

**"Thinking About the Future - Strategic Choices for Microfinance"
7th Annual Conference of the Microfinance Institutions in C&EE and
the NIS
27 - 29 May 2004, Warsaw, Poland**

CONFERENCE OPENING:

Ms. Irena Herbst, Vice Minister, Ministry of Economy, Labour and Social Policy, Poland
Mr. Jean-Noel Durvy, Head of Access to Finance Unit, European Commission
Mr. Ken Vander Weele, Chairman of the Board, Microfinance Centre for C&EE and the NIS
Key note speech
Ms. Elizabeth Littlefield, CEO, Consultative Group to Assist the Poor, (CGAP), World Bank, US

PLENARY SESSION: Building on the Success Story: Strategic Choices for Microfinance Institutions

Description: In a very short time, microfinance in C&EE and the NIS has been moving from small, creditonly, donor dependent programs into a dynamically growing industry, offering a broader range of services, reaching financial sustainability and promising to serve a significant proportion of people excluded from the traditional financial sector. What stage of development is microfinance in C&EE and the NIS exactly at? Where is it headed? What will be the shape of the sector in five years? A panel of top international experts and regional practitioners discussed the possible patterns for further growth of the sector, and the implications for the existing and the newly emerging practitioners. The discussion was preceded by a snapshot presentation of the state of the microfinance industry in 2004 and the most significant trends identified.

Facilitators: Caitlin Baron (strategy and analysis manager, Women's World Banking, US) Grzegorz Galusek (executive director, MFC, Poland) Panelists: Martin Holtmann (lead financial specialist, CGAP, US), Elvira Lefting (senior banker, EBRD, UK), Deborah Burand (director, capital markets group, Finca International, US), Aco Kremanovic (director, Microcredit Organisation "MIKROFIN", Bosnia & Herzegovina) and Sean Kline (senior technical advisor, Freedom From Hunger, US)



WORKSHOP 1.1: NGO Transformation and Commercialization

Description: With decreasing donor funds and a need to achieve large-scale outreach and financial selfsufficiency, many microfinance NGOs are turning to commercialization and entry into the formal financial sector. Based on global experiences, Anita Campion, senior manager of Banking and Finance for Chemonics International, presented a range of transformation models and highlight the general costs, benefits and key issues involved in becoming a formal financial institution. She discussed common regulatory issues, ownership and governance concerns, and realistic timelines, as well as alternatives to transformation.

Panelists: Anita Campion, (senior manager, Chemonics International Inc., US) and Tatiana Ljesnjak (human resources director, Opportunity Bank Montenegro, Serbia and Montenegro)

WORKSHOP 1.2: Managing Social Performance

Description: The term "social performance" refers to the social and economic impact, which, together with financial performance, constitutes an MFI's "double bottom line". This workshop presented the most recent insights into managing the social performance of MFIs. ImpAct's work over the past three years with 30 partners in 20 countries has provided a wealth of experience about the practical realities of designing, implementing and using systems to measure and monitor social performance and impact. MFC shared its experience in working with partners in Eastern Europe in developing mission-based Social Performance Measurement Systems; a concept that promises to stimulate MFIs to be more efficient in reaching the "double bottom line". Based on case-study materials, participants worked out for themselves design principles of the social performance system. Finally, Prizma provided an overview of its efforts to sustain social performance, including research to understand poverty and exclusion in BiH, leadership role, organizational culture, and incentive systems. Facilitator: Michal Matul (researcher, MFC, Poland)

Participants: Anton Simanowitz (program manager, Imp-Act, UK) and Kenan Crnkic (executive director, Prizma, Bosnia and Herzegovina).



