	6	6	6	6
<b>70 MFIs worldwide (1998)</b>					
Average	<b>-0,3%</b>	<b>-5,6%</b>	<b>-9,8%</b>	<b>101,8%</b>	<b>85,1%</b>
Standard deviation	0,08	0,09	0,18	0,28	0,23
N	68	68	68	68	68

*Source: MFC and the Microbanking Bulletin*

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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)

## MFC BOARD MEMBERS

Maria Nowak (Chair)  
Ken Vander Weele (Treasurer)  
Alla Serova (Secretary)  
Zana Konini (Member)  
Angel Pesevski (Member)

## 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

We want to issue our SPECIAL THANKS for the immense effort Counterpat Meta Center, Lviv, Ukraine that hosted our training "How to Start a Microfinance Program" that was conducted from November 29 - December 4, 1999. We also are very grateful for the assistance of the Janice Sabetta and Mike Goldberg of CGAP who provided our training team with a lot of guidance during the preparation to the "Business Planning and Financial Modeling" and "Financial Management" training courses held in the fall of 1999 in Warsaw.

All of the trainers involved in these events: Chuck Waterfield, Juliette Chateaufneuf, Irina Ignatieva, Marina Yoveva, Aco Kremenovic, Ivana Pahora, Dima Ponomarenko, Agata Szostek, Eugene Smirnov and Volodymyr Tounitsky did an outstanding job of delivering the courses.

## Members' Corner

### ■ BESA Foundation, Albania

Urban micro-credit project began its activity in February 1994 as a Department of Albanian Development Fund. In May 1999 it was transformed into BESA Foundation, founded by SOROS Foundation (OSFA).

#### Status

BESA Foundation is a legal entity which operates as a non-governmental, non-political and non-profitable organization based on the Albanian Legislation.

#### Goals

The aim of BESA Foundation is to encourage private micro & small enterprises, to create new jobs and stimulate self-employment.

Regarding these goals, the plans of the Foundation include:

- best-practice technical assistance to micro and small entrepreneurs
- provision of market-driven financial services including microloan component

#### The recipients of loans:

- start-ups
- existing micro businesses without access to the mainstream banking

#### Types of micro-businesses financed by BESA Foundation

The credit office finances all types of micro-businesses as trade, production, service, handicraft etc.

#### Loan Terms:

- Monthly interest rate is 2.5% charged on declining balance (16% annual).
- Maximum loan amount is lek 500.000 (US\$ 1 = lek 138) and maximum loan term is 2 years. Only in special cases, when the investment creates new jobs and the activity needs a larger amount, the Foundation provides loans over the maximum loan amount (over lek 500.000).
- Monthly repayment is applied.
- BESA Foundation provides loans only for urban areas.

**Today:** The Urban Micro-credit project operates in seven towns of Albania: **Tirana, Shijak, Shkoder, Puka, Berat, Elbasan, Kavaja.** The staff of BESA Foundation consists of 24 persons, 15 of them are credit officers and 9 of them are headquarters staff (3 are supporting staff).



*BESA Foundation - Management Team*

The cumulative number of loans from the very beginning of the activity is 3800 loans. The current number of active clients is 1600.

#### BESA Foundation Donors: World Bank, SOROS Foundation and Government of Albania.

*Bajram Muca, Executive Director*  
e-mail: [fkun@ngo.org.al](mailto:fkun@ngo.org.al)

■ **Mercy Corps / Scottish European Aid - Economic Development Department ( MC/SEA-EDD ), Bosnia & Hercegovina** has been implementing microcredit program since April 1997 in order to provide financial help to economically disadvantaged people in former front-line communities in both entities-in the Federation of Bosnia and Herzegovina and Republika Srpska as well as in Brcko Special District.

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# A Need for Legal Reforms of Microfinance Activities in Croatia: A Practitioner's View



As the Microfinance Centre sets out to work regionally on the legal framework for microfinance and plans para-legal training, discussing the case of Croatia seems particularly appropriate.

In Croatia, NGOs have been precluded from performing microfinance activities. It is unclear what the rationale is for such a decision but it may be due to the lack of knowledge of this sector and the incorrect notion that any organization that brings income is making a profit. Therefore, it is perceived as inconceivable for NGOs to perform such activities.

In this context, only banks and savings and loan cooperatives are allowed to provide loans and savings services. Neither of these two options is easy to implement. Using banks to carry out microfinance activities is risky and costly. The banking system is fragile and tens of banks have had to close in the past years. Banks are usually ill at ease with the concept of microfinance and show little interest in providing microloans to the economically active poor. Negotiations can last for months, if not years. Then, the very high interest spread requested by banks to collect and disburse loans (without any risk sharing) jeopardizes any effort made towards sustainability.

Savings and Loan Cooperatives are controlled by the Ministry of Finance on the basis of the March 1998 "Law on Savings and Loan Cooperatives". This law is inspired both by the banking law and the limited liability company law and is often inappropriate for microfinance activities. It replaces the more flexible 1989 law. The main reason given to a change in law is heavy fraud among organizations. Some of the differences between laws are outlined in the table below.

Articles in law	1989 Law	1998 Law
Registration requirements	10 founders or 20 physical persons	30 physical persons
Share capital for registration	No minimum share capital	Minimum share capital of 100,000 Kuna
Registration approval given by:	Commercial court only	Ministry of Finance, then Commercial Court
Manager's skills	No specification	Requirements specified in law. Ministry's approval for Manager selection.
Accounting	Can be sub-contracted	Must take place within the S&L and follow specific S&L accounting formats. Annual reports sent to Ministry of Finance and spot-checks by Financial Police.
Entities within the Cooperative	Assembly only specified	Assembly made of all members and supervisory board
Reserve requirements	None	Reserve tied to interest rate level.
Material responsibility	Only founding members	All members at all time up to share amount
Total share amount in Cooperative	None	Maintain 100,000 Kuna at all times to maintain solvency and avoid bankruptcy.

