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Challenging the Industry: Poverty Focused Microfinance in CEE and the NIS

Research

Recently there has been a growing interest in poverty outreach of microfinance interventions among various industry stakeholders across the globe. Most of these considerations refer to poverty definitions in traditionally poor settings such as Asia and Africa. That is why it is not surprising that most microfinance practitioners in CEE and the NIS region hesitate to get into discussions – so distinct from the reality in the regions themselves.

However, there are some strong indications to introduce **poverty focused microfinance (PFM)** agenda in CEE and the NIS region:

- **Poverty is increasing in most of the transitional countries across the region.** The total estimated number of the poor in the eighteen countries of the region has risen twelvefold from nearly 14 million before the transition (1987-88) or about 4 percent of the population, to 168 million in 1993-95, or approximately 45 percent of the population . Growing unemployment, the collapse of safety nets and poor basic public services have sharply decreased the quality of life of low-income people in many dimensions. Inevitably structural adjustments have been harmful to certain groups of society, creating a very important layer of the "new poor", while becoming more and more vulnerable to an increasing number of risks.

- **As global experience shows, innovative microfinance systems and products can be of great benefit for the poor.** New evidence from the Micro-Banking Bulletin shows little correlation between the profitability of successful microfinance institutions and their average loan size, a rough proxy for poverty levels. It seems that **microfinance services can be delivered to the poor in a sustainable manner.** The poor can be considered as a new promising market segment for regional MFIs.

- **The depth of outreach of microfinance interventions in CEE and the NIS is shallow compared to other parts of the world.** Regional MFIs are reaching only upper segments of the economically active poor. Evidently, among the poor there might be households that require other forms of assistance to develop their capacity prior to undertaking credit-based enterprises. The fact that such households exist clearly should not be taken as a reason for excluding all the poor from participation in microfinance services. In addition, the shallow depth of outreach might be due to the fact that the regional MFIs deliver only an enterprise credit. This is a limitation to be removed. In particular this concerns the issue of serving the poor as, for example, savings and insurance prove helpful in effectively managing risks, smoothing consumption and building their asset base.

To that end poverty exists in the region and needs to be addressed within a long-term course of development. Nevertheless one cannot forget that the poverty concept in the CEE and the NIS region is remarkably different than in other traditionally poor settings all over the world. The poor in transitional countries do possess key household assets of significant value; therefore, they would not be regarded as vulnerable in Africa or Asia. Even if the main breadwinner of a family of four living on a former state-owned farm in rural northern Poland lost his job during the first years of the transition, his family still has reasonable housing conditions and a wide range of household assets. At the same time he is unable to send his children to the free, public primary school as his family cannot afford the transportation costs. A lack of stable sources of income, non-economic dimensions of a sudden status change among the "new poor" and weak management of household financial, physical, human and social assets are the main drivers at the micro-level of growing poverty in the transitional countries. Considering these main differences one should admit that global experience might not be sufficient in expanding microfinance outreach in CEE and the NIS. More regional research for innovation is needed.

In the next few years, **MFC would like to work closely with practitioners in order to explore opportunities for MFIs to reach more poor people with high-quality financial services and therefore enhance the role of sustainable microfinance in the region as a poverty reduction tool.** The development and promotion of the poverty focused microfinance (PFM) should be done in a comprehensive framework including three main areas: understanding and measuring the poverty in the CEE and the NIS region, developing pro-poor microfinance products and services, and adapting institutional systems to serve the poor.

1) Understanding and measuring poverty in the CEE and NIS region is crucial to developing PFM systems and services as well as to set realistic poverty outreach standards for MFIs. Needless to say it will allow for the definition and identification of the "bankable" poor in the CEE and NIS region. Common definitions of extremely poor, very poor, moderately poor and vulnerable non-poor will contribute to overcoming the current conceptual vacuum. The core challenges are to:

- Draft a regional poverty profile that includes financial needs and capacities of the poor;
- Come up with a set of externally viable and internally useful poverty proxy indicators;
- Develop cost-effective, easy-to-use and practitioner-oriented tools to assess the poverty levels of microfinance clients;
- Establish poverty outreach standards that will guide MFI management on how to expand their outreach while not jeopardizing current institutional goals.

Various industry stakeholders started recently to express their interest in poverty assessment of microfinance clients. USAID is required by recent legislation to report on poverty levels of all the clients their partners are reaching. Practitioner agencies such as Prizma in BiH, supported by the MFC under the Imp-Act program in its poverty related work, is conducting a comprehensive work in order to identify the best proxy indicators that will help them to understand, deepen and demonstrate their poverty outreach. The case study of Prizma, presented by Sean Kline in this newsletter, shows that a process to measure poverty level of its clients is doable and beneficial to both institutions and their clients. However, as the recent SEEP/MFC survey in CEE and the NIS shows there is still a lot to do to put poverty assessment into practice.

2) Global evidence shows that poor people have broad needs for financial services. That is why there must be a variety of products and services at their disposal. It is of utmost importance to bridge poor people's needs and capacities with **specific microfinance products and services** by:

- Fine tuning existing services to the needs and capacities of the poor;
- Adding new loan products in a sustainable way ensuring efficient risk management of multi-product portfolios;
- Investigating how other risk management services as savings and insurance can be delivered under existing legal and regulatory frameworks;
- Linking business development and other non-financial services to expand poor people's participation in the financial market.

There is an ongoing innovation in designing microfinance products and services to the needs, wants and capacities of the poor as demonstrated by the CGAP pro-poor innovation and CGAP/IFAD rural pro-poor innovation challenge winners (see KAFC and RFC articles in this issue).

3) Last but not least, what this framework aims to highlight is that designing financial services for the poor is not only meant to develop pro-poor products. It is also intended to create an **institutional system that works efficiently to serve the poor.** If the pro-poor products were not embedded in an institutional system that puts poverty alleviation at its centre, the best-adapted products would fail. The following core challenges arise when one considers the institutional side of reaching the poor:

- Strengthening the leadership role of senior management in increasing the poverty focus of MFIs;
- Building a pro-poor organizational culture that promotes the social mission of fulfilment, rewards reaching the poor and creates a learning environment;
- Developing internal systems and tools to effectively target, attract and retain the poor;
- Reviewing risk and portfolio management techniques in order to establish a firm base for cross-selling more socially oriented products, non-financial services, etc.;
- Identifying all institutional risks and opportunities related to increasing the poverty focus of an MFI allowing managers to take better informed decisions.

To sum up, it is evident that there are many overlaps and synergies between the three main areas of interest in PFM: poverty assessment, products and services, and institutional systems. The action-research work should be undertaken simultaneously taking into consideration all the aspects of PFM. **Needless to say focusing on one area only will hardly contribute to generating genuine and sustained improvements in deepening the outreach of MFIs in the CEE and NIS region.**

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[1] Milanovic B., (1998), Income, Inequality, and Poverty during the Transition from Planned to Market Economy, World Bank, Washington, D.C.

Prizma's Poverty Assessment

With financial support from CGAP and the Ford Foundation funded Imp-Act Program, MCO Prizma Bosnia & Herzegovina contracted a research firm to carry out a poverty assessment of its clients in 2002. This assessment was the first of its kind in Bosnia-Herzegovina and the CEE-NIS more generally and marked an important initiative given limited research thus far to understand the character and extent of poverty in the region.

CGAP's poverty assessment tool (PAT) was used to assess the poverty level of clients relative to non-clients in the same community while a national omnibus survey was used to assess poverty more generally across the Country.

Among some of the key findings are the following:

- Poverty is widespread across Bosnia-Herzegovina.
- Poverty is particularly prevalent among ethnic minorities in each community, returnees and refugees, women, the elderly (pensioners), people in rural areas, and in many communities of the Federation and most of the Serb Republic.
- The character of poverty in the Country is complex, encompassing 'new poor', as well those with few assets and little or no education who are more typical of the millions of poor across the globe.
- While some regions have a greater concentration of poor people, given the ethnic and rural character of poverty in most communities, there are dramatic differences in poverty both between regions and within each region.
- Aspects of someone's shelter, which have proven critical indicators of poverty in the developing world, are only modestly correlated with poverty in many communities of Bosnia-Herzegovina, affirming that poverty and vulnerability is common among those with an important asset base but very limited and intermittent sources of income.

Part of a Broader Research Agenda

Findings from the poverty assessment are helping move Prizma along a continuum comprised of three critical objectives: (1) determining the relative and absolute poverty level of clients; (2) strengthening targeting of and service to poor and low-income clients; and (3) measuring change in the lives of these people over time. First, the poverty assessment indicated that **64% of new Prizma clients are among the 'moderate poor' and 'poorest' terciles in every community Prizma serves,** affirming that the Institution is reaching its mission-defined target group. Second, employing qualitative and quantitative methods, Prizma has sought to **better understand who is poor in the post-war and transitional setting** of Bosnia-Herzegovina. The poverty assessment highlighted areas of the country where poverty is most prevalent and, thus, areas and ways in which Prizma can strengthen its targeting. Such information has also helped the Institution refine its strategic position and re-engineer its performance management system—appraisal, reward, and communication—to more closely align employee interests and reward with greater depth of outreach, improved service quality, and the financial health of the Organization overall. Third, working closely with the MFC and members of the 'Microfinance for the Very Poor' working group under Imp-Act, Prizma is now developing an impact monitoring system that will enable the Institution to **report on poverty reach based on robust and meaningful indicators** rather than on average outstanding balance as a % of GNP per capita—a tired industry convention that has proven an easy but wholly inadequate means of gauging an institution's depth of outreach.

Looking Ahead

Prizma's steps in the coming 6-12 months include narrowing a strong pool of indicators drawn from qualitative participatory field research (PRA), the CGAP poverty assessment, and recent external research in Bosnia-Herzegovina, including a Living Standards Measurement Survey (LSMS), to a select few robust indicators. Prizma will then define ranges for these indicators, which should enable the Institution to (a) assess the relative poverty status of clients; (b) link indicators to the Country's poverty line to determine clients' absolute poverty status in the national context; and (c) link indicators to the $1/day (purchasing power parity) measure, to determine clients' absolute poverty status comparable in an international context. While such figures on their own will not reflect the complex and multidimensional nature of poverty, which is critical, they promise to enable Prizma to understand and demonstrate more clearly and on a regular basis the extent to which it is fulfilling its social mission.

