MICROFINANCE IN CEE AND THE NIS

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IN THIS ISSUE:

RESULTS OF THE FIRST PRO-POOR INNOVATION CHALLENGE

In 2002, CGAP's Pro-Poor Innovation Challenge (PPIC) became Rural Pro-Poor Innovation Challenge (RPPIC), a partnership between IFAD and CGAP to support pro-poor innovations in rural areas and microfinance. Among the winners were four MFIs operating in the CEE/NIS region.
Today we present the achievements of two of these MFIs: Moldova Microfinance Alliance and Bai Tushum Financial Fund (Kyrgyzstan).

Moldova Microfinance Alliance - MicroInvest opening up the horizons

The Savings and Credit Associations (SCAs) in Moldova, which constitute 500 entities throughout the Republic of Moldova, are governed by an elaborate and rather prohibitive Law on Savings and Credit Associations. Burdened by legal and financial austerities and loaded with cumbersome and excessive paperwork, the are frequently unable and reluctant to serve all loan applicants, particularly those who make the poorest part of the village community. Many of those unbankable, overlooked or simply uncovered by the SCAs find themselves having no alternatives, except borrowing from the local moneylenders at inflated interest rates.
It is this chasm that made MMA search for alternatives and innovations capable of meeting the specific demands of the target group. The search has yielded a new approach, new lending techniques and financial service within the Republic of Moldova. This approach is group lending.
By definition, group lending, in the context of the Republic of Moldova, targets "the poorest of the poor," the unbankable and unserved by the SCAs village dwellers. **With the valuable Pro-Poor Innovation Award provided by The Consultative Group to Assist the Poorest, MMA has launched a project of granting micro-loans through the group-lending approach and granted the 10 best-performing SCAs with cash – counting and currency – checking machines.**

Thus, two adjacent regions have been selected for the inception stage, each having its peculiarities in terms of social and economic potential – market diversity, development of banking infrastructure, the availability of SCAs, general road and transport infrastructure, demographic and cultural settings, etc. Five chosen villages within these two regions were required to meet the following criteria:

- display economic potential i.e. the existence of businesses in the field of production, processing, marketing of agricultural products, as well as signs of nonagricultural sector development;
- existence of group initiatives;
- total village population not less than 1,000 inhabitants;
- existence of at least 30% of economically active village dwellers;
- existence of at least 30% of private farmers among the village dwellers;
- absence of SCAs;
- potential for lending - group creation in the neighboring villages;
- 50-60 km distance to the MMA regional office.

Once the village has been chosen, the MMA Regional Development Officer (RDO) had to visit and promulgate the relevant information on the possible upcoming financial opportunity. The news was included in a leaflet and spread throughout the village, primarily in public places (schools, libraries, hospitals, shops, etc), or via personally addressed letters. During the first and subsequent two to three meetings with the interested persons and potential borrowers, RDO had to deliver the basics on microfinance philosophy, MMA, and its mission, objectives, achievements, financial products, and principles of group lending. The last had to be explained thoroughly so that the potential group members fully understood the concept of mutual guarantee, the procedure of accessing loans, their utilization, principal and interest repayment schemes, and the debtor's rights and obligations, etc. At the second meeting, a 3 to 5 member credit committee had to be established to screen the loan applications. Besides a credit committee, a Local Loan Officer (LLO) had to be assigned in order to provide an important link between the group members and RDO.

The loan disbursement process, easy to understand and to follow, included a loan application screening, contract signing, local bank account opening and making the money available. Over **170** group members, of whom **104** were women, took advantage of the easy access to this money, and invested in their businesses. Overall, **$34,905**. The loans were granted for a 10-12 month term, at a flat interest rate and quarterly interest payments. The principal is to be reimbursed on maturity at the local bank branch. Those borrowers who duly and timely follow the contract stipulations will have the possibility to receive a revolving loan; of course, if none of the group members falls behind in their loan payments.

The group members who prove an outstanding entrepreneurial initiative, economic performance and business potential, as well as other creditworthy entrepreneurs, are welcome to apply to MicroInvest, a recent MMA spin-off and a dedicated microfinance institution. Besides microloans of up to $10,000, ***MicroInvest* is a pioneer in providing guarantees ($10,000) and venture capital ($50,000), and strives to respond to the potential clients' demands and to reach operational self-sufficiency and sustainability.**

These three financial products, plus a number of nonfinancial facilities might open up a whole new world of possibilities to the current members of SCAs, lending groups and entrepreneurs.

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Moldova Microfinance Alliance (MMA)

Moldova Microfinance Alliance (MMA), a nongovernmental organization was created by the Open *Society Institute, Soros Foundation Moldova, Finance pour le Development Economique et Social and first Savings and Credit Associations in 1997. MMA's mission is to create and develop new organizations - Savings and Credit Associations, cooperatives, and micro- and small-scale enterprises* - by providing technical assistance needed for obtaining the financial resources to stimulate private initiatives, and economic and social development.