With the new law, the steps needed for registration of a cooperative are numerous and do not guarantee approval. In addition, few legal professionals are able to interpret each article of what is in fact a relatively young law with only a handful of examples upon which to build. At this stage of the process, the biggest challenge is to prepare statutes that will be accepted by the Ministry of Finance while respecting long-term programmatic goals and capital ownership.

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# MIS: Regional Solutions

It goes without saying that MIS systems are one of the most critical elements to a successful development of a microfinance institution. We would like to focus on MIS solutions in the region and worldwide in a series of articles and MIS reviews.

The review below introduces a system called Financier developed by Opportunity International Russia.

## Financier – system description

Financier is a portfolio management system developed in Access 95, now being converted into Access 2000. It is currently available in English and Russian. It can manage loan portfolios up to 3,000 – 5,000 loans. Export/import of data is possible to or from accounting software.

Financier provides about 50 different reports on delinquency, portfolio performance, projections, portfolio statistics etc. It tracks information about borrowers and loans, makes interest and penalties calculations, compares planned results with actuals, makes provisions for bad debts. The system can track loans in different currencies and allows accounting by different funds. Reports also can be done in different currencies and grouped by sources of funding, as well as by loan officer, region of operations, loan type, branch and many other categories.

Financier has a lot of flexible options for loan type customization (different repayments schedules, declining/flat interest, penalties, different types of fees, grace periods, exemptions etc.). The following membership information can be tracked: entrance and membership fees, shares (if you have shareholders), current status of the member etc. It also has the potential for including savings tracking component.

## System history

Financier was developed in 1998 to meet the increasing need for management information software among Partners of Opportunity International in Russia. It took about a year to develop this program and about 6 months to test it. The system was created for Opportunity Russia by "Consul-Incom" programming company working in the accounting and business processing software market.

Financier was implemented by all five OI partners in Russia and OI Partners in Albania and Montenegro.

For more detailed information you can contact: Dmitry Ponomarenko at [shrad@kis.ru](mailto:shrad@kis.ru) or by phone at the Opportunity International - Russia office: Phone: 7 (8312) 337 227, Fax: 7 (8312) 317 803

In the time of development and expansion of this project, 41 employes have been recruited in 11 branch offices and 1 Main Office (Headquarters).

During the period of almost three year, we have disbursed 4181 loans totaling 12.776.100,00 DM on the area of both FBiH and RS, as well as Brcko Special District. The loan repayment rate is extremelly high, 99%.

Creating new employment specially in rural areas, increasing domestic production, encouraging the transition to a market economy, contributing to establishment of local communities, encouraging the development of interentity relationships, increasing independance from humanitarian assistance are the main goals of microcredit project MC/SEA-EDD which has been successfully implemented from the beginning.

*Pamela Eser, Executive Director  
e-mail: paeser@compuserve.com*

### ■ FunduszMikro ( FM), New Loan Product

*In the last newsletter we announced that Fundusz Mikro was looking at the possibility of introducing new loans for start-ups and local communities. Today Agata Szostek gives more details on these successfully introduced products.*

**Start-up loans** are the most difficult in regards of risk evaluation. FM has always had an offer for start-ups (within a group of at least 4 other existing and functioning businesses), but additionally decided to introduce a specially designed product for start-ups. The start-up loan is secured like all our other products i.e. only by personal guarantee of 3 co-signers, who may also form a group of borrowers. In addition, the start-up has to present a simple business plan for the period of the planned loan, which will show how the installments will be financed. Timely repayment of the start-up loan enables the client to apply for



*Mrs Maria Bentkowska, Chairman of the Society of Highlanders and Mr Wojtek Łaplaś FM representative after signing the loan agreement.*

regular loans. The amount of the start-up loan is limited today to 1200 USD and period of 6 months. Although the product has been just recently introduced, we have already granted over 50 start-up loans proving the demand for this kind of product. Another new product is the **loan for local communities** that plan to invest in the local development. A recent example of this is the loan for the Society of Highlanders in a village in southern Poland. The money from the loan paid the making of a parking lot for buses alongside the Folk Center owned by the Society. There are also plans to put up stalls selling souvenirs produced by local entrepreneurs. Income generated by the parking lot will serve not only to repay the loan, but will also help finance the local children's Folk Song and Dance Group.

**Loans for flood victims**, were designed and distributed with the technical assistance of Fundusz Mikro two years ago and are now being repaid. The repayment rate, which at present is at about 95% shows how successfully assistance programs can be implemented. (see also page 9)

1999 was on the whole a very successful year for Fundusz Mikro. It demonstrated its steady growth and efforts in trying to reach the maximum number of our potential clients.