WORKSHOP 1.3: Managing for Success - Effective Human Resources Management in Microfinance Institutions

Description: MFIs have two major resources: capital and people. Although finance issues generally receive the most attention, more top managers are beginning to understand that MFI success depends on careful attention to Human Resources (HR). Proper staff management and appropriate HR systems are essential tools that allow organizations to tap into the talent that exists within their employees. This workshop shared some of the key elements of effective human resource management to help MFI managers maximize the potential of their staff and raise efficiency in serving client needs. The workshop helped practitioners answer the following questions:

☐ How can HR help us accomplish our strategic business plans?

- ☒ Isn't HR just being nice to our staff?
- ☒ Why do we need systems to do this?
- ☒ We don't have time for HR. Isn't trying to reach self-sufficiency much more important?

The workshop provided an introductory review of an effective model of HR management; explored options to incorporate HR into organizational structures; and briefly reviewed HR systems and tools such as recruitment and selection, personnel policies, and an effective performance management process.

The workshop is built on more than 20 years of experience and lessons from MEDA's work with various MFIs around the world, including specific examples from a successful MFI in Romania. Sample HR tools are also available for distribution.

Facilitator: Kim Pityn (vice president international operations, MEDA, US)

WORKSHOP 1.4: Microfinance Fundamentals

Description: This workshop was specially designed for microfinance beginners who want to get an idea about the basic principles that lay behind successful microcredit service delivery. During the workshop the participants had a chance to review the four historical stages of development of microfinance, typical microfinance "myths" and how global realities and in the CEE and the NIS region have challenged these myths. Attention was paid to the typical reasons for failures of microfinance institutions so that the "lessons learned" can be shared among future microfinance providers.

Facilitator: Olga Tomilova (training director, MFC, Poland)

WORKSHOP 2.1: New Insights on how Microfinance Institutions and Commercial Banks Can Cooperate to Provide Effective Financial Services to Micro- and Small Enterprises

Description: There is a whole range of ways that commercial banks can be involved with microlenders and how they can benefit from these relationships. In general, banks have three major strategical options for:

- ☒ outsourcing the business segment of microenterprises
- ☒ direct cooperation with MFIs in a variety of ways, and
- ☒ internal learning from the techniques and experiences of MFIs.

The goal of the workshop was to give the participants insight into the underlying strategies and motivations of commercial banks to cooperate with MFIs. Panellists and participants exchanged practical examples for commercial bank/MFI/cooperation and aim to provide useable decision support for the choice of proper cooperation models that fit both the specific needs of MFIs and banks.

Facilitator: Jan Evers (executive director, Evers & Jung, Germany)

Panelists: Kenneth Smith (project director, ACDI/VOCA, Russia), Mikhail Mamuta (director, Russian Microfinance Center, Russia) and Maria Nowak (chairman, ADIE International, France)

WORKSHOP 2.2: The Role of Information in Deepening Financial Markets to Serve the Poor

Description: This session was divided into four parts to lead participants through a process of understanding the need for a solid information infrastructure to underpin the development and expansion of microfinance and the role of the Microfinance Information exchange in that process.

Topics to be covered included:

- ☒ The relationship between good information and strong financial markets: a general introduction on why a solid information infrastructure is a necessary foundation to the development of solid financial markets; and why solid financial markets are in the interests of the working poor,
- ☒ The process of building good information: a general review of norms and standards for understanding data quality and underlying institutional performance. This will include a review of recent efforts to standardize definitions and reporting guidelines for MFIs in order to create industry norms on a global basis (e.g. SEEP FSWG Guidelines),
- ☒ Disclosure and communication: setting up the systems that provide access to information in a

readily digestible form for use by different actors in the financial markets: a general review of issues on disclosure, ratings, the MixMarket and also efforts to build industry-wide specifications for automated data exchange (eXtensible Business Reporting Language - XBRL),

▣ The Role of the MIX: a quick review of the role that the Microfinance Information eXchange in the promotion of industry reporting standards, the development of the information infrastructure for microfinance and as a center for information on institutions involved in microfinance.

