



# MICROFINANCE CENTRE

for Central and Eastern Europe and the New Independent States

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2002

## In this Issue:

### Page 1

*The MIX Market*

### Page 3

*What You May Want to Learn from Banks*

### Page 6

*Happenings at the MFC*

### Page 7

*Balkan News*

### Page 8

*New MFC Research Program with MDF Kamurj*

### Page 9

*Client Focused Microfinance: A Review of Information Sources*

### Page 10

*DEMOS' Client Monitoring Process*

### Page 11

*Governance Working Group*

### Page 12

*Client Assessment – Experience of FINCA/Samara*

### Page 13

*New MFC Members*

### Page 14

*Expansion Strategies – Experience of MCO MIKRA, Bosnia & Herzegovina*

### Page 15

*Expansion Strategies Working Group*

### Page 15

*Fifth Anniversary of LOKmicro*

### Page 16

*MFC Affiliated Member Organizations*

## The MIX Market

**The MIX MARKET** [www.mixmarket.org](http://www.mixmarket.org) – the first interactive information service – was launched on October 22, 2002.

The MIX MARKET™ is a global, web-based, microfinance marketplace. It provides information to industry actors and the public at large on microfinance institutions (MFIs) worldwide, public and private funds that invest in microfinance, MFI networks, raters/external evaluators, advisory firms, and governmental and regulatory agencies. The MIX Market seeks to help develop credible market infrastructure to link MFIs worldwide with investors and donors and promote greater investment and information flows.



The Microfinance Centre for CEE and the NIS has become one of the key Partners of the MIX Market. Its role is to promote the service among MFIs in the region of CEE and the NIS and help MFC Members in making the best use of the MIX Market platform possibilities. As a Partner, the MFC will, through direct access to the information collected, be able to perform sector analysis of regional microfinance in comparison to the other regions and fruitfully enhance the visibility and quality of our microfinance industry.

The MIX MARKET is designed to foster communication between all Microfinance actors.

MFIs can post profiles on the MIX MARKET and market their organizations to investors and donors in order to mobilize equity capital, loans, and grants. The MIX MARKET is open to all MFIs regardless of their mission or performance. MFIs can

( continued on page 8 ) ▶



## MISSION

The MFC is the leading membership-based resource centre in CEE and the NIS. Its mission is to promote the development of a strong and sustainable micro finance sector in order to increase access to financial services for low-income people, particularly micro-entrepreneurs.

The MFC fulfills this mission by providing high quality training, consulting, research, mutual learning and legal and policy development services.

## MFC SUPPORTERS

- USAID
- Consultative Group to Assist the Poorest (CGAP)
- The Charles Stewart Mott Foundation
- The Ford Foundation
- Open Society Institute
- The SEEP Network

## MFC BOARD OF DIRECTORS

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- **Gert van Maanen**, Oikocredit
- **Tamar Lebanidze**, Constanta Foundation, Georgia
- **Nejira Nalic**, MI-BOSPO Tuzla, Bosnia and Herzegovina

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**Tamar Lebanidze** and **Nejira Nalic** were elected New MFC Board Members during the MFC Members' Meeting in Budapest on 17 May 2002.



**Tamar Lebanidze** is Executive Director of Constanta Foundation, one of the leading Georgian microfinance institutions, implementing microcredit activities funded by UNHCR, Save the Children/USAID, CGAP and Shore Bank/USAID. Tamar has been with Constanta since its initiation and has contributed substantially to the development of microfinance activities in Georgia.

Prior to this she worked for a few international humanitarian and commercial organizations, Save the Children USA, MSF/MEDICINES SANS FRONTIERS/ HOLLAND, Spartacus International etc.

She has twelve years' experience as a scientific worker at the Institute of Physiology, Georgian Academy of Science and taught at the Tbilisi State University for two years. She is the author of several publications both in Physiology and Microfinance.



**Nejira Nalic** is Executive Director of Microcredit Organization 'MI-BOSPO' Tuzla in Bosnia and Herzegovina.

At the beginning of the war in Bosnia and Herzegovina (1992) she established Red Lily – a volunteer, women NGO member based organization. During 1993 and 1994 she worked with the Danish Save the Children as an interpreter/admin assistant. In February 1995 she started working with the Danish Refugee Council to establish 'BOSPO'. She was in charge of running 'BOSPO', a Humanitarian Organization 'Bosnian Committee for Help', 'BOSPO', Tuzla. In December 2000 she was appointed the Executive Director of MCO 'MI-BOSPO' Tuzla. Microcredit Organization 'MI-BOSPO' Tuzla has been grown within 'BOSPO' and it is an independent organization with only lending activities.

|                                                                            |                                                                    |
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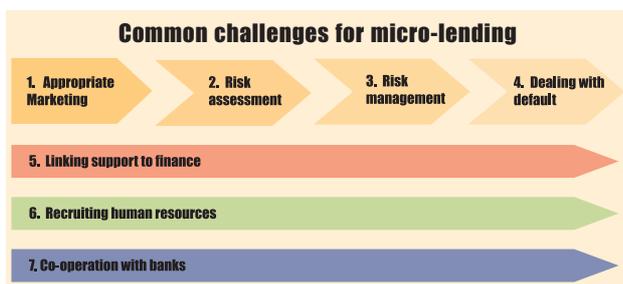


## What You May Want to Learn From Banks

*Co-operation with commercial banks is one of seven core challenges for microfinance institutions. To find a strategy for mutually beneficial co-operation, the German research and consulting company EVERS & JUNG summarizes their relevant experience. EVERS & JUNG has worked both for banks and MFIs, which is very helpful for understanding the issues concerned. This is the second in a series of two articles (the first was published in the Fall 2001 issue).*

In Western Europe the micro-credit industry is in a developmental stage that lies between five and ten years behind the sector in developing countries and Eastern Europe. The sensitive discussion about the commercialization of microfinance (professionalization and outreach versus commitment to the most excluded people) has not yet reached Western Europe, because there are hardly any MFIs that have grown and transformed into licensed non-bank financial intermediaries or banks. There are also no large traditional banks that have actively downscaled into this segment in their home market. Microlending has a strong social and labour-market focus in Western Europe. Most MFIs concentrate on excluded unemployed people that want to set up their own businesses because they do not have a chance in the labour market (start-ups of necessity). Very few MFIs even begin to understand that there is a very strong need and market in the segment of existing microenterprises that have increasing problems in getting credit from traditional banks. Empirical research in Germany for example showed that in the last year up to 40% of SMEs experienced more restrictive lending policies from their banks.

Nonetheless, due to the very well developed traditional banking sector in Western Europe, there are many practical models of co-operation between banks and MFIs. As a consequence, EVERS & JUNG sees bank cooperation as one of seven major challenges in implementing efficiency and best practices.



The three strategic choices available to banks in this context (outsourcing the business segment of micro enterprises, direct co-operation with MFIs and internal learning from MFIs) has already been mentioned in the first article of this series. Practical examples of co-operation can be grouped in five forms (Tab. 1):

- Financial Assistance,
- Management and Staffing,
- Loan Decision-Making and Administration,
- Practical Support and Assistance to Clients,
- Client Referral.

Generally, the model of co-operation between banks and MFIs takes the form of social sponsoring through giving grants and staff or a more business-like model, referring clients to each other or providing financial services for the MFI and its clients. In Western Countries the norm is either a combination of both models or a predominance of the first, as can be seen in the examples in the table on page 4 (Tab. 2).

The statement of a Bank of Ireland representative might help shed some light on why West-European banks are willing to subsidize microlenders. While the bank recognized the demand for micro-credit “we could not possibly support the applicants because their proposal failed to meet normal credit criteria“. Therefore, it was decided to provide a special fund that could respond to this demand without having it in the bank’s own loan portfolio. “We effectively subcontract the business to a specialized organization.“

That might not be appropriate in countries where the banking sector is less strong, profitable and not under pressure to show social responsibility. Under such circumstances more business-oriented models should be analyzed in detail.