*Agata Szostek, International Relations Director  
e-mail: agata@funduszmikro.com.pl*

### FUNDUSZ MIKRO History and Results as of 1 December 1999

Date of registration	<b>27.12.1994</b>	
First loan disbursed	<b>20.02.1995</b>	
Date of completion of pilot programme	<b>20.02.1996</b>	
Number of loans disbursed to date	<b>29 585</b>	
Total number of clients	<b>18 060</b>	
Number of current clients	<b>9 254</b>	
Clients:	women	<b>39%</b>
	men	<b>61%</b>
Type of business:	trade	<b>55%</b>
	services	<b>35%</b>
	production	<b>10%</b>
Loan purpose:	working capital	<b>37%</b>
	investment	<b>63%</b>
Borrowers:	1st time loans	<b>50%</b>
	repeat loans	<b>50%</b>
Delinquency rate (<180 days late) as % of outstanding balance	<b>1,57%</b>	
Default rate (>180 days late) as % of outstanding balance	<b>3,78%</b>	
Total number of employees	<b>90</b>	
Total US\$ value of disbursements	<b>50 831 332</b>	
Total US\$ value of repayments	<b>39 212 444</b>	
Total US\$ value of balance outstanding	<b>11 618 888</b>	

## Congratulations to the New Members

New MFC members:

- **The Constanta Foundation** established in 1997, provides long-term, sustainable financial services to economically active self-employed citizens of Georgia with a primary focus on poor women. It is funded by the UNHCR and USAID and has 3548 active loan clients.
- **Nufuz Ta'Lim** established in 1999 is a consulting/training company which focuses on development of a conception for micro crediting in the Republic of Uzbekistan and preparation of the methodological materials for the implementation of a microfinance program, and creation of microfinance institutions.
- **AgroInvest** established in 1999 in Yugoslavia, provides microloans for rural regions in Montenegro.
- **Micro Credit Montenegro** established in 1999 in Yugoslavia, provides micro loans and training.

# Happenings at the MFC

In the fall of 1999 MFC conducted 3 training courses. In total these training events gathered 77 participants from 51 organizations from 23 countries of the Region and not only: last year we had representatives from China and Cambodia amongst our course participants.

■ **"Business Planning and Financial Modeling for MFIs" (Warsaw, October 24-29, 1999), was based on the excellent financial planning software "Microfin" developed by Charles Waterfield. It provided an opportunity to conduct a very advanced strategic planning exercise for the organizations that exist in very unstable and volatile environment. The course concentrated on the advanced issues of planning, taking into account potential high risks, such as currency devaluation, inflation, economic stagnation and many others. This course gave the participants the skills to conduct the sensitivity analysis during many of the MFI development scenarios and project for the measures to be taken in crisis situations.**



Business Planning Course October 1999, Warsaw – Course Participants

■ **A two-module course "Financial Management" (Warsaw, November 8-16, 1999) focused on the issues of financial analysis, portfolio quality, measuring and controlling delinquency, setting sustainable interest rates. It gave the participants the skills needed to analyze the performance of their MFIs with the emphasis on the efficiency and profitability and to understand what decisions have to be made to improve those.**



Financial Management Course, November 1999, Warsaw – Course Participants

■ **An introductory course "How to Start a Microfinance Program" in Russian language (November 29 – December 4, 1999) was conducted in Lviv, Ukraine. This course was based on the client-driven approach to the microfinance program design, loan product development, institutional capacity building, as well as the issues of financial sustainability and mission and vision of the organization.**



How to Start a Microfinance Program, November – December, 1999, Lviv

**All courses were highly evaluated by the attendees (70% of them represent the Top Management of the MFIs), especially course contents and the teaching methods deserved a lot of praise:**

"I feel like I've just uncovered an iceberg of new information. I realize just how much I need to learn!"

"It was an extremely good course and will recommend it for other MFI's staff in the area"

"I am very happy with the skills I got. I am more eager to learn more and go deeper."

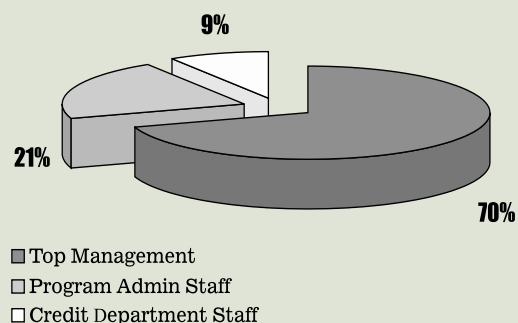
"I think the course is great. It has been well taught, techniques were informative as well as entertaining. The practical exercises are vital!"

"The teaching methods are great – they let everyone think and decide individually and then share and compare it with other people's ideas"

**We are very happy that through our courses we made contribution to the development of the regional MFIs. But we also need to say that these seminars were a major learning experience for the MFC. We thank all the course participants for their constructive feedback that allows us to define the needs existing in the region, develop and improve the services delivered to the practitioners and donors in CEE and the NIS.**

**The participants expressed the feeling that during the MFC trainings they not only benefit from the technical contents, but also enjoy the opportunity to share the ideas and opinions. The MFC courses provide an excellent forum for networking, meeting new people, and learning about the challenges faced by other microfinance practitioners in the Region.**

MFC Course Statistic 2nd half of the year 1999



# A Need for Legal Reforms of Microfinance Activities in Croatia: A Practitioner's View

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After the official first assembly meeting in the presence of a public notary, a waiting time of no less than 60 days before approval postpones the process even further. At any time during these 60 days, if one inspector raises any issue, this sets back the time to an additional 60 days.

Obstacles continue on a daily basis after registration. Of the most important ones, taxes on profit and taxes paid by staff for insurance and by the cooperative for social benefits remain at the forefront. Employees can lose over 50% of their salaries in taxes, which needs to be taken into account by the cooperative when setting salary levels. This does not include taxes paid by the cooperative itself on staff salaries. In total, between 70% to 100% of gross salary is lost. Taxes on profit are examined yearly by the Ministry of Finance and can range between 15 to 35%. With the new law, the financial police is allowed to come into the office without notice and request information; in general, their search revolves around tax payments. These elements greatly hinder sustainability prospects in the longer-term.