WORKSHOP 2.3: How to Reach 1 million Members in 12 Years: a Case Study of SKOK - the Polish Credit Union Movement

Description: The Polish National Association of Cooperative Savings and Credit Unions (NACSCU) reached financial self-sustainability just five years after it was founded. The current president and one of the founders of NACSCU, Grzegorz Bierecki, provided an overview of how the Polish credit union movement had achieved such amazing success, and how it had managed to reach more than 1 million members in just over 12 years.

During the first part of the workshop, Mr. Bierecki provided a brief overview of the history of the Polish credit union movement and shared current performance statistics. The workshop then concentrated on explaining the role of the various structures of the National Association: Monitoring, Supervision, Central Finance Facility, Training, Insurance, etc. Mr. Bierecki also shared some of the past challenges and successes related to lobbying efforts, as well as current issues and future prospects for the movement.

The workshop continued with a presentation by Mr. Andrzej Sosnowski, president of the largest Polish credit union - Kasa Stefczyka - on some of the products and services offered by credit unions. Mr. Sosnowski explained how new products and services are developed, tested, rolled out and evaluated. In addition, participants learned about some typical consumer loans, business loans and savings products offered by credit unions.

Facilitators: Grzegorz Bierecki (president, SKOK - Polish Credit Union Movement, Poland) and Andrzej Sosnowski (president, Kasa Stefczyka, Poland)

WORKSHOP 2.4: Introducing Corporate Social Responsibility to Microfinance - a Long-term Strategy to Strengthen the Position of MFIs toward Clients and Investors

Description: CSR or corporate social responsibility has attracted a lot of attention in recent years. However, its concept is frequently being misunderstood with philanthropy, charity, and the good reputation achieved by tools of advanced PR. However, its true meaning is quite different. CSR is a process in which companies and organizations voluntarily manage their business with respect to different groups of stakeholders both internal or within the company and external. This, in turn, can have a factual impact on their sustainability, quality of business life, further growth and development within a society and environment they are operating in. Beyond doubt, that perspective requires a long-term rather than a short-term approach and open thinking where CSR would be viewed as an investment, not an expense. The way in how effectively this strategy is put into practice makes a company truly, socially responsible.

The panelists drew from their wealth of experience and discussed whether there is a place for implementing the CSR concept in the microfinance world: could CSR be a tool for building your relationship with customers, donors, and investors? Could CSR strategy be an appropriate platform for the cooperation between micro- and macrofinance institutions? This workshop tried to answer these questions and find out how, in practice, MFIs could benefit from implementing the idea of CSR.

Facilitator: Karolina Łudzinska (project director, The Conference Board, Poland)

Panelists: Bogdan Rok (vice president, Responsible Business Forum, Poland), Gary Woller (professor, Marriott School of Management Brigham Young University, UK), Grzegorz Szczepański (communications director, Bank Pekao S.A., Poland) and Douglas Ades (head of supervisory board, Fundusz Mikro, Poland)

SPECIAL EVENT: Investors' Fair. Opportunity for MFIs and Investors to Get to Know Each Other

Description: Investor and donor representatives briefly presented their strategies and funding plans in the region, while MFIs had a chance to interact on a one-to-one basis. As the Fair was scheduled for the first day of the conference it gave an opportunity to extend the talks on the remaining conference days. The fair was organized jointly by MFC and the Microfinance Information eXchange (MIX), whose significant networks brought together the leading industry financiers and the leading microfinance institutions from this area.

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WORKSHOP 3.2: Innovative Approaches to Rural Microfinance

Description: Rural finance is viewed by many MFIs as more difficult, expensive, and risky than urban finance. State involvement in agricultural lending frequently led to poor performance and undermined efforts to provide "best practice" microfinance in rural areas. As a result, MFIs have tended to either avoid rural finance, or have limited their activities to areas close to towns or to clients with non-farm activities. Yet rural finance can be viable as proved by successful MFIs worldwide and by the substantial involvement of the private sector in agricultural finance. Good practices and innovations are emerging, as well as a better understanding of the real (rather than perceived) challenges to rural finance that have to be overcome. This workshop introduced participants to two development institutions that approach rural finance in distinct ways. ACDI/VOCA has partnered with a Russian foundation, the Rural Credit Cooperation Development Foundation, to promote the development of a system of credit cooperatives with financial and technical assistance. World Vision/AgroInvest is a practitioner that lends to farm and non-farm enterprises using a methodology called "village association". After short presentations to share their experiences the session became an open forum for questions and answers.