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Assessing the Poverty Level of Microfinance Clients in the CEE and NIS Region

Recently the SEEP Poverty Assessment Working Group together with the MFC surveyed the current state-of-the-art method for assessing poverty of microfinance clients among CEE and the NIS practitioners. The most striking finding was that the majority of 41 MFIs who responded to the survey admitted that they did not have any holistic approach to poverty assessment. Furthermore, it is evident that virtually no institution uses poverty proxy indicators that can provide reliable information on poverty outreach of its interventions informing both the MFI management and external stakeholders.

Almost half of the MFIs attempt to measure the poverty level of their clients. As expected, those who provide a wider range of services are more involved in poverty assessment. Among those who provide exclusively credit for income-generating enterprise projects (most of the organizations in the mainstream microfinance movement) virtually no institution attempts to measure the poverty level of its clients. The smallest institutions are more often involved in poverty assessment.

Practitioners can rarely provide detailed classification of their current clients with regard to poverty level. Among the MFIs measuring poverty levels economic measures are most commonly used. Those MFIs that attempt to measure the poverty level of their clients expressed a strong need to develop methods based on non-economic measures. Consequently it might be said that practitioners need these poverty measures not only to report and compare quantitative data on their client poverty level but also to better understand how they can expand their outreach.

Source: SEEP/MFC poverty assessment survey among MFIs in CEE and the NIS, January 2003.

Winners of the 4th Round of the CGAP Pro-Poor Innovation Challenge

For the past five years the Consultative Group to Assist the Poorest (CGAP) has supported pro-poor innovations in microfinance through funding small grants to 10 MFIs each year, enabling the winners to develop financial products and methodologies for very poor or difficult-to-reach populations, reduce their vulnerability and increase their economic well being.

In 2002, out of 10 winners of the 4th Pro-Poor Innovations Challenge, two MFIs – Horizonti, Macedonia and Rural Finance Corporation, Moldova – operate in the region of Central and Eastern Europe.

We would like to present one of the winners -- Rural Finance Corporation from Moldova

RURAL FINANCE CORPORATION SAVINGS AND CREDIT ASSOCIATIONS (SCA) NON-CASH TRANSFERS PROJECT

With an ever-growing number of members, Moldovan village savings and credit associations operate with large amounts of money. Although bank accounts are used for depositing money, receiving and repayment of loans from creditors, cash transactions are an SCA's main tool for serving its clients. Borrowing large amounts of money from RFC, SCAs carry cash from their bank account into the village, lending these funds on to members. Upon repayment from members, temporarily spare resources are carried to the bank account to be deposited there or repaid to RFC on a loan contract.

The concern for security pushed the Rural Finance Corporation to think of alternative ways of bringing loans to villagers, which resulted in a number of fresh ideas. Among these was introducing non-cash operations in SCAs through bank transfers to members' accounts and through plastic cards. Thus, large amounts of cash would no longer be required; borrowers would be able to withdraw their loans individually from the nearest bank branch, and in several installments if needed.

The idea gave rise to a number of questions: Would it be convenient for borrowers to receive money in card accounts? Will they be satisfied with the need to travel to the nearest bank branch to pick up the money? Will they repay loans in time if asked to deposit the money in the card account instead of showing up in the SCA office with cash? Answers to these questions were provided by the borrowers themselves. First of all, they confirmed that only a part of the loan is spent in the village, while the majority is used for purchases of productive inputs outside the village - in nearby towns with higher trade concentrations, exactly where bank branches are located (2-10 km away). Money for loan repayment originates there, too, as farmers mostly do business in town markets or with companies also located there, and depositing money on account would not require additional travel.

The resulting non-cash transfers project won a funding award from the CGAP Pro-Poor Innovation Challenge initiative in 2002, and has been implemented since Sept. 1, 2002. The main objective of the project is to make SCA operations more secure, familiarizing SCA members and managers with modern banking technologies, as well as testing the technology on a wider scale in all SCAs needing these services.

Activities performed under the project include installing computers and communication tools in five village SCA offices, issuing bank cards to members of these SCAs, and training SCA management and membership in using new lending procedures. Instead of an initially projected five project beneficiary SCAs, an additional five SCAs were included in the project, contributing their own equipment and communication.

By March 15, 2003, equipment and communication has been installed in project SCAs, and a total number of around 1300 Maestro plastic cards were issued to their members. **In a short time, some 200 loans amounting to 1.83 million MDL ($130,000) were distributed to member accounts with no cash involved.** The first stage of the training has been conducted for both SCA management, including the Board and accountants, and SCA members. Further training will deal with the specifics of accounting for such transactions, installing or improving the existing MIS in the SCA.

As evidenced by representatives of SCAs which performed the first transactions of this kind, they were "surprised by how easy and safe it is to distribute large amounts of money to over 200 persons in just half an hour". The opinion of members who received loans on card accounts has generally been positive, saying "it created no problems with receiving cash from the bank branch or ATMs", and "it was fun to learn how the ATM works". SCA accountants were also satisfied, as paperwork reduced considerably.

Of course, this project is only the first step in the modernization of SCA operations in Moldovan villages, but it has already shown that the original idea of non-cash operations has been organically adopted by SCAs and their members, and could be successfully replicated in other SCAs in the country and even network-wide, should the necessary financing become available. Experience shows that the largest part of the operational costs of this technology could be at least partially covered by the leading and largest SCAs, addressing its sustainability. Training, to ensure an effective use of SCA resources, and the investment part of the costs not covered by SCAs, is still something that the donor community will have to take care of.

Moldovan savings and credit associations

Savings and Credit Associations (SCAs) in Moldova are legally registered non-commercial entities functioning under the Law on Savings and Credit Associations of Citizens. Their members are very small private farmers and rural entrepreneurs, joining the association on mutual guarantee principles. These new clients emerged as a result of land privatization in the country and represent the poorest segments of today's Moldovan population. They use micro-loans to finance seasonal agricultural activities, generating incomes to support their families. Final beneficiaries of their loans usually did not have previous access to financial services provided by banks due to their small size and lack of collateral.

Today the microfinance network in Moldova is represented by a large number of savings and credit associations of citizens, which reached 502 by March 2003, with a total membership of over 55,000 members, the majority being active members receiving loans from the SCA every year.

The World Bank Rural Finance Project in Moldova has been the initiator of SCA creation in the country. It was implemented in 1997-2001 though the Rural Finance Corporation, and has been one of the country's greatest interventions to reduce poverty. While the massive expansion of the number of SCAs has slowed, the membership in SCAs continues to grow at significant rates.

A typical savings and credit association today has 150 members on average, manages a loan portfolio of 255,000 MDL ($19,000), has an owner's equity of some 40,000 MDL ($3,000), and has two persons employed – a chairman performing the functions of the executive director, and an accountant. Around 60% of its members are women. In SCA management, women constitute an average of 46% of Board members, 36% of chairmen, and 84% of accountants. Some 70% of associations today have offices, mostly rented from local public administration authorities, state institutions or private persons. Communications with these SCAs are poor - only 4% of SCAs today have a telephone (not usually their own), and only 1% of SCAs have a computer, with accounting and documentation being done mostly manually.

Galina Cicanci, Analysis, Strategy & Mehodology Department, Rural Finance Corporation, Moldova

Rural Finance Corporation

Created in 1997 by first savings and credit associations of the Republic of Moldova, the **Rural Finance Corporation** (RFC) today has 283 associations as its shareholders. Although the RFC is a joint stock company, it is a classic cooperative-type institution, where the clients are at the same time owners of the institution. The main purpose of RFC activities is to provide to farmers and rural entrepreneurs access to rural financial services. In such a way, **the Corporation provides loans first of all to savings and credit associations of citizens, which lend funds on to their members.**

The methodology of accessing the poor includes the direct contact and mobilization into SCAs of those needing access to loans, involving NGOs for training and formalization of the group, and providing loan funds to the SCA for further on-lending. Direct loans are also provided to individual farmers and cooperative enterprises formed by them. Besides loans, RFC provides development support in form of loan-related training to SCAs and their members, consulting assistance related to their operational activity. **Rural Finance Corporation is a self-financed commercial institution, which fully covers operational costs from lending activities.**

On Nov. 28, 2002 the RFC celebrated its 5th anniversary. **In just five years, RFC provided some 76,625 loans, in a cumulative volume over 173.8 million MDL (about $14 million)**, covering a very specific niche of the financial market, represented by clients who had no access to financial markets due to the small sizes of their businesses and requested loans, insecure character of agricultural business and lack of collateral. In 2002 the RFC provided loans to 220 SCAs with over 27,000 members, totaling 65 million MDL ($4.8 million). In all five years RFC activities were profitable, accumulating equity that today allows it to participate in co-financing of projects implemented in Moldova by international financial organizations.

RFC partners include many well-known international organizations: the World Bank and CGAP, International fund for Agricultural Development (IFAD), US Agency for International Development (USAID) and its subcontractors and projects CNFA, BIZPRO and BoozAllen&Hamilton, UK Department for International Development (DfID) and its subcontractor Landell Mills Ltd, the World Council of Credit Unions (WOCCU), Swedish International Development Agency (SIDA), and local partners including the Government of Moldova, the Consolidated WB Agricultural Projects Management Unit, the Agency for Implementation of IFAD Rural Finance and Small and Medium Enterprise Development Project, State Supervisory Service for SCA activity, National Federation of SCAs, development and consulting organizations such as Rural Development Center (RDC), Alliance for Cooperation in Agriculture (ACA), the Agency for Consulting and Training in Agriculture (ACSA).