To be able to do this the **major trends in SME lending of banks** have to be kept in mind:

- Lending alone is no longer seen by banks as worth doing. To build a profitable relationship where the

**Table 1: Co-operation Models between Banks and MFIs**

| Co-operation model                                 | Description                                                                                                                          |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial Assistance</b>                        | Traditionally grants or loans, recently also providing access to the capital market at very good rates, using the bank’s good rating |
| <b>Management and Staffing</b>                     | Providing board members, seconded staff, staff providing advice, training and consultancy                                            |
| <b>Loan Decision-Making and Administration</b>     | Membership of loan committees, handling consumer loan repayments, provision of banking facilities for micro-lenders                  |
| <b>Practical Support and Assistance to Clients</b> | Provision of bank accounts, Mentoring or advice services, training                                                                   |
| <b>Client Referral</b>                             | Referral from bank to MFI and vice versa                                                                                             |

Source: Whyley/Kempson/Evers, *Banks and Micro-lending*, 2000.

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# What You May Want to Learn From Banks

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client buys every financial product including loans is state of the art.

- Modern IT-controlling systems have been implemented to enable banks to see exactly how much they earned with every individual customer (and loan officer).
- The price of a loan is calculated on the basis of the refinancing costs plus risk and transaction costs and an additional profit margin. The risk costs used to be an average of the portfolio, but in the future this will be calculated for each individual customer. This means that customers with statistical or individual above average risk factors will have to pay more. The customer's risk is assessed with the new internal or external rating systems banks currently use due to the Basel II-Treaty. The systems are much more sophisticated and detailed than the old credit evaluation systems. They are not only used once for the credit decision, but normally also include a monitoring element that requires an update at least annually.
- To understand the client better, the "relationship manager" shall be the face of the bank to the client – even if it is a big firm with various specialized financial needs, this 'one face to the customer' will organize the expertise for the client.
- To be able to manage clients' risk, but more to see the selling potential and manage the bank's relationship with him, customer relationship management (CRM) software is the thing in which banks are investing heavily. By Data Mining / Warehousing, banks try to make the most out of the data they have about their customers. These databases create and store letters, mail and telephone calls. The larger banks and those with more financial potential additionally invest

in relationship management systems with call centers filtering the telephone traffic and managing the loan officers time to respond. It also analyzes the bank account to see in the turnover changes early symptoms for problems but also for investment potential.

- On the basis of such information, computer-driven profiles of clients are drawn where a potential for cross selling is identified. For example a client with which bank account turnover is strongly growing and at the same time payments in various currencies are made is seen as worth a closer look for marketing complex banking services.
- Clients in crisis are more and more dealt with in specific centers, called "turnaround" or "workout" centers. They are run as profit centers, some even independent of the bank: the bank sells the center a client. The payback rate will show if the center can make a business. For example, a client with 100.000 EUR debt is in danger of going bankrupt and collateral is such that the bank would lose most of the money. It sells the client to the center for 30.000 EUR (more than it would ever get back). The center restructures the debt and the business, offers to half the debt amount and successfully gets back 50.000 EUR. A 40% spread for the center.

These trends entail some interesting strategies that may also be relevant for MFIs to improve their own operations. Of course, the driving force behind all this is the increased pressure for bank profitability. MFIs have to transform this into the context of their mixed financial and social objectives. Performance measured in terms of efficiency, quality of services and social and economic impact.

When EVERS & JUNG advises an MFI about possible co-operation models with banks, it always

**Table 2: Examples of Co-operation with Banks**

**Microfinance Institution Co-operation with banks**

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ACCION New York</b>              | Refinance with a range of banks (i.e. Deutsche Bank), issuing checks to clients and receiving installment payments from clients in co-operation with Chase Manhattan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>ADIE, France</b>                 | Packaging of finance for 50 French banks (Bank issues loans after credit evaluation and 70% guarantee by ADIE), grants from some banks as the French saving banks Caisse des dépôts. On a local basis some client referral of banks to ADIE.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>First Step, Ireland</b>          | Managing a one million Irish Pound fund for the Bank of Ireland. Granting and monitoring zero interest loans on behalf of the Bank of Ireland, which received some tax advantages for this. In addition, a range of banks seconded employees as volunteers in their leisure time to support start-ups by unemployed people.                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Enigma Siebte Säule, Germany</b> | To solve the legal problem that in Germany only a bank can issue loans, Enigma works with the Hanseatic Bank, which issues loans to the clients of Enigma. The credit worthiness evaluation and monitoring stays at Enigma, which also does crisis intervention if a client pays late. An interesting detail is that after long research for a bank partner, Enigma selected a bank owing to its focus on installment loans, because this involves the appropriate technical infrastructure for step lending. In addition, Enigma works with a small loan fund provided by Deutsche Bank Herrhausen Stiftung (the foundation of the bank) to lend to young unemployed people. The operation costs are covered by the unemployment office in Hamburg. |

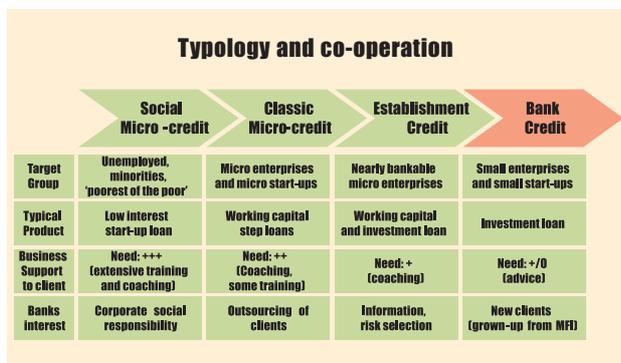


## What You May Want to Learn From Banks

starts by identifying which market the micro-lender targets, because this partly determines which co-operation model makes sense.

A developed typology is to differentiate between organizations offering social micro-credit, classic micro-credit and establishment credit, and, once a small firm has become bankable, bank credit. Of course, this typology only gives a very rough framework and some organizations can not be clearly allocated to one segment. It has three important advantages, however:

- First, it allows to have a clearer discussion about objectives and efficiency of MFIs. An MFI that serves a very disadvantaged target group like long-time unemployed will have very different objectives from an organization that targets existing micro enterprises. Higher transactions and risk costs of the first compared to the second can of course be justified.
- Second, it helps to define better the methodology an MFI should adapt to serve its target group best. Start-ups normally need much more business support than existing businesses that only need a loan for a specific purpose.
- Third, it finally helps to understand, which type of bank co-operation may be suitable for a specific MFI.



Well, what practical business co-operation micro-lenders could do with banks pursuing strategies as described above? Below are some examples, some from practice EVERS & JUNG has seen, others ideas EVERS & JUNG still develops or wants to develop together with bank partners:

1. In many cases MFIs have a better understanding of micro-enterprises than banks. This asset can be offered to banks, either to learn from it (market research) or to outsource this client segment.
2. Banks are normally big organizations with professional strategies, systems and resources. MFIs can learn from this or try to use some of the technical infrastructure they could not afford on their own.
3. Banks offer MFIs to use their customer relationship management (CRM) system to make client referral for both sides more efficient.

4. MFIs offers banks to be the workout centers for small and micro firms in crisis and sell the bad debts for a share of the value. With their cash flow-oriented risk assessment they might be able to rescue the clients and the debt. For the client the signal would be clear: I have a second chance, but it is my last chance.
5. If clients grow above a certain size the monitoring system of the MFI starts to become weak, it could use parts of the bank system: in example the monthly fact sheet of the account analysis (in case client has a bank account). With that the typical gap between clients too big for MFIs and too small for commercial banks might be narrowed.

Finally, two important examples of Western European Banks' role in international microfinance may illustrate the scope of possible co-operation models. Deutsche Bank and Commerzbank took two very different approaches. Deutsche Bank is supporting MFIs in the USA, UK and Germany as part of their corporate social responsibility program. It established refinancing schemes for MFI. Together with the Association for Enterprise Opportunity (AEO), it provides an annual award for excellence in microenterprise support (especially lending and training) in the US.

In contrast, Commerzbank developed an entire market entry strategy for southeastern European countries based on their involvement in microfinance banks. Market research has shown that there was not a big enough potential of corporate and SME clients for directly setting up their own branches. The alternative strategy was to become a shareholder of microfinance banks that were set up in co-operation with development institutions like EBRD (European Bank for Reconstruction and Development), KfW (German Kreditanstalt für Wiederaufbau) and IFC (International Finance Corporation, a subsidiary of the World Bank) and IMI AG, a subsidiary of the Frankfurt-based consultancy firm IPC. It all started in 2000 with the Micro Enterprise bank in Kosovo, today Commerzbank holds shares of about 20% of similar banks also in Yugoslavia, Bulgaria and Georgia. Further engagements are planned.