Facilitator: Janis Sabetta (consultant, IBM Business Consulting Services, US)

Panelists: J. Michael Harvey (country representative, ACDI/VOCA, Russia) and Kyhl Amosson (director, World Vision/AgroInvest, Serbia and Montenegro)

WORKSHOP 3.3: Your MFI - Strategy for the Future

Description: This was a practical workshop introducing methodology and process of strategic management into microfinance institutions. The aim of the workshop was to propose a scheme and a process of strategic planning workshop that could be easily introduced internally to invigorate the microfinance organization. The workshop participants were involved in the role play to share their experiences and build on their knowledge.

Michal Zdziarski has extensive research, writing and teaching experience in strategic management. His unique experience in managing a respective business NGO in Central Europe gives him an insightful understanding of the third-sector dynamics as well as an opportunity to test ideas in practice. The Conference Board - the world's leading business membership and research organization - brings together executives from different companies, industries and nationalities.

Facilitator: Michal Zdziarski (project director, The Conference Board Europe, Poland)

WORKSHOP 3.4: Health and Microfinance - Linkages, Innovations and Future Trends

Description: Social indicators in many parts of the region continue to decline as a result of economic transition, conflict, and critical new health challenges, such as the spread of HIV/AIDS. These factors are not just threatening the health and well-being of microfinance clients and broader economic development in countries of the Newly Independent States and Central and Eastern Europe, but also the financial performance of microfinance institutions. Microfinance has long been recognized as a powerful means to improve livelihoods, but how can linkages between microfinance and health strengthen the impact on the lives of poor and low-income people and what innovations have been developed to combine these two important areas of service provision? This session pushed MFIs to consider the broader health status of their clientele, the importance of their clients' health to institutional performance, and the competitive advantage that diversification into health-related products and services represents in increasingly competitive environments.

Meaghan Smith presented her experience working with microfinance institutions to expand financial services to small-scale private health providers. She presented findings that examined the impact of loans on improving and expanding maternal and child health services and discuss implications for MFIs in the CEE/NIS region. Sean Kline highlighted Freedom from Hunger's assistance to a variety of microfinance institutions - rural banks, NGOs, and cooperatives - to link health education and financial services for greater impact, outreach, and competitiveness. Carmen Velasco presented ProMujer's experience from the practitioner's perspective. Over the years, ProMujer has developed a number of innovations, linking health and microfinance.

Facilitators: Mayada El Zoghbi (partner, Global Microenterprise Initiatives, US), Carmen Velasco (executive director, ProMujer, Bolivia) and Sean Kline (senior technical advisor, Freedom From Hunger, US)

Panelists: J. Michael Harvey (country representative, ACDI/VOCA, Russia) and Kyhl Amosson

Description: Funding for microfinance is becoming increasingly diverse as microfinance becomes more integrated into financial systems. Dependence on donors and governments-including government-finance development funds-will gradually diminish as local financial institutions and private capital markets mature.

Yet, international donors have played an important role in supporting the development of microfinance so far. In the future, finding ways to complement, not replace, private capital and accelerate innovative market solutions will be key to donor effectiveness in building inclusive financial systems. To understand what it takes for donors to be effective in this field, CGAP joined with ministers and heads of development agencies to launch a Microfinance Donor Peer Review exercise involving 17 agencies. This panel presented the overall findings of the reviews and the 5 specific elements of donor effectiveness that emerged:

- ☑ strategic clarity and coherence,
- ☑ strong staff capacity,
- ☑ accountability for results,
- ☑ relevant knowledge management,
- ☑ appropriate instruments.