RURAL FINANCE CORPORATION, FIVE YEARS OF GROWTH

	1998	1999	2000	2001	2002
Value of loans made US$	0.48 mln	1.2 mln	2.48 mln	4.33 mln	5.1 mln
Assets US$	0.71 mln	1.32 mln	2.94 mln	4.78 mln	5.7 mln
Capital US$	0.13 mln	0.19 mln	0.43 mln	0.59 mln	0.81 mln
Net profit US$	0.12 mln	0.13 mln	0.26 mln	0.20 mln	0.23 mln
SCAs serviced	53	148	159	200	220
SCA members serviced	2 893	9 595	14 600	22 000	27 000
Non SCA enterprises serviced	-	-	-	-	46
Shareholders	11	34	119	176	283

Winners of the First Round of the CGAP/IFAD Rural Pro-Poor Innovation Challenge

In 2002 CGAP's Pro-Poor Innovation Challenge (PPIC) was transformed into the 'Rural PPIC', a partnership between IFAD (the International Fund for Agricultural Development) and CGAP (the Consultative Group to Assist the Poorest) to support pro-poor innovations in rural areas and microfinance. One of the biggest challenges facing the microfinance industry is developing financial products and methodologies for very poor or difficult to reach rural populations, reducing their vulnerability and increasing their economic well being. Through the Rural PPIC, IFAD and CGAP are seeking to provide timely and flexible funding awards to promote microfinance innovation that deepens rural poverty outreach and impact.

Among the ten winners of the first round, four MFIs operate in the region of Central and Eastern Europe and the New Independent States.

Kyrgyz Agricultural Finance Corporation

Kyrgyz Agricultural Finance Corporation (KAFC) is a financial institution established in 1996 by the Government of the Kyrgyz Republic and the World Bank to serve newly emerging private farmers and rural enterprises. KAFC was intended as a temporary institution that would serve the rural sector for a limited period of time and then be absorbed into the commercial banking sector.

KAFC was designed to function primarily on a commercial basis — extending credit based on rigorous financial appraisal, taking full collateral, and fully covering its cost of funds, administrative margin, and provisioning with its on-lending rates. It was also intended to develop a group lending program aimed at reaching groups of farmers who could offer joint and several liability (i.e. social collateral) in lieu of physical collateral. Since its creation, KAFC has established itself as a major financial institution with a well-developed regional network that provides working capital and investment loans predominantly to agricultural borrowers. As of today, KAFC loan portfolio is more than 1 billion Kyrgyz soms ($21 million)and the repayment rate is about 95%.

In its activity KAFC conveyed a strong feeling to all its clients that the loans really have to be repaid. But poor people have no collateral and no access to any financial services. At present, KAFC carries out the non-collateral group lending in close collaboration with the United Nations Development Program (UNDP) and the Rural Advisory Development Services Fund (RADSF), but **under the Rural Pro-Poor Innovation Challenge project KAFC would like to attract the local NGOs from the poor mountainous and remote areas. KAFC will select the most successful non-governmental organizations in order to use them as intermediaries to reach the poor population.**

In addition, KAFC intends to initiate **microsavings as an innovative product to develop in the rural areas** of the Kyrgyz Republic. In order to deepen rural poverty outreach the savings will minimize the risks of poor clients and allow them to accumulate free funds in the future. The first stage will be to determine poor rural and remote pilot areas where the microsavings will be implemented. Part of the project funds will be used for the training of KAFC staff and possible NGOs. In the second stage special hardware and software will be provided to KAFC staff in order to carry out accounting operations focusing on rural poor areas and extremely poor populations. KAFC will develop supply methodology, such as Guidelines on Microsavings to teach the KAFC staff, NGOs and poor farmers how to save free funds and in the future accumulate them and re-invest them into viable businesses. Finally microsavings will increase the benefits of extremely poor people, reduce their vulnerability and increase their economic well being.

Baktygul Jeenbaeva, Executive Director, Kyrgyz Agricultural Finance Corporation, ***kafc@infotel.kg***

Mountain Areas Finance Fund, Albania

MAFF provides financial services to those in remote highland areas with little access to financial institutions, by targeting isolated villages and adapting services to the needs of the people. **The RPPIC award will be used to expand their geographical outreach, and to support the provision of a more diversified range of products.**

Moldova Microfinance Alliance

MMA operates in small, rural villages, establishing and supporting Savings and Credit Associations. **RPPIC funds will be used to extend these associations into 3 new locations, and to install cash machines in the 20 best-performing SCAs, linked to their partner commercial bank.**

Microcredit Agency Bai Tushum Financial Foundation, Kyrgyzstan

Bai Tushum targets rural businesses from disadvantaged segments of the population that are engaged in agriculture or service industries. **The RPPIC award will be used in the development of a new product targeting disadvantaged women working in the dairy industry, providing loans to individual women to purchase milk cows and to groups of women to buy equipment necessary to successful operation in the dairy industry.**

Projective Techniques – Keeping your Clients' Minds Open

The focus group discussion (FGD) methodology (both driven by discussion guide and participatory rapid appraisal tools) has recently become very popular among microfinance institutions (MFIs) in their market research efforts. A common agreement exists that FGDs are very effective in getting a better understanding of the cognitive and behavioral aspects of attitudes. They allow for the exploration of clients' behavior and attitudes in far more depth than quantitative research does. For example, a focus group discussion with a use of product attribute ranking PRA (participatory rapid appraisal) tool is very helpful in studying clients' expectations toward the product.

However, even the most enthusiastic advocates of PRA tools and FGD discussion guides are aware of the fact that, if used alone, they are insufficient to provide reliable information on ticklish subjects or to capture emotional aspects of an attitude toward a brand. Moreover, in some cases they may not manage to break some cultural constraints toward expressing negative opinions or anxieties. This may be especially painful in microfinance, where MFIs very often have very limited possibilities to provide the "ideal" environment for conducting the research. For example, to reduce costs, recruitment is often done by loan officers and/or the research is conducted at the institution's premises, which may further constrain clients in free expression of their fears and negative opinions thus biasing the results. In such situations, **projective techniques** are of much help. They are also very powerful in the brand image studies which although important are currently rarely undertaken by MFIs.

The projective techniques were "borrowed" by market researchers from psychology, psychiatry and sociology to capture subconscious information.

The following projective techniques are most commonly used in market research studies:

- **Chinese portrait** (personification) – the respondent is to imagine a brand as a person and describe it. This technique is very useful for discerning a brand image and attitude toward a brand.
- **Brand Party Game** – the respondent is to personify brands and imagine a party with their attendance to find out brand attributes and relations between them.
- **Test of incomplete sentences** – the respondent is to complete unfinished sentences. It enables the verbalization of the very first associations related to a product. Usually the very first associations determine the whole image of a brand or a product and in case of new products influence the intent to use it.
- **Cartoon balloons technique** (bubble test) – the respondent is to react (in the bubble) to opinions of the persons presented in the comics. This technique enables the identification of hard to verbalize or unconscious motives of product rejection as well as fears and anxieties connected with a product. This technique is a modification of the previous one.
- **List of adjectives** – the respondent is to write down adjectives he/she associates with the brand or with the product. This technique enables for the study of brand image at the rational (and sometimes symbolic) level. It is very useful for warming up participants.
- **Users' image** – the respondent has to choose a picture from a photo set. The pictures represent different individuals out of whom the respondent chooses one that in his/her opinion is a user of a certain brand and describes him/her. This technique enables the attainment of in-depth information about brand image and drivers to choose or reject a brand.

Although there is a lot of valuable in-depth information that can be obtained through application of the projective techniques, there are a few traps in their use and analysis. First of all, recruitment of individuals who are open minded, imaginative and eager to express opinions in group settings is crucial to success. Secondly, the moderator must be aware that better-educated respondents might see through his/her intentions and will not give honest opinions. The moderator has to be both experienced, sensitive to group tensions and skilled to introduce techniques in the right way or with good timing to ensure proper group dynamics. Thirdly, during the result analysis, it is very important to consider the whole context of the information provided using projective techniques (this is especially important in the case of self-completion sheets) not to omit and misinterpret some information.

To dispel doubts about the projective techniques application in microfinance, the MFC has recently conducted a market research study in cooperation with the Foundation for the Development of Polish Agriculture, Rural Enterprise Program (FDPA REP), to put some of the techniques into practice. The MFC and FDPA REP were interested in getting better understanding of the FDPA REP clients' financial needs, their perception of the currently offered products along with conducting an in-depth study of the institution's image and clients' anxieties connected with loan taking. To address the research objectives, a mix of different techniques and tools was applied. Among different PRA techniques and discussion guide-driven FGDs, the research team made use of the **cartoon balloons technique** and **test of uncompleted sentences**. As for technical note, the sentences in the "test of completing sentences" were put in logical order so that they would not suggest answers. One sentence was put on one page. The same principles were kept in case of "cartoon balloon technique".

The comics' pictures were taken from Webdings symbols available in Word. The bubbles were drawn with the help of the World auto-shape function.

The main reason for selecting these techniques was to investigate the issue of the loan perception among clients based on the assumption that Poles feel very uneasy talking about taking a loan and have problems with freely expressing these anxieties in front of a group (traditionally, taking a loan has been considered to be something shameful).

To discern the emotional attitude towards FDPA REP and its image, **the user's image** projective technique was used. During the preparation phase, the greatest challenge was to choose an appropriate set of photos. A badly selected set may be a big obstacle in effective use of this technique, which is why special attention was given to this issue. The main obstacle was that photos at our disposal (internet, magazines) mainly show famous people who cannot be chosen in a photo-sort set. Finally, internet faces' banks were found to be a great solution, where eight photos were chosen. The selected pictures represented different character types: women vs. men, active vs. passive, well-off vs. poor. During the study, the respondents were asked to describe a person in the picture talking about his/her opinion about the loan and reasons for taking it. Answers to these questions provided a lot of valuable information that served as basis for analyzing the FDPA REP image and drivers to join the institution.