Contact [martin.jung@eversjung.de](mailto:martin.jung@eversjung.de) for comments. EVERS & JUNG website address: [www.eversjung.de](http://www.eversjung.de)

Further literature:

- Drake/Rhyne (Ed.): The Commercialisation of Microfinance – Balancing Business and Development, Bloomfield 2002
- Evers: Micro-credit and banks, in Finance & common good, No. 5, [www.obsfin.ch](http://www.obsfin.ch)
- Whyley/Kempson/Evers: Banks and Micro-Lending – Support, Co-operation and Learning, Hamburg/Bristol 2000.
- Evers/Jack/Loeff/Siewertsen: Reducing cost and Managing Risk in Lending to Micro Enterprises, third edition Hamburg 2001. (Available on the web at: [http://www.facetbv.nl/download/micro\\_lending\\_handbook.pdf](http://www.facetbv.nl/download/micro_lending_handbook.pdf))



## Happenings at Microfinance Centre



**Fifth Annual Conference of Microfinance Institutions, Budapest**

### May

■ **The MFC Annual Conference of Microfinance Institutions in CEE and the NIS: “Innovations and Diversity”** took place in Budapest on 16-18 May 2002. Over 270 microfinance practitioners, donors, investors and policy makers participated making this year’s conference the largest ever. This year the conference was expanded to three days, allowing for more workshops and networking. Conference materials can be downloaded from the MFC web page [www.mfc.org.pl](http://www.mfc.org.pl)

### June

■ On 1-4 June in Belgrade, Yugoslavia, the MFC team delivered for the first time the newly developed CGAP training course **Operational Risk Management** from the curriculum for microfinance managers. Fourteen participants from 9 organizations and 6 countries took part.

■ On 17-21 June in Sarajevo the **Fundamentals of Accounting for MFI Managers** course was delivered for the first time in the local language. The course was delivered by MFC trainers, practitioners from the Balkans, and backed up by MFC Regional Director Olga Tomilova. Twenty-four participants from 14 organizations and 3 countries attended.

■ In the first week of July, MFC consultants worked at the Agency for Finance in Kosovo, providing assistance and enabling the development of the Agency’s accounting department.

### July

■ **Training of Trainers in Adult Learning Techniques and Financial Analysis** was organised by the Russian Microfinance Centre (RMC), aiming to increase its trainer team capacity. Olga Tomilova, MFC Regional Director for the NIS, assisted RMC in conducting it in Moscow, 15-18 July.

■ **Introduction to Client Assessment** – the MFC was invited by World Vision to conduct an MFC-developed training course for WV affiliates brought together for the WV Summer School in Vienna, 25-27 July. The research team – Kasia Pawlak and Michal Matul – delivered the course, which was attended by 16 participants from 6 organizations and 6 countries. Kasia Pawlak stayed on for another two days to facilitate two workshops: the presentation of “Market Research Toolkit for Microfinance” of MicroSave

Africa and “Microfinance Customer Desertion and Loyalty – Implications for MFIs”.

■ **Training of Trainers and Training Needs Assessment** was conducted for an UNDP/OSI-funded Microfinance Training Center – MFTC in Nukus, Uzbekistan. Olga Tomilova and Volodymir Tounitsky conducted a Training of Trainers on adult learning techniques and delinquency management topics and assessed the training materials of courses provided by MFTC. The Training of Trainers took place on 29 July – 2 August.

### August

■ On 4-9 August the team of MFC consultants conducted a **training needs evaluation** of the UNDP microfinance programs in Nukus and Karshi.



**Loan Officer Training at Alter Modus, Montenegro**

### September

■ **Financial Analysis for MFIs** was delivered in Russian on 23-26 September in Moscow jointly with the RMC. It gathered 25 participants.

■ **Loan Officer Training** for 21 staff of Alter Modus was organized on 23-25 September in Podgorica, Montenegro.

### October

■ **Training of Trainers for New Product Development** course was organized for 8 MFC trainers in Warsaw on 7-11 October. This new, CGAP-developed, training will be added to the MFC course portfolio in 2003.

■ The first open enrolment **Loan Officer Training** took place in Sarajevo on 14-16 October. The delivery in Bosnian/Serb/Croatian language gathered 26 participants.

## MFC Course Calendar

### 11-14 November 2002, Dushanbe, Tajikistan

■ **Delinquency Management and Interest Rate Setting Training Course** – *Russian language*

### 18-21 November 2002, Warsaw, Poland

■ **Fundamentals of Accounting for Microfinance Training course** – *English language*

### 25-27 November 2002, Warsaw, Poland

■ **Training of Trainers – Loan Portfolio Management** – *English language*

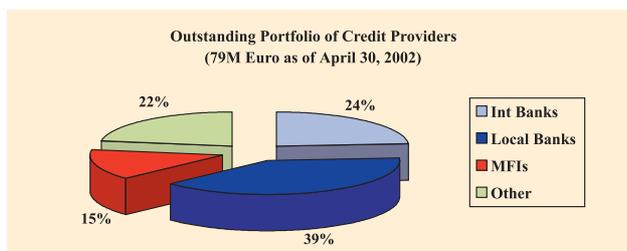
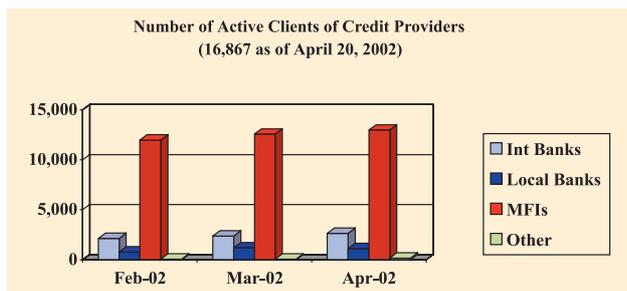


## Balkan News

■ **Microfinance in Kosovo.** The Association of Microfinance Institutions of Kosovo (AMIK) was officially launched through a Kick-Off Conference titled 'Microfinance in Kosovo - Building a Framework for Cooperation' in Prishtina, Kosovo on July 5th 2002. Approximately 50 participants attended the event with a keynote speech from Alberto Palacios-Hardy, Head of Prishtina Liaison Office of the Government of Canada.

The main objective was to sensitize stakeholders on the importance of the MFI sector in Kosovo's development, which was better illustrated by the fact that most banks are making few but large loans to large enterprises. MFIs accounted for 15% of the total credit in Kosovo as of April 2002 in terms of amounts while at the same time accounting for 75% of the total credit in terms of number of borrowers.

AMIK was established in February 2002 by 7 leading MFIs in Kosovo. It is funded by contributions from member MFIs as well as seed funds that were provided by Canadian International Development Agency (CIDA).



The mission of AMIK is to enable microfinance institutions to better support and meet the needs of Kosovo's small businesses by raising awareness of the importance of microfinance in promoting economic development. Other MFIs are eligible to join if they meet conditions, the most important being adherence to best practices principles.

*Blerta Querimi, AMIK Coordinator, Kosovo, blerta\_qerimi@yahoo.com*

■ **Capitalization of the Microcredit Organizations in Bosnia and Herzegovina.** Six microcredit organizations from Bosnia and Herzegovina, three from the Federation of Bosnia and Herzegovina and three from the Republic of Srpska have been recently capitalized with the portion of the grant funding provided by international donors as co-financing for the World Bank supported Local Initiatives Project (LIP). The total amount of capitalized loan funds is EUR 3,086 million (Governments of the Austria, Italy,

Japan, Netherlands and Switzerland provided co-financing under the LIP I).

Principles of the capitalization of microcredit organizations have been agreed between the World Bank and Entity Governments during the implementation of the LIP and had included number of institutional and financial performance criteria. The microcredit organizations, which have received capital grants met or surpassed all the performance criteria and the funds granted to them shall increase their equity, decrease the costs of lending to the final borrowers and contribute to their future institutional development.