In the current law, a direct link is made between reserve requirement levels and interest rate charged to clients (the higher the interest rate charged, the higher the reserve requirement). Interest rate levels are not perceived as the result of market studies or long-term financial projections. This trade-off between capital reserves and realistic interest rate could be overcome if savings were a more popular source of funding in Croatia. In fact, internal capital raising is at the root of most credit union principles all over the world. However, and similar to many countries in the region, bad experiences with lost savings have led to skepticism. It is therefore difficult for many cooperatives to generate sufficient capital base to operate.

On the other hand, building a cooperative, although time-consuming, can contribute to building a stronger civil society in Croatia. The International Catholic Migration Commission (ICMC) has opted for the pursuit of the cooperative model.

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## News in the World of Microfinance

Opportunity International Eastern Europe had just started two new partner organisations in January, 1999 – in Albania, and in Montenegro, when the war in Kosovo stopped the promising beginning. Despite the devastating effects of the war, and a forced delay of more than 5 months, thanks to the determination of boards (including both local professionals and Opportunity representatives) and staff, we are proud that the youngest members of our family of already 12 partners in 8 countries in Eastern Europe and Russia – **Partner Siptar He Microcredi** in Albania (**PSHM**) and **Micro Credit Montenegro** in Montenegro (**MCM**), made remarkable progress. Between July, when both organisations issued their first loans, and December, 1999, they each made over 500 loans.



Beglije Dervish, a client of PSHM in Albania

**PSHM** was registered in January, 1999. Rick Halmekangas is Opportunity Albania Country Director. After the collapse of communism, Albania inherited almost non-existent infrastructure, political turmoil, population still remembering the bitter experience with the pyramid schemes of 1997, the old tradition of asking help from family and friends, and of distrust towards official financial institutions. Albanian banks do not issue loans, so PSHM is a most welcome resource for poor entrepreneurs.

Group loans have become a favourite loan product in Albania. PSHM enjoys great interest among the poor. Very

popular are group loans for buying cows. PSHM finances up to 60% of the price of purchasing a cow (\$1,000). Selling milk generates income to pay off the loan.

In Albania, the only source of credit has been family members and friends. Since the collapse of pyramid schemes in 1997, few people have savings. Although loans from "strangers" break a century-old tradition, PSHM is not only helping poor people to generate income, but also to learn to trust each other after decades of repression and fear.

**MCM** is OI Eastern Europe youngest partner. Although OI established an office in Podgoritsa in January, the war in Kosovo postponed the initial activities of the program until late June. MCM have initially set an ambitious task: 100 loans for the first 100 days of operations, which was well surpassed! By the end of 1999, for just 6 months of operation, MCM disbursed more than 600 loans. Although most microlending institutions achieve viability in three to five years, MCM achieved operational sustainability in the second quarter of operations, during the period from October to December, 1999. As most banks are bankrupt and none are lending in Montenegro, and the financial system is inefficient and dysfunctional. MCM impact on the economy of the country with a population of just 600,000, is substantial. Another problem for the economy are the thousands of refugees and displaced persons – the bitter result from the wars in the Region. One of Opportunity International Eastern Europe's main goals is to work in communities that are helping refugees to reintegrate and start a new life, building businesses that strengthen the local economy so needy people can both generate income and become successful entrepreneurs.

Mira Stefanova, Opportunity International Eastern Europe  
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# MFC Training Programs

All of MFC training modules are specifically designed for the microfinance practitioners in the region and are based on the best practises of the microfinance industry. They deal with the most important issues that MFIs face in their operational and strategic management.

## CALENDAR OF EVENTS 2000

- February, 24-29  
**How to Start a Microfinance Program**  
Training course – Russian language  
Tashkent, Uzbekistan
- March, 20-24  
**Delinquency Management & Setting Sustainable Interest Rates**  
Training course – English language  
Krakow, Poland
- May 5-6  
**Third Annual Working Conference of Microlending Institutions**  
English language  
Dubrovnik, Croatia
- June 5-9  
**Financial Analysis for MFIs**  
Training course – English language  
St. Petersburg, Russia
- July 5-7  
**Financial Analysis for MFIs**  
Training course – local language of Bosnia and Hercegovina  
Sarajevo, Bosnia and Hercegovina
- October 11-14  
**Delinquency Management & Setting Sustainable Interest Rates**  
Training course – Russian language  
Lviv, Ukraine
- November 22-25  
**Fundamentals of Accounting for MFIs**  
Training course – English language  
Warsaw, Poland

Most of these course are based on the materials developed by the CGAP (the Consultative Group to Assist the Poorest). They are delivered by the team of the experienced regional trainers as well as international consultants. The courses are developed with the use of the newest “know how” on the adult teaching methods and experiential learning. They involve case studies are and highly participatory.

The brief info about each of the courses is listed below. The courses are presented in order of their complexity. **Each of these courses can be available for the in-company training** (outside the current MFC schedule).

### ■ “HOW TO START AND PLAN A MICROFINANCE PROGRAM”

This is the most basic course specially developed for the relatively young MFIs or for the recently hired staff persons that need to get background information about the microfinance, its principles and philosophy. It presents the huge area of the program design and planning issues in the form of the comprehensive structural scheme. This course is based on the case study that the participants work through during the entire course.

The following topics are covered in the workshop:

- The Operation Environment for Microcredit Programs
- The Impact of Microcredit Programs
- The Characteristics of Microenterprises and Microloans
- Loan Analysis and Loan Processing (introduction to simple ratio analysis of loan requests, other key aspects of loan analysis and the review of the entire loan processing cycle with the emphasis on streamlining the efficiency)
- A review of Major Lending Methodologies (individual and group lending, and village banking)
- Operational Efficiency, focusing on the Loan Officers’ use of time
- Introduction to financial planning using the CGAP-developed Microfinancial model
- Organizational Chart and Growth

The course ends with the Static Viability Model that is an excellent tool helping to put all the assumptions made during the case study into

the numbers and see how each of the decisions impacts the financial result.