The result analysis of both focus group discussion and projective technique has proven that the decision to use projective techniques was a good one. To start with, the projective techniques brought some surprising results on loan perception. Some of these opinions were not expressed during the group discussion itself, which confirmed the assumptions about the respondents' unwillingness to talk about their anxieties connected with taking a loan. Additionally, the individual projective techniques enabled deeper insight into the information obtained during the group discussions. The cartoon balloons technique and test of uncompleted sentences were also excellent for warming up the respondents.

The key to success was a good selection of photos for the photosort that fit the cultural context well. Moreover, similarly as in the case of any qualitative research, the essential issue was a good group composition. Ensuring homogeneous groups is very important to make sure that the respondents' attitudes are the manifestation of a similar needs intersection. Another lesson learned is that the use of projective techniques requires much flexibility on the moderator's side. He/she must be ready to withdraw the technique and change the subject or look for various, very often innovative, ways to motivate respondents to play. During the MFC – FDPA REP study, the research team encountered some problems related to this issue. Some respondents initially felt uneasy when the projective technique was introduced because they weren't used to such situations. For example, in case of the user's image, some complained that they do not know the people in the picture and that is why they are not able to say a word about them. In this situation, the moderator tried to convince them to use their imagination or/and to treat it as a game. In some other cases, respondents started to express judgmental opinions about each other's visions and the moderator had to politely remind them that everybody's opinion counts and the point is not about judging one another. Again, a good introduction to set the stage for the focus group discussion, including agreement on some rules beforehand, proved to be very important. Regarding the moderator's flexibility, in one case the moderator had to withdraw the projective technique since one of the respondents started to talk about his own experience and didn't want to describe the person in the picture. The others wanted to follow him and there was no point in pushing the participants.

The MFC, encouraged by the successful pilot-test implementation and the study results, decided to enrich its own internal market research system with projective techniques. It is hoped that it will help to better understand the needs and expectations towards MFC and improve services to meet the needs even better.

For more information about projective techniques contact Dorota Szubert ***dorota@mfc.org.pl***

If you want to learn more about the projective techniques, please sign up to the next "Introduction to Client Assessment" training course that reviews different client assessment methods with the projective ones among many. Please see the course schedule or contact Agnieszka Pyziel, Training Coordinator ***agnieszka@mfc.org.pl***.

"Get Into Action!" A Glimpse at the Action Research Methodology

You are looking for your daughter's shoes during the early morning scramble. You review previous historical data (memories of earlier experiences!) as part of planning your research design. You generate several hypothesis and move quickly to the field to involve other participants (your daughter and another sibling) and gather new data to test them. Observation and brief interviews result in reports of failed hunches (the shoes weren't in their cupboards or on the back veranda)! You engage in further open-ended interviews with the entire population (of your household). Then secondary analysis (of the previous day's timetable) generates a further hunch (Sports Day - shoes replaced with runners). Another round of observation reveals that the shoes are in the school bag!

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This everyday example reflects well the most natural process of the human way of learning: "learning by doing". This process is a three-step spiral process of :

1. PLANNING - which involves reconnaissance
2. TAKING ACTIONS
3. FACT-FINDING about the results of the action

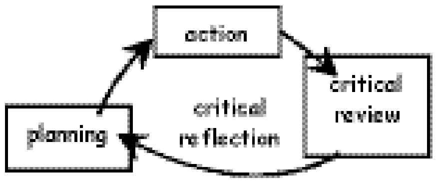
The same process of learning concerns **ACTION RESEARCH**. The type of research that focuses, as the name suggests, both on action (doing) and research (understanding). The only difference is that the same process is more formalized and thus effective than the everyday learning one.

A fundamental idea of action research is that it is focused on the problems of a group, community or an organization. Its main purpose is to assist people in extending their understanding of their situation and thus resolving problems they face. Its role is not to produce another report that will end up covered by dust on a shelf, but to come up with an innovative solution.

Unlike typical academic research it doesn't start with a precisely defined problem or question, but is refined throughout a flexible cyclic process, in which each phase further determines and brings the participant closer to the solution.

As in the example above, one does something, checks if it works as expected, and if not, then analyses what might have gone wrong and the action is repeated.

Action research is by definition participatory as it involves action that verifies the research question or a certain problem in the field. Through this approach, both researchers and research participants are taking part in the learning process, are involved in it to a similar extent and pool their efforts, experience and knowledge to come up with the best solution. This allows for the bringing together of different competencies and perspectives and ensures



Characteristics of Action Research

- Is designed by and for practitioners (MFIs)
- Is problem-focused, context specific and future-orientated
- Involves a change intervention
- Involves a cyclic process in which research, action and evaluation are interlinked
- Promotes reflection and self-assessment
- Empowers its participants
- Contributes to wider understanding of issues/problems that can be useful to others
- Aims at improvement and innovation

3-Step Spiral Process (example with shoes)	1st round	2nd round	3rd round
1. PLANNING	*Based on your memories and earlier experience plan to interview the daughter and sibling*	*Plan to interview other household members*	*Based on the information about the previous day's sport day, plan to check out the school bag*
2. TAKING ACTIONS	*Interviews*	*Interviews*	*Checking*
3. FACT-FINDING	*Assumptions failed – interviewed state: "no shoes in the cupboards and on the back verandah"*	Previous days memories, but no hints where the shoes can be	Shoes found!

that the final product will not be an outcome of the "art for the art's sake" exercise, but led by and for the practitioners it will be useful and operational.

For the last two years the Microfinance Centre for CEE and the NIS has been implementing action research projects in the area of client assessment with eight microfinance practitioners from the region. Usually, the projects start with a kick-off meeting during which the action research participants have a chance to get to know each other better and learn about the state of the art in the particular research area in order not to "reinvent the wheel". Based on this, they conduct a diagnosis about their institutional situation and problems. The diagnosis serves as a basis for developing an action plan that helps them implement "actions" in the field as well as employ methods institutionalizing the learning process in their organization.

Throughout the implementation the MFC assists its partner MFIs in their action research efforts either through helping them reflect on what has been learned (discussing current activities and their outcomes) or/and help them with taking action by providing technical assistance where needed. Every year, the practitioners meet to share experiences, reflect on their actions so far, modify the plans and set goals for the next period. Through such an approach they are action research leaders – they address problems/issues relevant to their institutions, make sure that the solutions are operational and the lessons learned are widely disseminated throughout the institution, speeding up its internal learning processes.

SEEP PLP (Practitioner Learning Program) is implemented by the MFC in cooperation with the MDF Kamurj in Armenia. The two-year (November 2002-October 2004) project focuses on creating an effective client tracking system for the **MDF Kamurj**, but also contributes to enhancing regional industry knowledge about client assessment in the following areas:
- 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?

ImpAct is a three-year action-research program designed to improve the quality of microfinance services and their impact on poverty through strengthening the development of client assessment systems.

Building on the priorities and agendas of microfinance institutions (MFIs) and their clients Imp-Act is designed to develop credible and useful client assessment. The program seeks to empower organizations to be more proactive in developing their own learning systems, both to inform internal decision making and to satisfy the requirements of external stakeholders.

Phases (2000-2004):
- Participatory Planning Process (September 2000-March 2001)
- Background Training in Client Assessment (September 2001)
- ImpAct Regional Meeting (September 2001)
- Fieldwork (September 2001-December 2003)
- ImpAct Regional Meeting (May 2002)
- ImpAct Regional Meeting (June 2003)
- Results Dissemination (January 2003-March 2004)

Participating MFIs:
Demos (Croatia); Prizma, Partner, BosVita (Bosnia and Herzegovina); FORA (Russia); Inicjatywa Mikro (Poland); Integra Foundation (Slovakia)

The possibility to share ideas with other practitioners and access to "fresh" industry knowledge help them to become pioneers of the new approaches, systems, products, mechanisms and innovative solutions that become their great competitive advantage. Once the project comes to its end the research findings are distributed to the wider industry and can be used by other MFIs. The industry can follow the process they have gone through while new regional pioneers start experimenting in response to new opportunities …

For more information about the MFC action research projects please see ***www.mfc.org.pl*** *under the Research Section and/or contact the MFC at* ***microfinance@mfc.org.pl.***

Innovation in microfinance through product/service differentiation at DEMOS

DEMOS is a nationally registered Savings & Loan Cooperative in Croatia, whose mission it is to provide economic opportunities to those without access to formal financial services. DEMOS fulfills this mission by offering sustainable, market-oriented financial and non-financial services throughout Croatia. DEMOS was founded by the international NGO ICMC that also created Prizma in Bosnia as well as KEP in Kosovo, the largest microfinance provider there. To-date, DEMOS has disbursed over 1.3 million Euros in loans to over 1,200 clients since July 2000, two thirds of whom are returnees to former war affected areas. DEMOS has achieved an on-time repayment rate of 98% and covers 68% of costs.

The main thrust of activity centers on the delivery of micro-credit, however in the last year this focus has expanded to include SME lending and business development services for agriculture that strengthen market linkages and enhance business capacity. Economic opportunities exist in agriculture, as the country remains dependent on imports for several basic products, notably meat and dairy. However in part due to its proximity with Western European countries, andTito's unique brand of communism, Croatia's economy is already relatively sophisticated and fairly market-based, unlike many of its Eastern European neighbors. This has created more employment alternatives for people, and furthered the negative perception regarding the field of agriculture. Farming has also been made more difficult due to legal issues related to land ownership.