*Braco Erceg, Republic of Srpska Development and Employment Foundation, berceg@rsdef.org*

■ **Opportunity International Stedionica Officially Opens Its Doors For Business.** Opportunity International (OI) has been awarded a license from the National Bank of Yugoslavia (NBY) for the establishment of the microfinance bank - OI Stedionica. The OI Stedionica is dedicated to providing finance to micro and small scale entrepreneurs, and to creating employment. Since early August, the OI Stedionica has disbursed more than 300,000 Euro to 165 borrowers in Novi Sad, Zrenjanin and other cities. Ultimately, the OI Stedionica will have a presence nationwide.

Opportunity International, which manages USAID's (U.S. Agency for International Development) microfinance facilities in Montenegro, Bulgaria and elsewhere in the region, was granted \$2 million from USAID to establish the OI Stedionica for Serbia. This investment reinforces the US Government and USAID's commitment to build a strong banking system in Serbia and to fueling economic growth that creates jobs and prosperity.

*Embassy of the United States of America, Belgrade, Press Release*

■ **Serbia Survey and Working Group activities.** The Survey of the Legal and Regulatory Environment for Microfinance Institutions in the Republic of Serbia has been officially released. The Survey was jointly funded by DFID, UNHCR and the MFC. You can download the full text from the MFC web page [www.mfc.org.pl](http://www.mfc.org.pl).

Following the initial release of the Survey, the Serbian Microfinance Policy Working Group was formed. The group consists of all non-bank microfinance institutions currently active in Serbia, the donors supporting them and other stakeholders, and is coordinated by the MFC. The goal of the working group is to support the development of a sound legal and regulatory framework for non-bank microfinance in Serbia. The group has worked closely with the international community, including the World Bank, EBRD and European Agency for Development, to coordinate policy efforts. A main activity of the group is to educate government officials about the benefits of microfinance and address an array of their concerns.

*Leesa Wilson Shrader, MFC Regional Director/Balkans, LWS@aol.com*

( continued on page 8 ) ▶

## Balkan News

( continued from page 7 )

### ■ Poverty Assessment

Prizma has completed the poverty assessment of its clients. The assessment has been carried out by Prism Research using CGAP's poverty assessment tool (PAT).

PAT is a relatively new tool that was developed to assess the poverty level of an organization's clients relative to the general population in the community. It is the first such research of its kind in Eastern Europe and the Newly Independent States and has been undertaken only seven times elsewhere in the world. Combined with internal qualitative research and national quantitative research, the poverty assessment will support the development of an impact monitoring system and enhance the Organization's effectiveness in targeting, attracting and impacting on the lives of poor people.

*Sean Kline, Prizma Technical Adviser, Bosnia and Herzegovina*

## New MFC Research Program with MDF Kamurj



The MFC Research Unit has received a grant from SEEP/USAID to work with **MDF Kamurj (Armenia)** on the institutionalization of a client tracking system.

Only six grants worldwide were approved. It clearly validates strength of MFC in microfinance client level research.

The cooperation is scheduled to last two years. The core operational (1, 2, 3) and wider industry (4) objectives are as follows:

- 1) Institutionalize learning from clients by developing the Client Tracking System
- 2) Develop a new product based on the complete process
- 3) Increase customer outreach, satisfaction and loyalty through client assessment
- 4) Enhance regional industry knowledge about client assessment

The project will not only focus on creating an effective system for the MDF Kamurj, but it will also contribute to enhancing regional industry knowledge about client assessment. That is why this action-research project will try to answer the following research questions:

- How can learning from clients be institutionalized?
- What is the cost-effectiveness of routine data collection and what are its limits?
- How can information on exit clients be effectively captured and exit groups segmented by reasons and characteristics?
- How useful is exit information as a proxy indicator of client satisfaction and source of information on competition?
- What is the relevance of staff feedback compared to information collected from clients?
- How cost-effective is it to do a completely new product development internally? Should some work be outsourced?
- What is the usefulness of quantitative testing of product prototype?
- To what extent does tracking and using client information increase customer loyalty and satisfaction?

The answers to these questions will be documented in research papers and briefs that will be widely disseminated to regional microfinance actors through the MFC website, training, workshops and conferences.

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## The MIX Market

( continued from page 1 )

select their level of information disclosure on the MIX MARKET, but the system is designed to give greater visibility to MFIs that provide more in-depth data on their financial and outreach performance.

**Funds (investors and donors)** can post profiles to foster potential microfinance investment opportunities and support the transparency and benchmarking initiatives of the MIX MARKET. Investors and donors can also encourage MFIs to participate in the MIX by using the MIX MARKET as an online reporting service.

**Specialized microfinance service providers**, such as raters and external evaluators, can post profiles to market their services on the MIX MARKET.

**MFI networks** can post profiles, market their activities and promote their members while expanding further the scope of their services.

**Governmental and regulatory agencies** can use the MIX MARKET and MIX other services to enhance their reporting and supervisory systems.

**Academics** can collaborate with the MIX MARKET by posting research and country studies.

The MIX MARKET, previously known as "The Virtual Microfinance Market (VMM)," started as an **UNCTAD** project (United Nations Conference on Trade and Development). The project was supported by the government of Luxembourg under the guidance of an industry-wide microfinance Advisory Board. In 2001, **CGAP** (The Consultative Group to Assist the Poorest), a consortium of donors that promotes microfinance worldwide, expanded the scope of the MIX MARKET in collaboration with UNCTAD. The MIX MARKET is now a key component of the MIX (Microfinance Information eXchange), a new, not-for-profit private organization supported by CGAP, the Citigroup Foundation, the Open Society Institute and the Rockdale Foundation, among others.

We invite you to take full advantage of this initiative at [www.mixmarket.org](http://www.mixmarket.org). Please do not hesitate to contact the MFC at [microfinance@mfc.org.pl](mailto:microfinance@mfc.org.pl) or the MIX MARKET at [info@mixmarket.org](mailto:info@mixmarket.org) for more details, and see you soon on the MIX MARKET!



# Client-Focused Microfinance: A Review of Information Sources

## Background

The microfinance industry has for a long time been an institution-focused industry that has not paid much attention to the needs of clients. This is to some extent a consequence of the strong emphasis on control mechanisms that are a prerequisite for working with higher risk clients (as compared to those served by the formal sector). Perhaps for the same reasons the industry has focused on offering non-diversified products with limited flexibility in order to reduce the cost of services that are already very resource intensive. While this approach promotes efficiency and allows for better control, it has failed to meet the diverse and dynamic client needs that are becoming more and more sophisticated. The result has been an increase in client desertion, delinquency and limited or slow growth. With the growth of competition in the industry, these problems can only intensify.

## Why Focus on the Client?

Although the industry is still fairly young and has not yet encountered fierce competition (with the possible exceptions of Bolivia, Bangladesh and Uganda), there is need to prepare for this eventuality, as it is (in most markets) inevitable. A market oriented approach and commitment to client needs will help in reducing client dissatisfaction and thus desertion in future when the market becomes more competitive.

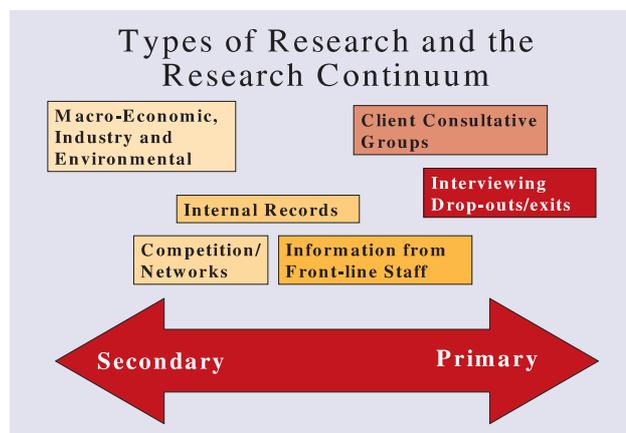
To be client oriented means making the client the primary focus of the institution, that is, learning about their needs and responding to them through the development of appropriate products and services. After all, it is the client that is the basis and source of the MFI's business.

## Sources of Information

Before an MFI can design products to suit its clients it must have a way of getting information about their needs. Different institutions use different methods – both informal and formal to listen to and learn from their clients. Local government offices, municipalities and business councils among others are a good place to start to get a macroeconomic understanding of the factors influencing the market. Primary and secondary research methods can be used to provide information on various aspects.