*It is highly recommended that the Executive Director, the Finance Director and/or a Credit Officer represent each organization.*

### ■ “FUNDAMENTALS OF ACCOUNTING FOR MICROFINANCE INSTITUTIONS”

**NEW**

This is a new course to the product portfolio of the Microfinance Centre that will be introduced in November 2000. It teaches the basics of accounting as they relate to microfinance. It explains how to record and summarise transactions and how to create the most commonly used financial statements: the Balance Sheet, the Income Statement and the Statement of the Change in Financial Position. After working through the materials, the participants will have an understanding of accounting principles, methodologies and procedures which will aid them in using accounting data as a tool for financial management.

The course ends with the Microfinance Accounting Game “Balancing Act” developed by Barbara Calvin, Jennifer Harold, Joanna Ledgerwood and Kerry Moloney of Calmeadow. This game consolidates and applies material learned in the Accounting course. It takes players through a year in the life of the microfinance institution by moving them around a gameboard that contains scenarios of transactions that occur when operating any micro-loan fund. Transactions include disbursing and collecting loans, incurring operational expenses, accessing various forms of debt and investing excess funds. Participants learn how to enter each transaction into an organization’s financial records and how each ultimately affects the Balance Sheet and the Income Statement.

*This course is recommended for accountants, finance managers and executive directors who want to learn fundamentals of accounting that may be helpful for their understanding of financial analysis issues and making sound managerial decisions.*

### ■ “FINANCIAL ANALYSIS FOR THE MICROFINANCE INSTITUTIONS”

*This five day intensive training module is specially designed for the executive directors, finance managers, chief accountants and senior credit department staff.*

The objectives of this training course include helping participants to understand the financial position of their MFIs and using financial analysis to improve their institutions’ sustainability. During this module the participants learn how to:

- identify components, purpose, relationships and importance of primary financial statements format income statements and balance sheets in such

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## MFC Training Programs

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away that the effect of donor funds can be easily identified,

- analyse financial statements to monitor profitability, efficiency and portfolio quality,
- adjust costs for inflation, subsidised cost of funds and in-kind donation,
- supply financial analysis tools in own institution to improve decision making and program performance,
- identify critical factors for moving towards financial sustainability

### ■ "DELINQUENCY MANAGEMENT AND SETTING SUSTAINABLE INTEREST RATES"

This five days intensive training course deals with the most important planning and management issues faced by MFIs. It is based on CGAP's [the Consultative Group to Assist the Poorest] training manuals, adapted to accommodate the needs of practitioners in Central and Eastern Europe and the New Independent States. It focuses on microfinance best practice program management and design.

The course provides participants with techniques and tools to improve financial services and sustainability by setting realistic interest rates and managing funding. This module provides an opportunity to apply technical tools for controlling delinquency (one of the main reasons for MFI collapse), ways to assess and maintain a healthy loan portfolio, increase the skills of the institution, and increase responsiveness of the microfinance institution towards its clients.

The course covers following specific topics:

#### **Part 1. Delinquency Management**

- Understanding Causes and Costs of Delinquency
- Measuring Delinquency (Calculating Portfolio Quality Ratios)
- Measuring Delinquency (Provisions, Reserves, Write-offs)
- Controlling Delinquency
- Managing a Delinquency Crisis

#### **Part 2. Determination of Sustainable Interest Rates**

- Interest Rates and Microfinance
- Setting Sustainable Interest Rates
- Effective Interest Rates
- Cost of Credit from the Borrower's perspective
- Confronting Barriers to Sustainable Interest Rates

*Participants should have a vital professional interest in microlending and work directly in the field of microfinance.*

*It is recommended that the top management level staff attends the course (executive and financial directors, chief accountants, credit directors, their deputies etc.) Familiarity with the financial management issues will greatly contribute to the course understanding.*

## Microfinance Performance Standards

[ continued from page 1 ]

- While current funders can use the standards to monitor and evaluate the relative performance of the MFI, the prospective funders such as investors, donors and lenders can use the information as a yardstick to assess the appropriateness of a possible investment, grant or loan to the MFI.
- Supervisory authorities and government agencies can use performance standards to design appropriate prudential guidelines for microfinance.

### **The MicroBanking Standards Project**

The MicroBanking Standards project, funded by CGAP and managed by Calmeadow, tracks the performance of over 100 MFIs worldwide. The primary purpose of the project is to help MFI managers and board members to understand their performance in comparison with leading MFIs with similar characteristics. Secondary objectives include establishing industry standards, enhancing transparency of financial reporting and improving performance of MFIs.

The project collects financial and portfolio data on leading microfinance institutions and organize them into peer groups to generate "apples - to - apples" comparisons are enabled. Peer groups are set of institutions that have similar characteristics - similar enough that their managers find utility in comparing their results with those of other organizations in that group. The peer groups for the MicroBanking Standards project are based on four indicators: (i) geographic region, (ii) scale of operation suggested by size of total loan portfolio, (iii) target market based on the average loan balance relative to GNP per capita, and (iv) level of retail financial intermediation captured by the ratio of total voluntary and passbook deposits to total assets. At present, 104 MFIs worldwide are represented in the database and classified into 13 different peer groups.