DEMOS' activities

1. Group micro loans: while DEMOS started its activities with a single group loan for all areas, it became quickly apparent that **rural areas concentrate pockets of deep poverty with no infrastructure and little employment prospect.** DEMOS realized that these areas required a special type of loan product and delivery. DEMOS was the first MFI in the region to pilot test the market research MicroSave tools in July 2001 in order to determine how to best modify its products and deepen its outreach. In September 2001, DEMOS designed, pilot tested and rolled out a **new loan specifically for cows as well as a loan product for other agricultural activities.** It is worth mentioning that to-date, DEMOS has mostly disbursed loans for animal husbandry while very little capital has gone to agricultural crops. These products were tailored to the exact price of cows on the market as requested by prospective applicants. The impact of this loan product on outreach and demand has been significant in a very short period of time: **within a few months, these loans went to representing 41% of the outstanding portfolio prior to the introduction of the new loan product, to 72% after its roll-out, while portfolio at risk since then has remained at 0% consistently on this portfolio.**

2. SME loans: DEMOS noticed in early 2002 that an **untapped market existed for relatively larger loans in the agricultural sector.** While DEMOS was initially under the belief that larger businesses would have access to the well-developed banking system, it soon became clear that this was not the case. Lack of acceptable collateral for banks and remoteness of the areas under consideration implied that **while this second target group was not poor per se, it still was under-served and the businesses there unable to grow.** DEMOS decided to develop another loan product to serve this portion of the market, with the hope that downward linkages would be created with the existing microloan clients. The SME loan is offered up to $12,000. This product has allowed DEMOS to retain some of its larger clients, who otherwise would have struggled to transition to a bank, or other formal lender. **DEMOS has thus far substantially surpassed its targets for SME lending (6 pilot loans), and is considering making this product a core pillar of its future activity.** To-date, DEMOS has disbursed 25 SME loans and is planning many more. Typical loans in this sector include dairy, vegetable production and pig raising entrepreneurs.

3. Agriculture-related Business Development Services (BDS): while DEMOS has done well in establishing systems, controlling delinquency, and becoming relatively efficient, it must also seek alternative market channels. **The key to sustainability for DEMOS lies in differentiating the services it provides in rural areas.** In this way, DEMOS is becoming a sustainable, market-oriented provider of micro-credit, and staying true to its original mandate of assisting the working poor in the rural war affected areas.
Facilitation: given that BDS services are expensive and require expertise, DEMOS seeks to 'outsource' much of them. In doing so, **DEMOS develops critical partnerships with the sustainable business cooperatives and other BDS organizations.** As an example, DEMOS is partnering with a BDS organization to disburse loans for piglets to thirty farmers. The organization will help farmers raise a certain breed to a specific weight with specific feeding requirements so as to obtain high quality pigs. The pigs will then be sold to several prosciutto processors in the South of Croatia, therefore not only sustaining farmers and processors, but also revitalizing the market linkages.
Direct Provision: whenever demand for market linkages from clients is very high and no other organization is filling this niche, **DEMOS moves into designing and implementing its own services.** For instance, DEMOS is incorporating a transportation service into its loan product for cows given that 72% of DEMOS' active clients are dairy farmers who would like to expand their herd, but face difficulty in finding high quality cows. DEMOS brings together buyers and sellers of cows, and incorporates the cost of this service into the loan product. By linking farmers to sources of high quality cows and simultaneously providing access to financial services, DEMOS generates additional loan volume and improves client retention. In the future, **DEMOS will explore the possibility of serving a larger geographic base of the country while potential specializing in agricultural lending or even becoming an agricultural bank.** These next steps will be discussed in the coming months as DEMOS shifts its governance from donor control to board driven.

DEMOS will strive to remain an innovator in microfinance and remain client-driven. What will not change at DEMOS is its core mission of providing economic opportunities to those without access to financial services.

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Turning an NGO into a Bank

Year 2002 saw the emergence of three microfinance banks that were transformed from NGOs.Two NGO partners of Opportunity International - Moznosti Bank Macedonia and Opportunity Bank Montenegro – and XacBank, Mongolia became full-service commercial banks dedicated to serve micro- and small businesses with a range of products and services.

XacBank A MEMBER OF XAC-GE GROUP

XacBank, Mongolia

XacBank, a member of XAC-GE Group, was created in the fall of 2001 as a result of the merger of two largest Mongolian non-bank financial institutions (NBFIs), Golden Fund for Development (X.A.C. Co. Ltd.) and Goviin Ekhlel. The merger marked the start of a new trend in the business and financial landscape in Mongolia. Besides being the two largest NBFIs, X.A.C and Goviin Ekhlel occupied the leading positions in micro and SME lending segments of the financial market respectively.

XacBank has already become financially sustainable, working in both urban and isolated areas in one of the least densely populated countries in the world. The Bank conducts universal banking operations with a special focus on markets without a prior access to financial services e.g. low-income and/or remote rural populations. **Currently they have 33 branch offices throughout Mongolia and an average loan size of approximately $466.**

The merger helped each organization to access the other's market's both in geographical terms as well as market segments (microlending vs. SME lending). It also allowed them to meet the minimum capital requirement as set by the Central Bank of Mongolia to register a commercial bank.

Transformation

While NGO's tend to wait for several years before they think about transforming into formal financial sector institutions, this decision was made at the outset of operations. The **merger of two NBFIs and simultaneous transformation into a commercial bank with a social mission (from purely lending operations) is an event without a parallel in the industry.**

The merger helped each organization to access the other's market's both in geographical terms as well as market segments (microlending vs. SME lending). It accelerated the ability to meet business plan objectives for providing access to capital. Also the merger allowed them to meet the minimum capital requirement as set by the Central Bank of Mongolia to register a commercial bank.

Transformation into a commercial bank offered the following benefits for XacBank:

- Ability to fully pursue the mission and provide a full range of financial services to their markets;
- Experimenting with the belief that savings is a more powerful tool to sustainably fight the poverty;
- Access to local sources of funding and less dependence on highly volatile international investors or local interbank markets;
- More attractive and competitive to clients as a place that offers good range of financial services at high quality of service.

Capturing Commercial Sources of Financing

Growth of lending activities for the first six months of operations was financed mainly through short-term commercial liabilities from local banks. The decision was made to hold off on mobilizing other types of funding until the installment of the new MIS. The annual audit was performed by NIMM audit with unqualified opinion, setting the stage for further investment. The audit followed CGAP micro finance audit guidelines. The Bank now is actively pursuing a policy of attracting strategic international investors. IFC, Dexia Blue Orchard and Deutsche Bank Microcredit Fund are all new financing partners. XacBank has also started cooperation with the Employment Generation Support Fund of Mongolia, which has resulted in significant new portfolio financing. With CGAP support, an international advisor worked on the establishment of treasury functions at XacBank. His involvement in negotiations with international funders was crucial. As a result of the successful expansion of foreign relations, the organization has been able to make positive changes in the structure of the Bank's commercial liabilities. Upon completion of negotiations with foreign partners, mid and long term commercial liabilities will increase significantly. After taking on these commercial liabilities, however, projected capital adequacy will remain above 50%, thus maintaining the under-leveraged position of XacBank. XacBank has also issued short-term commercial notes which were sold through private placements on the local market for the first time in Mongolia to support portfolio growth. All the branches began offering savings and transfer services at the end of the 2nd quarter of 2002. **The Bank currently has 8,880 current account holders, 95.7 percent of whom are clients who have credit history with the organization. There are also over 3000 savings account holders.**

Constant Innovation

XacBank has introduced and experimented successfully with an on-site salary payment service for its clients. Also, standing order and overdraft services on the current account and demand deposit were successfully tested in one branch office. The Bank has introduced a children's long-term savings product.

In order to attract more deposits, they have introduced a three month fixed deposit product with competitive interest in all branches. Finally, the group acquired super majority stake in NetMon Inc. – the country's only wholesale lender to savings and loan cooperatives through which financial services could be delivered to furthest corners of the country and to herder communities.

OPPORTUNITY BANK MONTENEGRO

The Opportunity International (OI) Network received a grant from USAID to establish a Montenegrin NGO devoted to serving the needs of small business entrepreneurs. Microcredit Montenegro (MCM) was established in June 1999 as an NGO, with the long-term goal of capitalizing into a commercial bank. The NGO began lending one month later.

MCM's primary target was **entrepreneurs or farmers** who lack the financial means necessary to develop their business. **MCM provided both individual loans and two types of solidarity group loans to start-ups and existing businesses in each business sector; trade, service, small production, and agriculture.** Within one year, Microcredit Montenegro developed into a national-scale financial institution.

Because MCM has always operated under the assumption that the NGO was actually a business, the aim was to achieve profitability in the shortest possible time. For MCM, that meant disbursing more loans and maintaining excellent portfolio quality. **High growth of the portfolio enabled MCM to become profitable after the fourth month of operations**. Profitability, the long-term vision to transform into a commercial bank, internal staff capabilities, and the demands of the existing clients lead MCM to begin the transformation process in 2001.

Opportunity Bank Montenegro (OBM) was licensed in April 2002 and began operations in July of that year. The Bank remains devoted to serving micro businesses, but now offers a larger SME loan package to clients whose businesses support larger loans. In addition to loan products, the Bank offers demand and term deposits and international money transfers. The Bank expects to offer its clients additional products and services in the future.

MCM's transformation process, which began in 2001, was undertaken in co-operation with Opportunity International in order to create the procedures and manuals for use in other institutions planning transformation. **Areas of major investment included the computer system and bringing in technical expertise on human resources, banking operations, SME lending and deposit mobilization.** Also, there were high costs involved in renovating a new head office location and three new branch premises, installing required vaults and security equipment, hiring additional staff, including guards, and implementing new procedures.

MOZNOSTI BANK, MACEDONIA

Moznosti was established by Opportunity International (OI) as a not-for-profit humanitarian association in March 1996 to assist Macedonian citizens in the development of their entrepreneurial activities through the provision of micro credit facilities. Moznosti was the first MFI in Macedonia and has received approximately $6m in grants from USAID, successfully consolidating its position as the country's leading MFI. **In May 2000, Moznosti converted to a Savings House (SH) as a step towards becoming a full-service bank.** However, until recently continual changes and ambiguity in the banking law, coupled with an increased tax burden resulting from the civil conflict in 2001, contributed to delaying the application for a bank licence. **In July 2001, the National Bank of the Republic of Macedonia (NBRM) conducted a full-scope examination of SH Moznosti, finding it to be the best-capitalised savings bank in Macedonia.** The loan portfolio was evaluated as being highly dispersed and of good quality.