## Management Information Systems

A lot of the information that MFIs already have, and/or collect on a routine basis, such as loan ledgers, loan applications, loan officer forms and exit forms provide useful sources of data. Information on the seasonal demand for credit among clients involved in certain business activities can be derived from a 2-3 year history of several loan ledgers. Similarly, the analysis of some indicators and variables from the Management Information System can give an indication of the problems that the institution is facing. Limited up-take of a particular loan product, for example, may be indicative of



Source: MicroSave Africa

its inappropriateness to the clients' needs. Growth variables can be broken down and analysed using different client characteristics: type of business, level of business development, residence etc. Loan files of accepted, rejected and drop-out clients contain valuable information about client preferences and projected demand. Where this information is stored in a database, files can be sorted by location, income level, type of business, and so forth to bring to the surface trends that may provide insights into target markets for new products or the need for product refinement.

## Competition Analysis

An inexpensive source of information is the competition. Competitors can be a resource rather than a threat in further educating and screening clients. Competition can also provide an impetus to develop new product ideas and opportunity for growth. By observing the competition the MFI learns what will work and what will not. The institution can use this information to improve its products and services.

## Frontline Staff

Feedback from frontline staff is another valuable source of information. Loan officers meet with the MFI's clients on a regular basis and establish close relationships. They are aware of the clients' problems and needs. Very often this information is not communicated to management but remains at this very first level, and may only be used for risk assessment purposes. The feedback on clients' needs, perceptions and preferences is an invaluable resource for a client-oriented organization, which is why it is important for the MFI to develop a system for accessing this information – perhaps through periodic workshops with frontline staff. Although most MFIs have loan officers close to the client, this is not a substitute for management visiting the clients to discuss their expectations, perceptions and needs. Senior management officials should meet clients regularly.

## Talking to Clients

Consultative customer groups that are representa-

( continued on page 10 )►



## Client-Focused Microfinance: A Review of Information Sources

( continued from page 9 )

tive of the MFI's clients can be used to collect client feedback. Such groups meet periodically to discuss client needs, progress, etc. The unfiltered information thus generated can be used to refine products and services. Another valuable procedure that most conventional banks – but few MFIs – carry out is an exit interview with clients who have decided to terminate their relationship with the financial institution, either temporarily or permanently. Exit interviews provide information about market realities and possible product shortcomings that can be addressed by the MFI. More useful information can be obtained from a focus group discussion bringing together a number of clients leaving the institution. This allows the MFI to generate more feedback and draw benefit from the dynamics of group interaction, which generally results in participants offering more frank views.

### Primary Market Research Methods

To get better quality data and reliable information it is advisable to use structured methods like focus group discussions, individual in-depth interviews or surveys. There is a wide spectrum of standard research techniques and methods that can be used to collect market data. Conventional surveys tend to be resource intense and more difficult to conduct, but there is also a range of simpler instruments such as short customer feedback forms with simple questions. A typical example is the account opening form, which seeks to capture information about clients as they join a program. Similarly, survey questions can be incorporated into loan application forms. An institution needs to select tools which will provide the desired information and respond to set objectives. The same case applies to “off-the-shelf” information gathering toolkits like the SEEP/AIMS tools or MicroSave-Africa's “Market Research for MicroFinance“. It is crucial, as a first step, to establish the research questions that the institution would like answered and then select the tools that will provide the answers or information required. This is an important process that will ensure that the institution gathers clearly defined, relevant and useful information, thus saving it time, energy and financial resources.

### Conclusion

As the microfinance industry matures and becomes more client-focused, or market-led, so MFIs will have to become more sophisticated in their approaches to understanding the markets within which they operate. This does not necessarily mean conducting expensive primary research. Even when primary research is necessary, it is essential that detailed secondary research is conducted to narrow down the research questions so that the MFI (or the research consultants it contracts) performs focused research that will produce useful and cost-effective results.

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## DEMOS' Client Monitoring Process



*DEMOS is a savings and loan cooperative that provides training and financial services to over 300 economically active poor in Croatia.*

*Client monitoring forms are used by DEMOS loan officers and managers to prevent delinquency, for management to monitor the work done by loan officers and potentially to gather data on potential impact of DEMOS loans on clients' livelihood and businesses. The manager carries out random checking of the forms (how well they are completed, but also the analysis of the data included), discusses findings with loan officers and conducts field spotchecks on an on-going basis.*

The initial monitoring forms designed at the start of the project were not being used properly by loan officers. Reasons included their lack of standardization and the fact that loan officers thought that the forms did not reflect appropriate questions regarding business needs. Because of increased delinquency and the plan to track impact, DEMOS decided to create a new process for monitoring, along with new monitoring forms.

### Process for creation

The entire DEMOS team was convened to brainstorm on these forms, then sub-groups were created at the end of each meeting to prepare the work for the next one. The entire process took 2 months because regular activities continued in a normal manner. In the process, it was determined that all pre-approval forms, including business plan and loan application, needed to be revised. This process was carried out keeping in mind the information contained in the loan tracking system so as to match both tools and facilitate data entry into the system. Another wish that the staff expressed was to try to track the same information at various times so as to analyze trend overtime.

As a result, the following monitoring process was established.

### 1. First monitoring visit

**The main purpose of the first visit is to assess loan use.** During this first visit, the loan officer with the clients fill a “loan officer monitoring form-first visit“. The loan officer goes through each question with the client and writes the answers on the lines in the forms with comment boxes for any additional observation. From this form, the loan officer can determine if the loan is used for the purpose specified in the loan application and identify changes in the clients business and family since loan disbursement (for instance, following a crisis). If it is determined that the client has not used the loan appropriately, the loan officer will fill out a Confirmation of Loan Misuse form and have the client sign it. The form can be used to threaten the client with immediate loan repayment as stated in the Loan Agreement. For milk production, and due to its very specific nature,



## DEMOS' Client Monitoring Process

specific business monitoring questionnaire and the loan officer monitoring form have been designed.

### 2. Monthly follow-on visit

**Loan officer visits the clients every month using the loan officer monitoring form and tracks changes as specified in the form.**

These visits aim to assess changes in business and identify potential problems or crises in the business or households that may lead to delinquency. It is therefore used as a preventive method. For this purpose a special form is used. The form has 6 questions and a comment box where the loan officer can write his/her comments that might help him/her in tracking changes. The questions enable the loan officer to track changes in the client's life, household and businesses. This form is being filled during every monthly visit by the loan officer. This form is created in order to save time, be more efficient and keep track of changes in the client's life or business.

### 3. Three-month monitoring visit

**Every three months, in addition to the loan monitoring form, loan officers also administer a business monitoring questionnaire.**

The goal of this form is to find out additional information about the changes in clients' businesses during the previous period. A specific business monitoring questionnaire for milk production is filled in the same way and period as the other business monitoring questionnaire but it is more simple and contains questions which are useful to track changes in milk production.

The difference between the monitoring form and the business monitoring questionnaire is that the business monitoring questionnaire tracks changes only in clients' business, while the monitoring form includes questions on crises in the family, housing situation, competition, etc. This information is not directly connected to the business but might affect the use of the loan and other income in the family that could influence loan repayment.

Forms have various colors so that using these forms is more convenient for loan officers.

**Pros and cons of setting up a new monitoring process:**

#### Pros:

The new monitoring process enables collection of relevant information and therefore allows for keeping track of clients' development and loan use. It is made user-friendly for loan officer, thus ensuring it will be used properly by loan officers. The process of creating the new system involved all staff members and therefore all DEMOS resources.

#### Cons:

Because the creation process included all staff, it turned out to be very time consuming and DEMOS fell behind schedule. Moreover, participation level was unequal among staff members

and from one meeting to another. This led DEMOS to constitute committees for the next market research and impact assessment projects.

Clients feel more and more overburdened by all of DEMOS' questions and paperwork. It is very important for DEMOS to explain to clients the purpose of these questions, but DEMOS may consider in the future streamlining all of these tools and forms to only keep the most important ones (based on additional experience).