The peer groups also reflect the status of the microfinance industry in a region. Currently, the Eastern European peer group contains eight MFIs of various sizes that reach a broad set of clientele, while there are five distinct and closely knit peer groups for the Latin American region. The difference is due to the fact that there exists a larger number of various types of leading MFIs in Latin America compared to Eastern Europe. As the industry expands and matures in Eastern Europe, there may evolve more homogenous peer groups for the region.

MFIs participate in the project on a quid pro quo basis. The MFIs are required to provide the project with financial and portfolio data on a standardized questionnaire backed by audited financial statements, annual reports and other substantiating information. In return, the project analyzes the data, adjusts them for inflation, subsidies and loan loss provisioning to create comparable information and produce a confidential performance report comparing the MFI's performance with leaders in their peer group. The reports are useful tools for MFI managers and board members to benchmark their institution's performance. The reports are also useful as independent third-party assessment of the institution while applying for external funding. Institutions that are in operation for over two years and are able to fulfill fairly onerous reporting requirements are eligible to participate in the project.

A semi-annual publication called Micro-Banking Bulletin disseminates detailed information on performance standards for over 40 financial indicators classified by peer groups in addition to featuring case studies on leading MFIs and relevant articles on performance.

The project also provides services to microfinance networks by enabling them develop the capacity to collect and analyze data, and use the data to establish performance standards for the network members.

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## The Experts of Crisis Management: Fundusz Mikro Poland

Microfinance institutions sometimes operate in an environment prone to natural disasters. Usually these organizations have established special methods to protect and mitigate effects of such crises. On the other hand a natural disaster may strike anywhere in the world and then the need for crisis management becomes essential.

Fundusz Mikro, a microlending program in Poland faced such a situation. In July 1997 southwestern Poland was severely flooded. More than 1.5 million people were affected and the flood also damaged many mikro and small businesses. Many of our clients suffered, their businesses being practically wiped out. The needs for financial assistance were tremendous and Fundusz Mikro with its typical product was not able to meet those. Our sponsor, the Polish American Enterprise Fund, decided quickly to help flood victims, asking Fundusz Mikro to come up with a methodology which would cut out unfair distribution, limited access for flood victims, ineffective information, bureaucratic processing and time. The money was to be distributed in the form of subsidized loans. Fundusz Mikro on the basis of its group loans experience came up with a project to meet all these aims. Towards the end of September, US\$ 2 million were allocated for this project. The basic idea was to engage the flood victims into the process of assessing each other losses and recommending the loan amount. Fundusz Mikro prepared the application form, one sheet for five business owners. FM advised people, that the amounts should be in proportion to their losses. It was also advised that the total amount was limited, and in the case when there would not be enough money for all groups, priority will be given to those who applied for smaller amounts. To minimize the risk of fraud, it was stated that if any data in the application were to be found false, the whole group would no longer be eligible for the loan. The obligation of forming groups also triggered information sharing, and thus eliminated allegations many aid programs suffer – limited access to information. Two weeks were allowed for the forming of groups and turning in applications. Such a short term was essential to distribute money before the approaching winter. With the aid of local media and authorities, within the deadline 450 application forms were received. The total amount the people applied for was US\$ 3,5 million so the Board of PAEF decided to allocate additional US\$ 1,5 million to meet the demand.

Within two weeks Fundusz Mikro prepared loan agreements for groups and managed the technical and organizational side of the process of loan signing and disbursement. The loan agreements were signed in three cities affected by the flood and it took FM's staff five days to sign loan agreements for 1834 loans. The whole process went



*Mr Walusiak's shop just after the flood, Wrocław 1997*

smoothly, there were no crowds, and every borrower could cash the received check in the bank next door on the same day. Thanks to the methodology applied by Fundusz Mikro, the whole process was regarded as fair and transparent by all engaged. Many borrowers appreciated the fact that the aid was in the form of a loan with affordable interest and for most of them our loans were the only aid they received after the flood. All loans were disbursed before Christmas 1997. During the two years we kept touch with the borrowers on quarterly basis (obligation to send short reports on performance met by 98%). More than 95% of the borrowers managed to come out of the crisis and develop their businesses. Many borrowers have become regular Fundusz Mikro clients, using our regular loan product to develop their activities.

Today, after the termination of the loans we practically received 102% of the loan capital. 85% of the borrowers paid on time or before deadline. Another 7% percent of borrowers paid back after receiving reminders.

We are still expecting these numbers to rise by a couple percent.

We would like to offer our expertise to anyone who thinks that FM approach could be applicable.

*Agata Szostek,  
International Relations Director  
e-mail: [agata@funduszmikro.com.pl](mailto:agata@funduszmikro.com.pl)*



*Mr Walusiak, shop-owner, two years after the flood, Wrocław 2000*

# News in the World of Microfinance

[ continued from page 6 ]

## ■ Opportunity International Russia (OIRussia)

- Opportunity International Russia has a lot to celebrate this year: in 1999 the loan portfolio increased by 37%, the number of active clients more than doubled and currently OI is serving more than 1500 entrepreneurs. At the same time the good portfolio quality remains: portfolio at risk >30 days in November '99 was 2.59%. All of this illustrates program recovery from August 1998 economic crisis and, at the same time, strong crisis management capacity in the organization. Congratulations to the program directors and staff for their great work.
- OI Russia is in the process of consolidating its 5 partners in different regions of the country into one organization in order to increase efficiency and outreach. It is expected that the process will be finalized in year 2000. By the end of year 2004 OI plans to serve no less than 9,000 clients.
- OI Russia is running a legislative project to promote legal changes positive to microfinance institutions. On December 22, 1999 the Upper House of the Russian Parliament conducted the final review of the proposed legal changes. OI advocacy efforts including lobbying for registration for Russia MFIs as foundation that do not need to obtain a banking license to conduct microlending activities, as well as for Value Added Tax exemptions (20% of interest and fee income) were successful. There is no doubt that these changes will have a positive effect on the microfinance environment in Russia. The project is a joint effort of Opportunity International, Women's World Banking and the Russian Women's Microfinance Network.