Presented by: Elizabeth Littlefield (CEO, Consultative Group to Assist the Poor, World Bank, US)

DEBATE: For Richer or for Poorer - Examining Commercial vs. Social Approaches in Bolivia

Description: After a brief introduction to the Bolivian Microfinance landscape, the panelists debated the origins, strengths and weaknesses of the two seemingly different microfinance schools of thought implemented by ProMujer and Bancosol. The senior staff of each institution confronted their two different philosophies of microfinance, including the "development" versus the financial sector schools (or social vs. commercial), opposite growth strategies and their different perspectives on both social and financial performance issues. At the end of the debate the panelists and the participants had a "richer" understanding of the for-profit drivers, as well those concerned with a social mission to serve the poor, and the prospects of sustainability for diverse microfinance institutions.

Facilitator: Amy Davis (independent consultant, US)

Debate between: Carmen Velasco (executive director, Pro Mujer, Bolivia) and Kurt Koenigsfest (executive director, Bancosol, Bolivia)

SPECIAL EVENT: MFC Membership Meeting

Description: This meeting is for members of the MFC network. The agenda of the meeting includes:

- ☑ the election of two new board members,
- ☑ reporting for 2003 and
- ☑ presentation of 2004 plans.

OPEN SESSION: Open Working Group Meeting for Donors and Investors Prepared by SEEP Network

Donor Guidelines for Microfinance Associations (MFAs)

Description: This meeting invited MFA representatives, MFA members, and institutions that provided technical and/or financial support to MFAs to provide inputs on draft Donor Guidelines that would recommend how donors should support MFAs.

WORKSHOP 4.1: Commercial Microfinance through the Banking Sector: A Way to Achieve the Double Bottom Line?

Description: In a very short time, microfinance banks and mainstream banks using the microcredit methodologies (the so-called downscaling banks) have significantly increased their microfinance portfolios and multiplied the number of clients, while maintaining excellent portfolio quality and reaching high efficiency and productivity standards. What are the success factors? Are the banks reaching the same clients as other types of MFIs? What are the implications for MFIs and their clients? What are the strategic options ahead? These and other critical issues were explored by representatives of the microfinance and down-scaling banks as well as EBRD experts.

Facilitator: Martin Holtmann (lead financial specialist, CGAP, US)

Panelists: Elvira Lefting (senior banker, EBRD, UK) and Ulanbek Shamkeev (deputy chairman, Bank AKB, Kyrgyzstan)

WORKSHOP 4.2: Fighting the Microfinance Plague - How to Diagnose, Cure and Prevent Client Loss of Your MFI?

Description: Many MFIs set their minds on acquiring new clients and through that manage to achieve significant increases in outreach in a short time. In the long run, however, such an approach prevents them from serving their clients satisfactorily and the process of desertion often begins. Client loss is costly. Not only does an MFI have to increase marketing efforts to replace a lost client, but the investment made in that former client has yet to pay off. In addition, the MFI's social mission has not yet been reached as the former clients usually have not benefited from the program long enough or in some cases are even worse off due to their participation. Considering that microfinance needs time to achieve scale, fulfill its social goals and reach sustainability, building long-term relationships with clients is a key to success. Without being able to diagnose, measure, understand, fight and prevent client loss, the MFIs will be ineffective in pursuing this strategy or build their competitive advantage. As a result, their long-term social and financial performance will be endangered.

During the workshop MFC partner MFIs, participating in the ImpAct and SEEP Practitioner Learning Programme action research projects, shared their experience how they had been approaching/dealing with the client loss in their institutions. They presented the process of diagnosis, measuring and getting understanding why their clients left. They also discussed different ways in which their institutions could fight and prevent client desertion.