**Having established a process that best serves the needs of DEMOS, there is a further challenge which needs to be addressed.** The question is whether DEMOS should try to re-word the questions so as to be able to code them and enter them into SPSS for statistical analysis. The advantage would be quick and reliable feedback but there is also a drawback that it will require changing questions when in fact the wording of each question appeared particularly important to loan officers (in terms of clients responding openly).

In general, DEMOS has observed that portfolio quality has significantly improved in the past months. It is still unclear if the new monitoring forms have contributed to this factor or this is mostly the result of a more mature institution gradually learning from its mistakes and successes. But, given that DEMOS is now planning to simplify these forms, it will need to strike a delicate balance between heavy monitoring which leads to increased administrative costs with potential staff-client and more relaxed monitoring which may increase risk cost. This is the challenge ahead for DEMOS.

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## Governance Working Group

MFC in collaboration with the Ohio State University has launched a working group on governance to find out how managers of MFIs in the region feel about the advantages and disadvantages of various board structures, the environment in which they operate, and the adequacy of managers' compensation. The microfinance community has accumulated impressive knowledge about lending and saving technologies, MIS, risk management, and other tools used by MFIs. However, little is known about what MFI managers feel limits their ability to achieve the goals of the MFI. The purpose of this study is to identify the most successful governance practices in the region to help MFIs improve their own board-management interactions. For more information about the governance working group work or to provide information about the governance issues in your institution, please contact Valentina Hartarska ([hartarska.1@osu.edu](mailto:hartarska.1@osu.edu)).



## Client Assessment – Experience of FINCA/Samara



**FINCA SAMARA**  
Small Loans - Big Changes

The most successful MFIs are those that know their clients and market. We have to get this information to de-

velop strategies to satisfy our clients. After all, satisfied clients are more likely to remain clients and recruit new clients to the program. For this reason and other, FINCA/Samara employs a number of tactics to better understand its clients' demands.

### Focus Groups

Regular Focus Groups with village bank and individual clients from different cities of Samara oblast are organized to study customers' needs in the area of micro-finance services. At such meetings, clients are asked to answer a number of questions to help better understand the strengths and weaknesses of the Program, from their perspective, and to get rather full information about the clients – who they are (social-economic analysis), what businesses they have, what changes they feel are necessary to attract more clients to the Program, and what should be done to maximize client retention. It is critical that we know what our clients like and dislike about the Program, and what changes they recommend to maintain a high degree of customer satisfaction.

As a rule, approximately 6-10 clients participate in the meetings that are organized in FINCA headquarters office in Samara or in a convenient location (ex café) in a city where FINCA works. During the meeting, F/Samara's marketing specialist records all the comments that are made. That information is then analyzed and used by management to make decisions about this or that change in the program. Based on the feedback received, the clients like the focus group meetings, as they have opportunities to ask questions, discuss various aspects of the program, and talk to other entrepreneurs (and possibly find partners). A small gift is given to the clients as a token of appreciation for their participation in the meetings.

### Client Surveys

In addition to the regular Focus Groups meetings, client surveys are used to solicit information from the clients. A formal survey was conducted last fall to determine further trends of the Program development. This research was done by a third party – a local sociological center.

Upon receiving the final results of the survey, it was a pleasure to learn that the clients place customer service as one of the main strengths of the F/Samara program. Clients noted that the Program is attractive because of the service they receive from the staff and flexible, individualized approach to each client.

### Clients' Questionnaires

From time to time, FINCA Samara also asks its clients to answer short questionnaires on this or that aspect of the program. Recently, it gathered infor-

mation from individual clients about a possible new financial product – a credit line. FINCA was interested in finding out whether or not the clients are interested in that product, as this is necessary before developing the product further. Upon receiving the feedback, an analysis of the result was prepared.

### Meetings/Discussions with Loan Officers (LOs)

Useful information can be obtained from LOs, as they have the most constant contact with clients and therefore know their needs/problems best of all. The management often talks to LOs on different problems and takes their opinion into account while making changes in the program.

As demonstrated above, FINCA Samara respects its clients and does its best to implement their recommendations. Based on the feedback gained from the above activities, numerous changes to the program have been made, including (but not limited to):

- Smaller village bank group size- minimum of 3 instead of 5 members
- Shortened pre-loan approval process- 2 weeks instead of 5 weeks
- Less frequent client meetings- bi-monthly or monthly depending on loan cycle and credit rating
- System of benefits offered for long-term clients
- Bonuses for clients who recruit new clients to the Program
- Flexible policy for valuation of collateral

FINCA Samara plans to continue with the above, as it understands the importance of keeping the clients satisfied.

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## New MFC Members

### ■ INAISE – International Association of Investors in the Social Economy, Belgium.

INAISE (the International Association of Investors in the Social Economy) is a global network of socially and environmentally oriented financial institutions. Created in Spain in 1989, INAISE has grown rapidly as the movement of social investors gained importance, volume and visibility in a number of European and non-European countries.

Through INAISE, social investors from Norway to South Africa and from Costa Rica to Japan have been joining forces to exchange experience, disseminate information and demonstrate to the world that money can actually be a means to achieve positive social and environmental change.

INAISE associates 40 members – financial organizations mainly from Western Europe and, 8 Advocates – non-financial organisations, which support or work towards the development of what INAISE stands for.



## New MFC Members



■ **MCO "Sunrise", Bosnia & Herzegovina.** The microcredit organization "SUNRISE" is a non-profit, non-governmental, independent, non-deposit and non-political organization. It was originally founded in 1996 (as a Non-governmental Humanitarian Organization). Since April 1997 the organization has been dealing with microcredit activities under the Local Initiative Project – LOIN, which is under the auspices of the World Bank. Sunrise (short for: Micro "Sunrise") was registered under the Law on Microcredit Organizations, on 31 December 2000, and is a legal successor of the NHO "Sunrise."

The purpose of the organization is to contribute on a long-term basis to the development of micro-entrepreneurship, that is to assist low-paid (economically disadvantaged) persons generate income through their own work.

The organization (as an independent, non-profit, non-governmental, non-political organization) aims to provide long-term loans of financial capital to a large number of targeted clients on the entire Bosnia and Herzegovina territory, maintaining at the same time financial sustainability in compliance with the international standards of developed microcredit organizations.

■ **Bai Tushum Financial Fund, Kyrgyzstan.** Bai Tushum was founded in September 2000 by ACIDI/VOCA and Swiss CARITAS on the foundation of three independent credit associations in Chui, Osh and Jalalabad that had been operating since 1997.



It is a locally registered rural/micro finance institution dedicated to the social and economic development of Kyrgyzstan through providing loans to farmers, livestock breeders, microentrepreneurs and small and medium entrepreneurs.

Bai Tushum provides loans to the agricultural sector (crop or livestock production) and small and medium-scale businesses (agriprocessing or trade). As of January 2002, BTFF had 700 clients with the outstanding loan portfolio of US\$1.1 million.



■ **World Vision Georgia, MED Program, Georgia's Entrepreneurs' Fund (GEF).** Established in 1997, the mission is to provide high quality financial services through lending to micro and small entrepreneurs in order to facilitate the reduction of poverty, job creation and sustainable living.

It issues business loans through group and individual methodology in urban markets of Tbilisi, Rustavi, Kutaisi and Batumi. At the end of May 2002 GEF managed loan portfolio of \$650,000 and served 1,386 active loan clients.

■ **National Association of Business Women, Tajikistan.** Established in 1999, its mission is the expansion of women's economic rights and opportunities in the labor

market, promotion of women's access to resources and education and assistance in creating jobs. NABWT clients are micro and small entrepreneurs operating in the three regions – Sughd, Dushanbe and Khatlon oblasts. NABWT offers business loans, voluntary savings and training courses. Women entrepreneurs are the priority group in business training and lending modules. At the end of July 2002 NABWT managed loan portfolio of US\$867,000 working with 5,702 active clients.

■ **Small Business Support Fund "Hope-Ukraine".** HOPE International is a faith-based nonprofit organization serving the poor in developing countries around the world. HOPE provides financial and technical support to micro enterprise development programs that enable poor families to support themselves. Small Business Support Fund "Hope-Ukraine" has been operating in the city of Zaporozhye since September 1998. HOPE-Ukraine offers business loans through a solidarity group lending mechanism. They now have eight offices in six cities, serving 1300 borrowers.