Alla Serova, Credit Expert  
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## ■ Small Business Development Program in Ukraine

With just about seven months remaining of a three-year project to develop a thriving business support center in the Central European nation of Ukraine, Counterpart International reports that its Lviv-based program has surpassed initial expectations.

Counterpart Meta Center (CMC) opened its doors in October 1997 with a mission to revitalize the local economy by providing support services to the developing business sector. Two years later, "Businesses are earning money and we are earning

money," states the Center's General Director, James A. Jaffe, who is now focused on installing a local management team that will continue Counterpart's work when the project draws to a close in September.

The Incubator for Small Business Development and Support not only provides administrative and technological services to Ukraine's entrepreneurial class, but also offers an extensive range of training programs geared toward practical business-related subjects such as short-and long-term financial planning, sales and marketing, and customer service. In its additional role as a credit facilitator, the Center has disbursed loans totaling more than US\$ 300,000 to numerous businesses in the city of Lviv and its outlying regions, stimulating both job and wealth creation.

Jaffe says the program has received tremendous kudos from its Ukrainian clients and international partner, the United States Agency for International Development (USAID), one of the project's principal sponsors. "It is pleasing to hear that we are one of the most successful programs in the Ukraine," he said.

The Center's success as a self-supporting business enterprise inspires would-be entrepreneurs in the eight year-old nation. Jaffe disclosed that CMC will not require additional funding when its contract expires. "We are particularly proud that our program follows the laws of Ukraine and is successful - something many believed could not be accomplished," he said.

## ■ Slovakia has an Association of Microfinance Institutions

The Association of Microfinance Institutions of Slovakia (AMIS) was established as an independent non-profit organization in July 8, 1999. Currently the AMIS has nine members that provide their microfinance services in different regions of Slovakia.

The mission of AMIS is to support independent economic initiatives of the individuals and communities in Slovakia.

The association provides its members with basic financial services that include:

- training for member institutions
- representation of its member at the national and international level
- assistance in capacity building activities of members
- assistance in institutional development of members
- assistance in fund-raising activities of members
- creation of the support financial fund

Mr. Jan Hudacky is the president of AMIS and the executive director of the Regional Advisory and Information Center Presov.

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## ■ Book review by Anita Campion

"I recently reviewed a new book jointly produced by Calmeadow, ACCION International and the Microenterprise Policy Institute entitled, "Microfinance: Conversations with the Experts." In this publication, Charles Oberdorf documents, in a round table format, his discussions with microfinance experts on the following topics: vision setting, institution building, performance monitoring, staff and client development, the role of donors, governance and regulation and supervision. The discussion reflects the range of consensus and debate that exists within microfinance today, with experts from a cross-section of practitioners and support institutions from around the world, representing diverse geographical and philosophical perspectives. In just one hundred pages, this think-piece summarizes the key thoughts and lessons of the past decade in microfinance and prepares us for the challenges to come in the next. I found "Conversations with the Experts" to be a quick and easy read, yet helpful in shaping my strategic thinking. I recommend this publication to board members and managers of microfinance institutions, as well as any others who hope to influence the field of microfinance in the years to come."

Anita Campion, Director MicroFinance Network  
from Dev Fin Listserv, January 10, 2000

## The Client of the Month

### ■ Lidiya Ivanchyn, Private Entrepreneur

Counterpart Meta Center people call her Tea Lady. If you visit her cozy office at the Center you will be enchanted by colors of numerous bigger and smaller boxes and jars with all possible and impossible sorts of tea. Each time she eagerly offers something newest from her collection. And Meta Center entirely enjoys this privilege to try it.

She started her tea business in December 1998 after three-year experience of working together with her husband for one Lviv company. They both came to the conclusion that it would be better if they could become separate and organize their own business. The fact the Ivanchyns registered a business in the name of the wife, was due to a pure coincidence. Lidiya had already quitted her job and had all documents required for registration of a business entity. Lidiya Ivanchyn became a private entrepreneur encouraged with an

idea of establishing a family business for her husband and herself, to do a business of their common interest and to have a stable and reliable source of family income.

The first year in business was the hardest in her entrepreneur life. She started her business with a very small capital though having a good network of potential clients. Lack of working capital made a great negotiator of her, as she had to agree with a supplier without pre-payment, and made her quite certain with her clients in order to receive their payments in accordance to schedules. The main motto was and still is accuracy and loyalty to clients and suppliers. Her policy helped her to develop a

wide network of about 50 clients, from supermarkets to small stallholders, and 10 suppliers from various parts of Ukraine.

The volume of their sales increases day after day and there are still only two of them doing everything from pulling their car out of snow to bookkeeping. Now she is offering jobs in her business providing temporary employment for two workers. She feels far more confident and certain in what she is doing and the success of her business makes her believe in her own vigor and the strength of her family.

Lidiya comments that she finds her office at Meta Center very comfortable and convenient. She was able to find warehouse facilities close to the office and the location is utmost appropriate to reach her clients. After a year in business she has become eligible for Meta Center small business loan program. Lidiya Ivanchyn has applied for a loan for working capital and her application has been approved and a loan was disbursed. She applied for a loan from Meta Center, as terms and conditions of its Loan Program were more fitting and beneficial for her business than those offered by Lviv banks. Lida stresses, the greatest advantage of the loan is not only the increase in sales volume, but the loan also fortifies suppliers' trust and confirms the financial capacity and reliability of her business.