Facilitator: Katarzyna Pawlak, (research unit manager, MFC, Poland)

Panelists: Selma Jahic (marketing manager, Partner, Bosnia and Herzegovina), Kenan Crinkic (executive director, Prizma, Bosnia and Herzegovina), Gagik Vardanyan (executive director, MDF Kamurj, Armenia)



WORKSHOP 4.3: Comprehensive Approach to Reforming the Microfinance Related Legal Framework - Armenia as a Case Study

Description: As the sector matures throughout the region, practitioners and policymakers are increasingly interested in legal and regulatory reform that looks at microfinance and microenterprise development comprehensively. The USAID Micro Enterprise Development Initiative (MEDI) takes just such a comprehensive approach, focusing on increasing access to finance and business development services as well as improving the enabling environment in Armenia - for MFIs, for BDS providers and for microentrepreneurs. This "case study" session shared innovative strategies and mechanisms utilized by MEDI to develop and implement global best practice based policy in the areas of (1) microfinance regulation, (2) credit information services (credit bureaus) and (3) micro- and smallbusiness registration.

Facilitators: Chrysanthos Miliaras (chief of party, MEDI, Armenia), Monica Harutyunyan (legal specialist, MEDI, Armenia) and Timothy R. Lyman (president & executive director, Day, Berry & Howard Foundation, US)

WORKSHOP 4.4: Maximizing Productivity through Effective Leadership

Description: Effective leadership implies exponential growth and competitive advantage that can only be accomplished through a rippling effect from top management empowering and building leadership capacity at all levels of the institution. This session addressed how different leadership styles (including gender differences) could be harnessed and utilized to get the most out of your staff and their productivity. The emphasis was on developing lasting relationships, building self-confidence and channeling energy in ways that increased productive energy and job satisfaction. Utilizing proven methodologies and through participatory discussion, the group explored the differences between management and leadership, what made staff productive, techniques for time management and efficiency improvements as well as how to identify and nurture leadership potential.

Workshop led by: Anita Campion (senior manager, Chemonics International Inc., US), Deborah Burand (director, capital markets group, Finca International, US) and Amy Davis (independent consultant, US)

WORKSHOP 5.1: Mergers in Microfinance

Description: Mergers and acquisitions have profoundly reshaped the competitive landscape of global financial services in recent years. Though there have been relatively few mergers in microfinance to date, given the number of MFIs and increasing competition in several markets, we can expect more consolidation in the future. As a MFI, how do you know when it makes sense to merge, how to evaluate potential partners, and how to best manage the post-merger integration process?

The workshop addressed these questions as well as highlighted two successful case studies from the region.

Facilitator: Anna Gincheran (relationship manager for EE & ME, Women's World Banking, US)
Panelists: Jim Anderson (XAC Bank, Mongolia), Gagik Vardanyan (executive director, MDF Kamurj, Armenia)

WORKSHOP 5.3: Microfinance: a Western Perspective on Eastern Europe

Description: Microfinance in the West has been introduced as a tool to combat the social and financial exclusion of a segment of society that falls below the radar screens of commercial banks but above the upper limits of charitable/state support (estimated 2-4 million people in the UK alone). Entry barriers for micro and small businesses, a poorly designed welfare system, the availability of credit cards and consumer finance are only a few examples of obstacles on the MFI client level. Some of the implications for MFIs include high levels of delinquency due to a culture of debt and lack of basic cash-flow management skills, speedy client graduation into the mainstream finance market, a low interest rate environment, difficulties in finding and retaining good staff to name just a few implications.

This workshop discussed the implications the obstacles have on the Western MFI design, financial performance and impact as well as potential ways of overcoming the problems. The panelists also explored what implications the Western environment would have on microfinance in Central and Eastern Europe, and how the practitioners should prepare their MFIs for new, upcoming challenges.

Facilitator: Ewa Balcerowicz (vice president, CASE Foundation, Poland)

Panelists: Rosalind Copisarov (executive director, Street UK, UK), Maria Nowak (chairman, ADIE International, France)