■ **UMCOR-Kosovo.** UMCOR-NGO began relief work in Macedonia in May 1999, providing immediate humanitarian relief to refugees who fled Serb offences and NATO air strikes in Kosovo. In July, immediately after the air strikes, UMCOR-NGO moved into the Kosovo province and established relief operations with its partners under the ACT umbrella: Danish Church Aid, Lutheran World Federation, Norwegian Church Aid, Christian Aid, and the Macedonian Centre for International Cooperation. UMCOR-Kosovo initially focused on the provision of emergency relief, but has made a transition to longer-term socio-economic development programmes in the areas of social development, income generation/economic development, agricultural development/food security, and shelter rehabilitation. Overall, UMCOR-Kosovo remains visibly and highly committed to the establishment of peace and the rebuilding of a normal life situation for all persons in Kosovo.



The Stabilization Through Income Generation Programme assists small urban and rural businesses that have the potential for development and sustainability, but lack access to training and capital. With funding from GBGM, this Kosovo-wide programme serves entrepreneurs of all ethnic groups who have been overlooked by traditional income generation programmes. In order to promote equitable economic recovery, foster stability among and within ethnic groups, and increase the institutional capacity of local businesses, UMCOR-Kosovo provides business skills seminars, business consulting services, and financial assistance in the form of micro credit loans and income generation grants. To date, 54 applications have been received from 19 agricultural cooperatives, 31 individuals, and four associations for participation in this programme.



## Expansion Strategies – Experience of MCO MIKRA, Bosnia & Herzegovina

| DATE   | Active Clients | Branch Offices | Portfolio Outstanding | # staff | # loan officers | Financial Sustainability |
|--------|----------------|----------------|-----------------------|---------|-----------------|--------------------------|
| May-99 | 112            | 1              | 250,000KM             | 6       | 2               | 60%                      |
| May-00 | 1,400          | 2              | 1,082,518KM           | 22      | 12              | 76%                      |
| May-01 | 2,830          | 2              | 2,551,542KM           | 32      | 19              | 138%                     |
| May-02 | 3,971          | 3              | 4,080,666KM           | 37      | 21              | 126%                     |

*KM – Convertible Mark; 1 US\$ = 2 KM*

### Background

MIKRA was started as part of the Catholic Relief Services organization in Bosnia & Herzegovina in September of 1998 as a pilot project. It is the only village banking program currently working in Bosnia's developed microfinance sector and works in both entities. Its clients are 100% women. In May 2001, MIKRA spun off from CRS to become a local MCO. The organization has experienced significant growth, while maintaining a strong focus on its target population of low-income women and retaining one of the lowest average loan sizes of 1,700 KM (850USD).

### KEY AREAS OF STRENGTH

#### Human Resource Management

Mikra has been successful in creating a team, or family environment. This was accomplished in a number of ways. When Mikra was part of CRS, an outside consultant was brought in on several occasions to hold in-depth team building exercises with the entire staff. This turned out to be a good investment, particularly in the area of field work and program expansion, which is always better when there is a strong sense of teamwork among program staff. Mikra also created a program-wide list serve to discuss issues like delinquency. This tool is used effectively to keep communication channels open and bring a geographically widely dispersed staff closer together.

The strong "team" culture was instrumental in supporting the organization through the localization process, which can often be a destabilizing process for staff used to being part of a large international organization with job security and a certain stature. The Executive Director focused on communicating with the team during this phase to help them build a vision of an organization which would be more flexible, and have a long term future. As a result, the staff was enthusiastic about the spin-off and motivated to make the new organization successful.

#### Marketing

Mikra's marketing strategy is unconventional because they take special care not to waste time on people outside their target population of low-income women. They, therefore, do not use the traditional marketing instruments of television, radio and newspapers to spread the word about the program and attract clients. They find that when non-target population is present at program presentations, low-income women do not actively participate and they spend an inordinate amount of

time explaining program rules to people who ultimately will not become clients.

Mikra therefore works through any organization where there is a concentration of their target population, generally women's associations, in order to promote the program. This affiliation with the women's associations also builds trust in the Mikra program among potential clients, which is key in reinforcing confidence in elements of the village banking methodology, such as internal accounts. They have found that by working in this way, typically 60% of women present at introductory meetings become Mikra clients.

The key to success is having modified the CRS village banking product to meet the needs of the Bosnian market. The loan size, term, group sizes, use of internal accounts, roles of promoters, management boards, bylaws, and pre-credit training have all been modified to adapt to the local environment. One important example of this is Mikra's loan term. Mikra has a shorter loan term (6 months) than nearly any other MCO, and certainly shorter than any commercial bank in Bosnia. Mikra has found that this shorter loan term helps their marketing efforts because it matches the cash flow cycle of their particular client niche better than the longer terms offered by other financing sources. Small, more frequent loans are attractive for this client group and serve as an important marketing tool.

#### Cost Control

Mikra has built cost control into its team culture. Staff understands that the organization will survive only by keeping control of its costs and also understands that any raises in salary can only be possible if costs are kept low. Bonuses at Mikra are tied to cost control, along with portfolio quality and outreach. Branch managers are motivated through their bonus to stay within planned budgets.

#### Expansion Strategy

Mikra management has developed a clear costing process in order to determine whether a new region will be profitable for the organization. They know that they need at least five "zadrugas" to cover the cost of a small office with one to two loan officers. During the initial introductory meeting, if they can open at least two zadrugas, they find that they can create enough momentum to form a sufficient number of groups to sustain a new branch office.

Regional hubs are used as the springboard for geographical expansion and new zadruga formation. The regional centers are the control points for village-



based zadrugas, as well as expansion to new cities, until those cities become profitable in their own right.

#### **FUTURE GOALS AND CHALLENGES**

One challenge for Mikra as it expands is maintaining quality management of internal accounts as more zadrugas are created and as older zadrugas mature. Mikra plans to reach at least 7,000 clients by mid 2004 and expects to draw exclusively on commercial sources for future funding, in order to avoid conditionality. Mikra is also looking at the possibility of a merger with a suitable MCO.

*Leesa Wilson Shrader, MFC Regional Director / Balkans, LWS@aol.com*

### **Expansion Strategies Working Group**

During the MFC Annual Conference in Bratislava in 2001, the MFC has initiated a new research project on expansion strategies with the goal of publishing a paper highlighting regional examples of innovations in sustainable, high-growth strategies among leading MFIs in response to its member interest. During the next conference held in Budapest this year, the following list of key internal requirements for MFI's achieving significant and sustainable growth was developed by the working group participants:

- Effective Expansion Strategy (branches, etc.)
- Organizational Structure (flexible, evolving, professionalization, etc.)
- Standardization and Effective, Harmonized Procedures
- Cost Control for Expansion
- Managing Risk and Internal Control
- Human Resource Management (culture, training, mission, mentality and recruitment)
- Constant Innovation
- MIS System and Effective Use of MIS
- Effective Financial Management, Accounting Practices and Internal Audit
- Client Orientation and Client-Specific Product Mix
- Marketing and Market Research
- Incentive System and Productivity Enhancement
- Mergers/Partnerships/Localization/Transformation
- Capturing Commercial Sources of Funds
- Dealing with Competition
- Business Planning

These topics will serve as the focal point for developing case study "vignettes" on high-growth institutions in the region. The paper including short stories on both success stories and challenges of leading regional MFIs is hoped to serve as a source of best-practice information exchange for the region and beyond and is expected to come out in December this year.

In the current issue we learn about the interesting experience of Mikra from Bosnia and Herzegovina. At the same time we would like to encourage you to share your experience of expansion strategies. For more information on the group work and to send a write up of your expansion story please contact Leesa Wilson Shrader ([LWSshrader@aol.com](mailto:LWSshrader@aol.com)).

## **Fifth Anniversary of LOKmicro**



LOKmicro, an independent, non-governmental microcredit organization, celebrated five years' of successful development during an event at the Holiday Inn hotel on 17 June 2002. On that occasion numerous guests from the public and business circles congratulated LOKmicro and its general manager Nusret Čaušević on its success. LOKmicro's outstanding business partners were also presented.