Late summer Lidiya completed computer-training courses organized by Meta Center, and now she plans to buy a computer for her office. She knows that as soon as she needs any consulting, CMC qualified consultants are ready to help her. When started her business she often applied for a piece of advice from Meta Center law and tax consultants to be reassured that everything she was doing was right and all her documents were prepared properly.

Her plans for the future are clear and determined. To strengthen the relations with suppliers, to extend the network of clients, provide better services to both suppliers and clients. She treats her smaller and larger clients with equal attention and carefulness providing steady quality of services. Her favorite phrase is "You can take as much as you can pay for". And of course, tea is her main fascination. She is striving to have both famous and unknown brands, advertised and traditional Ukrainian herb tea, cheap and expensive... This is all to please her client.

Everyday looking at her smiling face, you can hold a strong hope that she is and will be all right.

*Lilia Shevchuck*

Counterpart Meta Center, Lviv, Ukraine

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## Impact of Microfinance: How Do You Measure It ?

The MFC Impact Assessment Project has completed its third stage. The MFC and all participating programmes: Mercy Corps Scottish European Aid and ICM Inter Catholic Migration Commission (Bosnia and Hercegowina), Opportunity International-Russia-Vozmozhnost, Inicjatywa Mikro (Poland) gathered for the Data Analyses Seminar in Dubrovnik, Croatia in December 1999 to examine the results of data collection. The Workshop participants learnt about analytic techniques and ways of applying them in microfinance and in particular:

- beginning a statistical analysis,
- selecting the appropriate statistical test,
- dealing with non-normality, missing values and outliers,
- selecting the appropriate type of analyses,
- applying multivariate analyses,
- credibility of analyses
- findings interpretation.

The findings will be presented in May 2000 during the MFC Third Annual Conference in Dubrovnik, Croatia.

By this time all the organisations participating will have finished the analyses and written reports on their participation in the Project, and a detailed publication will follow.

## AFFILIATED MEMBER ORGANIZATIONS

(46 members as of January 31, 2000)

### ALBANIA

BESA Foundation  
Rural Finance Fund

### ARMENIA

Catholic Relief Service – CRS / Caucasus  
United Methodist Committee on Relief UMCOR / AREGAK

### AUSTRIA

Opportunity International – Eastern Europe

### BELARUS

UNDP SME and Microcredit Project

### BOSNIA & HERZEGOVINA

AMK PLUS Posusje  
Bosnian Committee for Help – BOSPO  
Catholic Relief Services – Bosnia Program  
International Catholic Migration Commission – ICMC,  
Project Enterprise  
International Rescue Committee B i H  
Local Initiatives Department  
LOK Microcredit Agency  
Mercy Corps / Scottish European Aid,  
Economic Development Department  
Women for Women in Bosnia  
World Vision International B i H

### 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 Économique  
FIDES – Finances pour le Développement Économique et Social

### GEORGIA

Constanta Foundation

### MACEDONIA

Humanitarian Association MOZNOSTI

### MOLDOVA

Moldovan Microfinance Alliance

### POLAND

Foundation for the Development of Polish Agriculture – FDPA  
Fundusz Mikro  
Inicjatywa Mikro  
Rural Foundation

### ROMANIA

Asociatia IZVOR  
Romanian-American Enterprise Fund

### RUSSIA

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

### SLOVAKIA

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

### UKRAINE

Counterpart Meta Center

### USA

Women's World Banking

### UZBEKISTAN

NUFUZ TA'LIM

### YUGOSLAVIA

AGROINVEST  
Alter Modus  
JEN – Japan Emergency NGOs  
Micro Business Fund  
Micro Credit Montenegro

## A Need for Legal Reforms of Microfinance Activities in Croatia A Practitioner's View

( continued from page 6 )

ICMC's program will not only provide much needed capital and business support to micro-entrepreneurs, but also regular training to members on their rights and responsibilities within a democratic structure. All of us know that democracy does not emerge overnight, however proper training and communications can only pave the way for more participatory approaches in the country.

Another challenge for microfinance in Croatia pertains to business taxation. It is salient in other Eastern European countries as well, hence it is not put forth as much in this paper. In Croatia, entrepreneurs have to pay considerable taxes (and sur-taxes) on salaries and a 22% tax called the Value Added Tax. This in turn increases prices of raw material and decreases their margin. Financial police inspectors visit these businesses very frequently. Only home-based businesses (or land-based, in the case of agricultural production) are considered non-taxable. Besides these specific cases, most of the first loans tend to be used for business registration. In recent months, it has been feared that the law on home-based businesses might be changed and that these businesses might be taxed as well.

All the issues above, along with little funding coming into Croatia, explain the very small role played by microfinance in the country. At the same time, ICMC's recent market research has shown great demand for this type of program among the poor, largely due to high unemployment levels. Therefore, a dialogue with the authorities regarding changes in regulations must begin very soon. In fact, several NGOs and international organizations have shown interest in supporting such an effort. This initiative should focus on three aspects of the law:

1. a better understanding by the Government of Croatia of microcredit and why/how it can be performed in an honest and transparent way by NGOs;
2. more flexibility regarding the law on cooperatives, particularly with regards to tax levels;
3. clear rationale for a decrease in taxes paid by very small and microentrepreneurs and ideally incentives for small-business creation.

With the recent parliamentary changes in the country and a more balanced party distribution in Congress, it is hoped that all of us in Croatia will find a more open forum to introduce a freer market economy.

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