Amendments to the banking law in June 2002 (which became effective on 1st January, 2003) relaxed previous restrictions on ownership (a minimum of two shareholders are needed, not three), and the Savings House may now be transformed into Moznosti Bank without having to be liquidated. **Today, at the beginning of 2003, Moznosti is finalising a new business plan and policies for its licence application to the NBRM, restructuring its organisation, implementing new MIS,** and so on. Moznosti Bank will be governed by representatives from OI and Moznosti (its two shareholders) and OI has provided a full-time expatriate bank CEO to work alongside Moznosti's Director, Snezana Andova, during and in the period immediately after the transition. As of 31st December, 2002, Moznosti had 2,616 active clients and loan portfolio outstanding of $4.3m, disbursing 2,058 loans in 2002 valued at $5m. The key challenge facing Moznosti is to maintain its high profile and competitive advantage in Macedonia, while successfully transitioning to a full-service bank during the course of 2003.

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Microfinance in Azerbaijan

Background

The origin of microfinance in Azerbaijan may be traced to "perestroika" when, for the first time since Lenin's short period of "new economic policy" at the beginning of the 1920s, Soviet authorities decided that the development of private entrepreneurship was not hostile to socialism and started to provide loans to develop small businesses. It proved wrong: Socialism along with the Soviet Union itself vanished. However, with the fall of the state the necessity to return state loans disappeared as well.

The following period of turmoil and the gradual transition to a market economy did little, if anything, to improve financial discipline in the sphere of microfinance. To further worsen the situation, some international relief organizations that came to Azerbaijan in response to the humanitarian crisis caused by the war with Armenia over Nagorno-Karabakh, began providing microfinance services. These organizations, more familiar with typical relief situations, did not follow "best practice" microfinance and their eventual failure furthermore deteriorated financial discipline.

Microfinance started to become more rigorous in 1997-1998 with the arrival of international NGOs such as FINCA, ADRA, and Shorebank.

These NGOs, who are microfinance specialists with programs worldwide, launched microfinance programs in Azerbaijan. These programs helped spur other "best practice" microfinance institutions. During the past 5-6 years the number of microfinance institutions (MFIs) in the country has steadily increased making it one of the more active participants in the process of economic development.

The activities of MFIs in Azerbaijan contributed to the economic development within the framework of poverty reduction strategy. Currently, altogether, MFIs in Azerbaijan cover about 40 regions out of 70. **The number of active clients is more than 22,000. So far, MFIs in Azerbaijan have contributed to poverty reduction in the regions by provision of microfinance loans exceeding $30 million to its vulnerable population.**

For some regions, such as those located close to Nagorno-Karabakh where the majority of Internally Displaced Persons (IDPs) are, or for Nakhchivan, which as an autonomous exclave is isolated from the rest of the country, microfinance programs are crucial in satisfying the basic needs of the people.

Policy

The majority of microfinance institutions use the solidarity principle to issue loans to groups of clients. In group lending the number of clients within the group varies from three to 25 though most groups have 10 to 15 people. Most organizations follow mixed gender policies, though there are some that think that separate-gender policies are more effective. Overall, female participation in microfinance has been quite successful. In some programs, 80% of clients are women.

For solidarity group loans the minimum loan size fluctuates from organization to organization depending on the type of business, varying from $50 to $250. The maximum amount of the loan is $30,000. As reported by MFIs working in Azerbaijan, the average repayment rate is 98-100%.

However, some MFIs, such as ADRA in Nakhchivan, complement group solidarity with collateral. The range of collateral is very broad – from jewelry to livestock to household items to real estate. The law requires the registration of collateral and registration fees vary depending on the total amount of collateral. For the value of collateral up to about $2000, the fee is $10; between $2000 to $5000, $22, and above $5000, $62. ADRA reached an agreement with regional authorities to register collateral at the ADRA's office without the need for notary services. Otherwise, paying a $10 registration fee for loans starting at $200 would be too expensive.

Among AMFA members the rates of interest on declining capital vary from 1.5% to 5% and for flat rates from 1.5% to 4%. The lending periods are closely linked to the business plans and vary from 1 to 24 months. In turn, the target population depends on the philosophy and vision of the particular organization. For instance, some organizations like ACDI/VOCA have focused on local populations while others, such as FINCA, Normicro LLC, Oxfam - "Finance for Development ", Save the Children, and World Vision targeted refugees and Internally Displaced Persons and locals. Some, like ADRA and IOM functioning in Nakhchivan or NHE operating in the second largest city Ganja, work in one selected area. IOM, in addition, in following its institutional mandate, focuses on seasonal migrants and potential migrants.

Azerbaijan Micro-finance Association (AMFA)

While there is competition between many of these MFIs, common interests such as the necessity to improve the overall environment for microfinance in the country, dissemination of best practices, and support in solving problems shared by all MFIs, along with a still large untapped market, have lead to increased cooperation. One example was the First Azerbaijan Microfinance Conference held in Baku in October 2001, which was organized by a number of MFIs. As a result of this conference, in December 2001 nine local MFIs with the support of international NGOs and Mercy Corps-Azerbaijan established the Azerbaijan Microfinance Association (AMFA).

There are currently 11 AMFA members, 10 of which provide direct microfinance services, including the original nine members ACDI/VOCA, ADRA, FINCA, NHE, NRC, OXFAM, IOM, SCF, and WVI, plus Mercy Corps, which, by the virtue of being the umbrella grant manager for Azerbaijan Humanitarian Assistance program (AHAP) channels USAID funds to two microfinance projects managed by Save the Children and ADRA . The last member is the Danish Refugee Council, which joined AMFA in January 2003.

Besides AMFA members, microfinance services in Azerbaijan are currently provided by Shorebank, Azerbaijan Microfinance Bank (AMFB), the Agricultural Development and Credit program created by the Government of Azerbaijan with the loan taken from the World Bank, and the Rural Investment Foundation (RIF) LTD, a non-banking credit institution financed by EU. Shorebank, AMFB, RIF are, in many ways, acting as banks rather than microfinance institutions. Many AMFA members, such as ACDI/VOCA, also share similarities with banks in that they offer individual lending services. AMFA members have provided several thousand dollars worth of individual loans.

Challenges

The major problem facing micro-finance in Azerbaijan is that there is no special law on micro-finance in the country. Therefore, all micro-finance activities are regulated by the Civil Code and the "Law on Banks and Banking Activities". To conduct micro-credit activities an institution has to obtain a license from the National Bank; the issuance of which is governed by the Regulation of the National Bank. This regulation requires that to get a license an institution should first be registered as a legal entity with the Ministry of Justice.

However, an "amendment" made recently to the "Law on B&BA" says that along with political parties, state agencies and local authorities, "non-commercial organizations cannot create credit organizations" (Article 16.1). In turn, the Civil Code of Azerbaijan lists non-commercial organizations (public unions and funds) as non-governmental organizations (Article 3 of the Civil Code; "Law on NGOs (Public unions and Funds)" of June 13, 2000). Thus, this amendment does not allow international NGOs to establish credit organizations in Azerbaijan.

At this time, micro-finance organizations have only one viable option – to be registered as local limited liability companies (LLC). This means that they are considered purely commercial entities with no development or social agenda. Additionally, while micro-finance institutions used to pay about $110 to get a license from the National Bank, micro-finance institutions now have to pay the commercial fee of approximately $5400. AMFA's advocacy efforts have already resulted in better understanding of microfinance by the government agencies, and currently AMFA is negotiating with the government the possibility to lower the amount of registration fee for MFIs. Another challenge for micro-finance services in Azerbaijan is the non-friendly taxation environment. Currently, MFIs are obligated to pay all taxes applicable to other for-profit structures and commercial enterprises including profit taxes that are based on outdated profit calculations.

When AMFA was created in December 2001 only three members were registered with the Ministry of Justice and had a license from the National Bank. However, the advocacy efforts of AMFA members have been rewarded and now only two AMFA members are not registered, one of which – Save the Children – is close to registration. IOM is the only organization that has yet to register and it has an unusual situation in that as a diplomatic mission it is extremely unusual for it to manage an LLC. IOM is still analyzing how to incorporate the LLC requirements into its overall structure and get approval for this unusual step. Meanwhile, AMFA itself remains unregistered as AMFA's registration was postponed until all AMFA members are registered.

Thus, taken overall, AMFA and its members were able to build a solid foundation on which further advancements are possible.

Chingiz Mammadov, AMFA Chairman, ***chingiz@mercycorps.az***
Jhale Mammadova, AMFA Secretary

Happenings at the Microfinance Centre

NOVEMBER 2002
Introduction to Client Assessment training course was delivered in English in Warsaw on November 4-7, 2002. This was the first open-enrolment course on this subject. The course attracted 29 participants – the highest number ever!

Delinquency Management course was held on November 11-14, 2002 in Dushanbe, Tajikistan in Russian for 28 participants.

The English version of **Fundamentals of Accounting** course was held in Warsaw on November 18-21, 2002. The course brought together 21 participants from six countries.

Training of Trainers for Loan Portfolio Management, was conducted for MFC trainers by Bankakademie, Germany on November 25-27, 2002 in Warsaw. This training allowed the MFC to add "Loan Portfolio Management" to MFC's course portfolio.

DECEMBER 2002
The **Loan Officer Training** for MCO Partner, Bosnia and Herzegovina took place in Sarajevo on December 16-18, 2002. 21 participants attended.

Market research among clients and non-clients of FDPA was conducted in December 2002 in four locations in Poland. MicroSave-Africa Tools and specialist market research tools were used to identify clients' needs and expectations toward offered loans.

The MFC conducted the following two-week workshops on "Market Research for Microfinance":
MCO EKI, Bosnia and Herzegovina in October
World Vision Albania in November
World Vision AzerCredit in December
These workshops were a part of the series of activities carried out within a longer-term cooperation program with World Vision that focuses on improving impact and learning from clients at its partner institutions.

JANUARY 2003
A brochure **"Microfinance In Poland. Unutilized Potential for Financing Income Generating Activities"** was published presenting the state of the Polish microfinance sector and proposing the steps necessary to improve the current situation.

FEBRUARY 2003
The first delivery of a new CGAP-developed course - **New Product Development** took place on February 11-14, 2003 in Warsaw. It was conducted in English and attracted 22 participants.