The ceremony began with a speech by Mr. Vasilj Žarković, the representative of the Presidency of BiH, who congratulated LOKmicro on the results achieved and made a donation of 30 books to Mrs. Alma Vranić, the chief of student services at the Faculty for Economics Sarajevo. The books were intended for the most advanced university students of this faculty as proof that this organization considers and supports young people.

According to Milenko Dostić, Ph.D., the chairman of the Board of Directors of this microfinance organization, LOKmicro applies an individual and solidarity group methodology of microlending, recognizing and giving priority to demobilized servicemen, returnees, displaced persons, invalids, civilian victims of the war and all those who do not have access to classic bank institutions. Therefore, the target clients of this organization are natural entities in the phase of registering their businesses, without any fixed assets and in need of credit for working capital: sellers at public markets, handicrafts and other small producers trying to make a start.

The representatives of the World Bank pointed out the contribution of LOK and the proper way of directing international assets towards business financing. Joseph Ingram, director of the mission of the World Bank to BiH, remarked at the ceremony "To succeed, one has to be ambitious. The World Bank is very dedicated and would like to see the establishment of a common civil economic region in BiH. Certainly LOK is the leader in this respect representing these objectives. They made a huge contribution to returning refugees, especially the minorities..."

On this occasion, on behalf of LOK, Mr. Ingram handed out annual scholarships to two children of the Čosić family, returnees to Jezero, near Jajce. The Čosić family has used loans from LOKmicro recently, increasing family income by employing some of its members.

LOKmicro disbursed over 50 million KM recently issuing more than 15,000 loans, in 15 towns of both entities of BiH – Sarajevo, Zenica, Breza, Mostar, Konjic, Bugojno, Gradačac, Gračanica, Brčko, Travnik, Sanski Most, Bihać, Cazin, Tuzla, Modriča.

Presently LOKmicro employs 50 creative employees and its wish is to successfully expand its mission and assist low-income clients.

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## MFC AFFILIATED MEMBER ORGANIZATIONS (69 members as of October 28, 2002)

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ALBANIA</b>                  | BESA Foundation ..... fku@ngo.org.al<br>For the Future Foundation ..... fff@albaniaonline.net<br>Mountain Areas Finance Fund (MAFF) ..... ffzm@icc-al.org<br>Partneri Shqiptar ne Mikrokredi (PSHM) ..... pshm@pshm.icc-al.org<br>Rural Finance Fund ..... ffrural@albaniaonline.net                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>ARMENIA</b>                  | Microenterprise Development Fund KAMURJ ..... vgagik@arminco.com<br>Small Enterprise Fund International (SEF International) ..... john_sax@wvi.org<br>UMCOR/AREGAK, Microcredit Program ..... umcor@umcor.am                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>AUSTRIA</b>                  | Opportunity International – Eastern Europe ..... 100746.3540@compuserve.com                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>AZERBAIJAN</b>               | International Rescue Committee (IRC) – Azerbaijan ..... office@irchq.baku.az<br>World Vision AzerCredit ..... Samir_Jafarli@wvi.org                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>BELARUS</b>                  | Belarusian Fund for Financial Support of Entrepreneurs (BFFSE) ..... admin@fund.belpak.minsk.by                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>BELGIUM</b>                  | INAISE – International Association of Investors in the Social Economy ..... inaise@inaise.org                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>BOSNIA &amp; HERZEGOVINA</b> | Local Initiatives Department – Foundation for Sustainable Development ..... lip@odraz.ba<br>LOKmikro Mikrokreditna Organizacija Sarajevo ..... central.office@lok.ba<br>Microcredit Organization “Cooperative Housing Foundation” ..... esmal@chfbh.org<br>Microcredit Organization “MIKROFIN”, Banja Luka ..... mfol@inecco.net<br>Microcredit Organization “MI-BOSPO” Tuzla ..... bospo@bih.net.ba<br>Microcredit Organization “Sunrise” ..... sunrise@bih.net.ba<br>Mikrokreditna Organizacija “MIKRA” ..... mikra@crsbh.ba<br>MKO BosVita ..... bv@max.ba<br>MKO EKI B&H ..... wvimikro@bih.net.ba<br>PARTNER Mikrokreditna Organizacija ..... partner@partner.ba<br>Prizma ..... info@prizma.ba<br>Zene za zene International / Women for Women International ..... zene@bih.net.ba |
| <b>BULGARIA</b>                 | Catholic Relief Services – Bulgaria ..... crsbg@crs-bg.org<br>Nachala Cooperative ..... arnaudov@nachala.org                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>CROATIA</b>                  | Catholic Relief Services (CRS) Croatia, MikroPlus Program ..... crs@zg.tel.hr<br>ICMC-DEMOS Saving and Loan Cooperative ..... demos@icmc.net<br>NOA Savings and Loan Cooperative ..... noa@os.tel.hr                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>FRANCE</b>                   | ADIE – Association pour le Droit à l’Initiative Économique ..... adie@adie.org                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>GEORGIA</b>                  | Constanta Foundation ..... all@constanta.ge<br>WV Georgia, MED Program, Georgia’s Entrepreneurs’ Fund ..... georgia@wvi.org                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>KAZAKHSTAN</b>               | Asian Credit Fund ..... acfexecutive@nursat.kz<br>Kazakhstan Community Loan Fund (KCLF) ..... office@kclf.kz                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>KOSOVO</b>                   | Kosovo Enterprise Program (KEP) ..... icmckep@yahoo.com<br>Mercy Corps International – Agency for Finance in Kosovo ..... yshulhan@mercycorps-kosovo.org<br>UMCOR-Kosovo ..... leslie@umcor-kosovo.ipko.org                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>KYRGYZSTAN</b>               | Mercy Corps Kyrgyzstan ..... mcikg@mail.ru<br>Bai Tushum Financial Foundation (BTFF) ..... btushum@elcat.mail.kg                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>MACEDONIA</b>                | Horizonti MF – CRS/ Macedonia ..... horizonti@catholicrelief.org.mk<br>MOZNOSTI Partner Agency Opportunity International ..... moznosti@mt.net.mk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>MOLDOVA</b>                  | Development Alternatives, Inc. / BIZPRO– Moldova ..... office@bizpro.md<br>Moldova Microfinance Alliance ..... mma@mma.dnt.md                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>POLAND</b>                   | Foundation for Development of Polish Agriculture (FDPA) ..... fdpa@fdpa.org.pl<br>Fundusz Mikro ..... fm@funduszmikro.com.pl<br>Inicjatywa Mikro ..... krakow@inicjatywamikro.pl<br>Rural Development Foundation ..... fww@fww.org.pl                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>ROMANIA</b>                  | Cooperative Housing Foundation – CHF/Romania ..... office@chf.dnttm.ro<br>Economic Development Center ..... info@cde.ro<br>Foundation for Local Development Buzau ..... cdpt@bz.softnet.ro<br>Opportunity Microcredit Romania (OMRO) ..... fizvor@fx.ro<br>Romanian-American Enterprise Fund ..... Bill.Wingate@raef.ro                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>RUSSIA</b>                   | FORA Fund for Support of Small Entrepreneurship ..... info@forafund.ru<br>The Russian Women’s Microfinance Network ..... rwmn@com2com.ru                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>SLOVAKIA</b>                 | Regional Advisory and Information Center (RAIC), Presov ..... rpica@rpico.sk<br>The Integra Foundation ..... integra@integra.sk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>TAJIKISTAN</b>               | National Association of Business Women of Tajikistan ..... abw_tajikistan@mail.ru                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>UKRAINE</b>                  | Counterpart Meta Center ..... meta@meta.lviv.ua<br>CREDO Association for Entrepreneurship and Development ..... credo@utel.net.ua<br>Small Business Support Fund “Hope-Ukraine” ..... hope@comint.net                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>USA</b>                      | Women’s World Banking ..... agincherman@swwb.org                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>UZBEKISTAN</b>               | NUFUZ TA’LIM ..... ntal@tkt.uz                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>YUGOSLAVIA</b>               | AGROINVEST Foundation – Montenegro ..... agroinvest@cg.yu<br>Alter Modus ..... altermod@cg.yu<br>Micro-Development Fund ..... igp@drc.org.yu<br>Microcredit Montenegro ..... mcm@cg.yu<br>IRC – Micro Business Fund ..... igp@intrescom.org.yu<br>MicroFinS ..... mfins@eunet.yu                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