MARCH 2003
Loan Officer Training was organized in Belgrade, Serbia on March 10-12, 2003. It was the first open-enrollment course organized in English. It brought together 22 participants from eight countries.

The training course **Business Planning with MICROFIN** was delivered in Sarajevo in the Bosnian-Serb-Croatian language on March 17-21. It gathered 11 participants from the Balkans.

Financial Analysis for MFIs was delivered in Moscow in Russian on March 24-27, 2003. It was organized jointly with the Russian Microfinance Centre (RMC). It gathered 26 participants.

Loan Officer Training was provided to 24 participants from the UNDP Jobs Project on March 17-21 in Sofia, Bulgaria.

APRIL 2003

The **Loan Portfolio Management** course took place in Warsaw on April 1-4, 2003. It was the first delivery of a course developed by Bankakademie, Germany. The course brought together 14 participants from nine countries.

Loan Officer Training was organized in Russian in Dushanbe, Tajikistan on April 14-17, 2003. It brought together 31 participants.

On April 19-22, 2003 an in-house **Loan Officer Training** was delivered for the Association of Business Women in Khujand, Tajikistan. It gathered 24 participants.

Second NIS Policy Forum on Microfinance Law and Regulation - 26-28 June 2003, Kraków, Poland

The second New Independent States (NIS) Policy Forum on Microfinance Law and Regulation is a „by invitation only" event organized by the Microfinance Centre (MFC) in partnership with the USAID and OSI.

The purpose of the forum is to:
- Benchmark the progress of the countries in which initiatives to create favourable environment for microfinance are taking place or took place during the previous year
- Increase the awareness of policy makers from countries not yet selected for Phase I or Phase II Initiatives
- Enhance the benefits of the "clearinghouse functions" of the Program
- Build capacity among consultants and advisors who may become engaged in future reform ininitiatives

The Policy Forum will offer a unique opportunity for key policy makers from 10 NIS countries (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan ,Ukraine and Uzbekistan) to discuss the critical issues that have major implications for the microfinance sector. It is hoped that this opportunity to exchange views and experiences will assist different countries in their efforts to develop a healthy financial sector with a diverse range of financial institutions, including microfinance institutions, delivering an array of services to a broad range of clients.

Training Course Calendar

2-5 June 2003
Fundamentals of Accounting for MFIs
Russian language
Bishkek, Kyrgyzstan

3-6 June 2003
Financial Analysis for MFIs
English language
Dubrovnik, Croatia

9-12 June 2003
Introduction to Client Assessment
English language
Warsaw, Poland

7-10 July 2003
Loan Officer Training
Bosnian/Serb/Croat language
Sarajevo, Bosnia and Herzegovina

1-4 September 2003
Delinquency Management & Interest Rate Setting for MFIs
Russian language
Tashkent, Uzbekistan

September 2003
Fundamentals of Accounting for MFIs
English language
Dubrovnik, Croatia

September 2003
Business Planning and Financial Modeling for MFIs
Russian language
Moscow, Russia

Human Resource Management for MFIs
English language
Location to be confirmed

For more information please contact John Guzowski at ***john@mfc.org.pl***

Special Thanks

Microfinance Centre for CEE and the NIS wishes to extend special thanks to:

Mkrtich Ayvazyan	**Albina Iljazovic**
Ekaterina Butova	**Aleksandar Kremenovic**
Tima Becirovic	**Dajana Legin-Dedic**
Sanin Campara	**Tanja Lesnjak**
Elżbieta Das	**Zviad Mirianashvili**
Aram Ghuksyan	**Volodymyr Tounitsky**
Maja Gizdic	**Caroline Tsilikounas**
Irina Ignatieva	**Zhanna Zhakupova**

for their excellent job as trainers of MFC courses.

New Members of the MFC Network

Eight organizations working in the field of microfinance joined the MFC Network:

- ***Central Asia Microfinance Alliance (CAMFA)***
- ***Development Fund, Tajikistan***
- ***Microfinance Program BARAKOT, Mercy Corps – Uzbekistan***
- ***Millennium Development Bank, Tajikistan***
- ***Social Fund for Development of Internally Displaced People, Azerbaijan***
- ***Shorebank Advisory Services, Romania***
- ***XAC Bank, Mongolia***
- ***UNDP Jobs, Bulgaria***

Social Fund for the Development of Internally Displaced (SFDI)

SFDI is a microcredit program that covers the whole territory of Azerbaijan Republic.

The objectives of the SFDI are as follows:

- become an efficient, transparent and accountable local institution that manages and monitors funding of development assistance, oriented on internally displaced people (IDP) and to become a key player in the return efforts of the internally displaced once a peace agreement is reached;

- raise the living standards of communities by providing funding for the rehabilitation of small-scale social infrastructure;

- provide assistance in employment generation and the enhancement of the capacity of economically vulnerable groups to be engaged in income generating activities, particularly through the financing of reconstruction and rehabilitation of micro-projects in the social sphere and loans to micro entrepreneurs.

The SFDI funds three categories of the micro-projects:

- Community micro-projects: Community Works Projects and Community Services Projects
- Income Generation Micro-Projects
- Microfinance Programs

Origins of The Institution, Project

SFDI was established on December 6, 1999 through the decree _ 215 of the President of Azerbaijan Republic Haydar Aliyev.

Implementing institutions

SFDI, together with the implementing partners, target two types of clients: legal entities (with no less than 80% of internally displaced - IDPs) and physical persons – IDPs.

The intermediaries that carry out the distribution of credits among IDPs were chosen as a result of tenders held by SFDI. The following points were taken into account during selection of local organizations: the presence of required infrastructure to credits' distribution; existence of good credit history; competence of the management.

The following organizations were chosen to distribute credits among legal entities:

- Credit Union "Alinazarli"
- Credit Union "Amin"
- Credit Union "Nijat"
- Credit Union "Agroinvest"
- Credit Union "Nurana"
- Credit Union "Komak"

The following organizations were chosen to distribute credits among physical persons:

- FINCA
- Relief International
- Norwegian Microcredit (NRC)
- World Vision
- OXFAM

Forms of performance monitoring

Monitoring of program implementation is carried out periodically on-site by traveling groups of SFDI specialists and representatives of the Ministry of Finances of Azerbaijan. It is done so because micro crediting program works with internally displaced people spread on the whole territory of the country.

On-site monitoring allows to collect first hand information on loans distribution and usage by clients. It also allows to pinpoint the mistakes of intermediaries during credit distribution.

Expected results

The following results are expected for the period till July 2003:

- total number of IDP's legal entities that will get credits: 400
- total number of employees of organizations: 3,500
- total number of IDP's physical persons that will get credits: 4,210

Mejid Asadov, Income Generation Assistant Manager, Social Fund for Development of IDPs, ***mejid@sfdi.in-baku.com***

Microfinance Program BARAKOT, Mercy Corps – Uzbekistan

The Microfinance Program BARAKOT is a non-commercial and non-governmental organization (program) dedicated to ensuring access to credit and business training to micro-entrepreneurs in rural and urban communities. As a leading microfinance organization in Uzbekistan, the mission is to create a healthy nation by alleviating poverty and promoting the economic independence of women in the society.

The program was started in July 2001. It offers group loans to women entrepreneurs from vulnerable families in the Namangan area. It is the largest microfinance program in Uzbekistan, serving, as of March 31, 2003, **3,870 active loan clients with the average loan balance of US$89.**

Babur Tolbaev, Director of Credit Programs, Mercy Corps - Microfinance Program "BARAKOT", ***btolbaev@buzton.com***

Job Opportunities Through Business Support - JOBS Project, Bulgaria

The Job Opportunities through Business Support Project (JOBS) is implemented by the Ministry of Labor and Social Policy with the support of the United Nations Development Programme (UNDP). The project's objective is to boost sustainable employment generation and promote entrepreneurship by actively supporting micro, small enterprises and agricultural producers. The JOBS project creates a sustainable network of 24 Business Centers, including 11 Business Incubators and 3 Business Information Centers, which are functional and provide a wide range of business services although some are in temporary premises.

The BCs/BIs are NGOs aiming to promote an entrepreneurial environment and support micro, small enterprises and agricultural producers on a local level. The BCs/BIs provide a wide range of **information and consulting services, training programs, financial services, below-market-rate premises for the small business, enhanced opportunities for business-to-business contacts.**

At every BC/BI, a **flexible micro crediting mechanism** has been established, namely **financial leasing**. Almost USD 2 million is available to micro and small companies in Bulgaria who can access the leasing scheme in order to purchase needed equipment for their companies. Thus far, over USD 900,000 has been distributed in leases.

All BCs/BIs have **Information Technology Centers** attached, offering local businesses access to the Internet and up-to-date market information. This in turn fosters prospects for e-commerce and improved communication in rural areas, and makes the BCs/BIs an important factor for the emergence and development of an information society in Bulgaria.

The main priorities of JOBS project focus on the support and development of the following sectors: apparel and textile, herbs and spices, handicrafts, wood processing and tourism.

The BCs/BIs work in active cooperation with national and international institutions, trade organizations, sponsorship programs, and special funds. On a local level, they forge partnerships with the local authorities, regional branch chambers and associations, local banks.

In 2003, the JOBS Project will be expanding to include many more communities throughout Bulgaria.

Tashka Gabrovska, Project Manager, UNDP Jobs Project
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XacBank
A MEMBER OF XAC-GE GROUP

XAC Bank, Mongolia

The mission of XacBank is first, to contribute to the socio-economic development of the country by providing access to comprehensive financial services to all citizens and legal entities, including those who are normally excluded, e.g.; low-income and remote rural households; Second, but equally important, to maximize the value of shareholders' investment, while creating a profitable and sustainable financial institution.

XacBank conducts universal banking operations through 33 branches covering the whole country. XacBank targets microenterprise clients in the provincial capitals and Ulaanbaatar, and also micro-, SME, cooperative and nomadic herder clients in rural areas. Sixty five percent of XacBank's clients reside in rural areas and 60% are women. As a reflection of current market conditions, the largest group of clients (57%) are traders.

XacBank offers a variety of loan products for entrepreneurs: start-up loans, growth loans, SME loans. For public and private sector employees, XacBank offers consumer and education loans. Loans for herder groups and wholesale loans for credit and savings cooperatives were introduced in 2001. Leasing of small scale working tools and machinery for small business was introduced at the end of 2002.

XacBank currently serves over 13,000 borrowers with a loan portfolio of USD 7 million.

www.xacbank.org

ACDI VOCA

Central Asia Micro Finance Alliance

The Central Asia Micro Finance Alliance (CAMFA) is a USAID-funded project based in Tashkent, Uzbekistan. This four-year project (2002 – 2006) will strengthen lending organizations throughout Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. CAMFA will work with micro finance organizations, credit unions, farmer-support groups, and other lending organizations that seek to create employment and address poverty issues.

ACDI/VOCA, the primary manager of CAMFA, has formed a partnership with FINCA and the Microfinance Centre for CEE and the NIS (MFC) in Poland to establish an Alliance that will provide a range of specialized products and services. Technical assistance will focus on areas such as MIS and accounting, human resource development, governance, product diversification, and financial management. CAMFA will provide accredited organizations with funds to attend MFC-organized courses. Best practice materials will also be translated into Russian. CAMFA will not have funding available to support operational costs.

CAMFA's services will be made available through a formal accreditation process. This process will include a three-day assessment of the local NGO to understand its current state of development and make a determination regarding future needs. CAMFA staff will engage the NGO to develop an action plan to reach agreed upon targets and establish a set of inputs to achieve these goals. Continued access to CAMFA services will be linked to the meeting of the agreed upon benchmarks.

Organizations wishing to participate in CAMFA's program must be willing and committed to implementing a financially self-sufficient lending program that takes a business-oriented approach to providing loans. Accredited organizations will be requested to supply CAMFA with monthly portfolio and financial information.

CAMFA encourages all local organizations dedicated to lending in Central Asia to apply to its program. The application form can be obtained by emailing CAMFA at office@camfa.uz or downloading forms from the ACDI/VOCA website www.acdi-voca.org under the section entitled the Central Asia Micro Finance Alliance.

*Janice Stallard, Regional Director, Central Asia Micro Finance Alliance (CAMFA), **JStallard@camfa.uz***

DEVELOPMENT FUND

Development Fund Supporting Farmership and Entrepreneurship, Tajikistan

The organization was established in 1999. Its mission is the support of poor strata of rural and urban population through realization of microcredit programs. The area of operations cover the territories of Northern Tajikistan and Fergana valley.
Development Fund has legal right to carry out the following activities:

- Protect social-economic, civil rights and interests of target groups, render different kind of help for vulnerable layers of population;
- Conduct information-consulting and training activity in the field of Microfinance, investment, innovation, leasing and agribusiness;
- Implement development, examination and realization of legal, Microfinance, charity projects and programs;
- Participate in projects directed on social unity and creation of civil society, development and interaction of non-government and non-profit (non-commercial) organizations.

Clients

Clients of the Microfinance Program are involved in different types of entrepreneurship and farming: cattle breeding, poultry farming, vegetable growing and plant cultivation.
Their businesses usually require support to become more productive and sustainable to combat poverty levels. Economic problems are aggravated by social problems; together they do not provide a basis for building elements of civil society in these communities. The proportion of women in the Program seeking to advance their role both in family and community, exceeds 70%.

Methodology

Development Fund methodology is based on solidarity groups - loan amount is $45 up to $130, loan interest is 2% a month. Clients organize groups of 5-10 people. These groups are formed independently and consist of people, who know and trust one another, live or work close by.
Clients receive 40 hours training seminars on the:
- basis of micro-financing;
- creation and activity of Solidarity Groups;
- drawing up a business-plan and cash-flow;
- legal base on Microfinance and appropriate documentation;
- basis of agribusiness;
- order of loan re-payment.

Solidarity Group and its members receive loan after training and approval of that loan application by Loan Committee.

Terms

Loan terms are established individually for each client depending on analysis of his business-plan and cash flow. Each solidarity group member is issued an equal loan amount for the first stage, which increases at the beginning of subsequent loan cycles. Repayments of the original loan amount and loan interest are made twice monthly. Practical experience shows that clients working in the field of agriculture need relief from repayment of original loan amount during the first half of the loan term.

At the end of February 2003 Development Fund has 676 active loan clients with an average loan of US$233.

www.devfund.cjb.net

Millennium Development Partners, Microenterprise Development Program, Tajikistan

The mission of MED program is to establish sustainable business through capital loans, consultation and training among the poor in the Khatlon region of Tajikistan.
The program has achieved a 100 percent repayment rate in 2002 (January - September) and has 86 active loans of $20 to $1,200. Fifty-nine percent of loan recipients are male and 41 percent are female. In 2002, the program focused on expanding the number of businesses and stepped-up training of loan recipients. In Tajikistan, the poorest of the former Soviet republics, 67 percent of the population survives below the $2-a-day poverty line, the World Bank reported in 2000.

SHOREBANK ADVISORY SERVICES

Shorebank Advisory Services, Romania

Shorebank Advisory Services (SAS) was established in 1988 with a mission to assist locally based institutions in becoming the impetus for a cycle of investment and renewed economic opportunity in marginalized communities. SAS offers consulting, research and investment services to financial institutions, investors and other development-oriented organizations around the world.

In April 2003 SAS initiated an MFI project in Romania that will facilitate the creation of a Romanian Microfinance Coalition to develop a viable, high-performing microfinance industry in Romania. SAS will also work on a variety of BDS initiatives, including training of trainers who will work closely with entrepreneurs to broaden their financial and business management skills.

MFC Network Membership

Microfinance Centre for CEE and the NIS (MFC) is a membership-based organization that affiliates microfinance practitioners and supporters.
Advantages of being the MFC Member:

- Special discount rates for participation in the MFC training courses, workshops or conferences
- Opportunity to participate in the MFC-funded research projects that enable to better understand, for example, the clients' needs and measure clients' satisfaction with the offer, experiment with innovative solutions to enhance competitive advantages
- Opportunity to participate in working group activities that disseminate regional best practices
- Access to more detailed information through the web site Member Area
- Opportunity to promote the achievements through the MFC Newsletter and MixMarket platform
- Access to MFC global partners, donors, experts

Membership fee is USD 350 per year.

More information and the membership application forms are available through the MFC web site - "How to Become a Member" section, or upon request from Alicja Krzeszewska ***alicja@mfc.org.pl***

MFC Affiliated Organizations (77 members as of 15 April 2003)

Albania

BESA Foundation mfi@besa.org.al
For the Future Foundation fff@albaniaonline.net
Mountain Areas Finance Fund ffzm@icc-al.org
Partneri Shqiptar ne Mikrokredi (PSHM) pshm@pshm.icc-al.org
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Armenia

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UMCOR/AREGAK, Microcredit Program umcor@umcor.am

Austria

Opportunity International - Eastern Europe 100746.3540@compuserve.com

Azerbaijan

International Rescue Committee – Azerbaijan office@irchq.baku.az
Social Fund for the Development of Internally Displaced Persons (SFDI) office@sfdi.in-baku.com
World Vision AzerCredit Samir_Jafarli@wvi.org

Belarus

Belarusian Fund for Financial Support of Entrepreneurs (BFFSE) admin@fund.belpak.minsk.by

Belgium

INAISE - International Association of Investors in the Social Economy inaise@inaise.org

Bosnia & Herzegovina

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PARTNER mikrokreditna organizacija partner@partner.ba
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DEMOS Savings and Loan Cooperative demos@icmc.net
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United Methodist Committee on Relief (UMCOR) – Kosovo LeslieE@umcor-kosovo.ipko.org

Kyrgyzstan

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MOZNOSTI Partner Agency Opportunity International moznosti@mt.net.mk

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Mongolia

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Rural Development Foundation fww@fww.org.pl

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Foundation for Local Development Buzau cdpt@bz.softnet.ro
Opportunity Microcredit Romania (OMRO) fizvor@fx.ro
Romanian-American Enterprise Fund bill.wingate@raef.ro
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Russian Federation

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The Russian Women's Microfinance Network rwmn@com2com.ru

Serbia and Montenegro

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Alter Modus altermod@cg.yu
IRC - LINK Micro Loan Program jmayshak@linkmlp.org
Micro-Development Fund admin@mdf.org.yu
MicroFinS – NGO mfins@eunet.yu
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NUFUZ TA' LIM ntal@tkt.uz

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 BOARD OF DIRECTORS
Ken Vander Weele, Opportunity International Network (OI) – Chair and Treasurer
Maria Nowak, ADIE International
Tamar Lebanidze, Constanta Foundation, Georgia
Gert van Maanen, Oikocredit
Caroline Tsilikounas, ICMC
Mariam Yesayan, UMCOR/AREGAK Armenia

MFC Activities

Training & Consulting

Delivery of training courses in 3 languages – English, Russian, Bosnian/Serb/Croatian.
Portfolio of 11 training courses developed by CGAP, MFC, Bankakademie
19 local trainers

Research

Action Research: ImpAct, SEEP PLP
Bringing global expertise to the region: AIMS, MSA
Mapping of microfinance and best practice
New tools and training development

LEGAL & REGULATORY PROGRAM

Resource centre on legal acts (clearinghouse)
Diagnostic analyses of legal environment for microfinance
Semi-annual Policy Monitor
Annual NIS Policy Forum

Networking

Facilitation of local experience sharing through:
Annual Microfinance Conference
Semi-annual Newsletter
Web page
Resource centre

MFC SUPPORTERS

United States Agency for International Development (USAID)
Consultative Group to Assist the Poorest (CGAP)
The Charles Stewart Mott Foundation
The Ford Foundation
Open Society Institute
The SEEP Network

MICROFINANCE CENTRE
for Central and Eastern Europe and the New Independent States

Microfinance Centre for Central and Eastern Europe and the New Independent States

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