To date, MMA has launched **235** Savings and Credit Associations (SCA) and 15 cooperatives of entrepreneurs. Creation of SCAs is just a stage of microfinance market development and an example of a successful MMA-SCA relationship. Further MMA cooperation with the institutions it has created consists of expertise and training provision as well as the monitoring of lending activities. The seminars and workshops held by the MMA target virtually every aspect of SCAs' daily activities: financial planning, bookkeeping, lending procedures, risk management, internal control, performance appraisal, and solving legal and regulatory issues.

The governing principle in MMA-SCA interactions is to ensure the latter's sustainability and independence, so that they can exert a beneficial impact upon their members. Over **22,000** of SCA members have had the chance to start or develop their own businesses, mainly in agriculture, and have accessed a loan from their SCAs. More than **500** persons have succeeded in getting a paid job in the financial field, including accounting, internal auditing and general management within the SCAs.

During its seven-year existence, MMA has developed into a multi-office institution, having spread throughout nine regions in the Republic of Moldova. This expansion ensures permanent and direct contact with both the SCAs and their members, enabling feedback straight from the field and tailoring of its services to SCAs' needs.

Owing undoubtedly to the guarantee-facility established between the Economic and Business Development Fund and MoldovaAgroindbank as well as to the MMA services, the members of partner SCAs have benefited from loans, the overall value of which surpassed $5 million. The SCAs' overall internal delinquency rate, in 2003 was 0.32% and 0% to the refinancing institution, MoldovaAgroindbank.. The average loan size, disbursed by the SCAs to their members, was $200, thus, proving a significant depth of outreach. The loans have been mainly directed to the activities related to cattle breeding, seed procurement, seedling growing, trade and construction etc. An important portion of loans went to finance the travel costs of Moldovan labor migrants, who frequently repay their loans before maturity.

SCA member-borrower in the bee business

MicroInvest Team

Year of Social Mobilization in Kyrgyzstan

2004 has been declared the "Year of Social Mobilization in Kyrgyzstan." This measure is expected to promote social activities among citizens, and the implementation of new programs for improving the living standards of various layers of the population. Financial institutions, in particular microfinance institutions, play one of the most important roles in implementing state programs and improving socially oriented systems. After all, the mission of microfinance institutions is to improve the conditions of underserved sections of the population, assist in poverty alleviation and reduce the unemployment rate by providing financial services to the population. The Bai Tushum Financial Fund is one of leading micro-credit agencies that assists for improving the well-being of the poorest sections of the country's population.

Starting in December 2003 Bai Tushum, in collaboration with the GTZ project "Development of Trade and Service Cooperatives," is implementing a new loan product. Under an agreement between MCA BTFF and GTZ project "Development of Trade and service Cooperatives" and its regional partners in Osh and Jalalabad oblasts (Tec-Center and Rural Consulting Service), primary and secondary cooperatives were established.

Primary cooperatives consist of members of newly set up or already active groups living in one village who knowi each other very well and are engaged in the same kind of agricultural activity. Primary members represent a similar financial status - the size of their plots does not exceed 1 hectare per cooperative member.

The GTZ project in Naryn oblast together with its RCS regional partners in Jalalabad and Tec-Center in Osh oblast will play a role in the secondary cooperative during the pilot period (in 2004).

MCA BTFF plays one of the most important roles in this project, disbursing micro-loans to cooperatives for development their agricultural activities. Thanks to MCA BTFF loans, secondary cooperatives will be able to purchase fuel, fertilizer for the primary cooperatives, and provide them with all the necessary facilities for sowing. Fund's microcredits contribute to carrying out the activities of both secondary and primary cooperatives.

In the first stage, self-help groups and primary cooperatives were established by the "Development of trade and service cooperatives" project. From December 2003 to February 2004, the project provided training programs and consultations to primary cooperatives. Thus, 50 primary cooperatives were established in Jalalabad and 40 in the Osh regions.

At present, cooperative members are taking special courses on growing agricultural products, using fertilizers, and making a technical map of their plot. The training personnel of GTZ, RCS and TEC Center are training them how to rationally and effectively run their households. After undergoing special programs, BTFF will disburse micro-loans to the best-trained primary cooperatives based on GTZ project recommendations. The maximum loan size per primary cooperative member is 20,000 soms on a collateral-free basis at 20% per annum. Each primary cooperative member shall bear responsibility for the other cooperative representatives when signing an agency agreement with BTFF.

As the project was very well received in the pilot areas, MCA BTFF and GTZ is working at implementing the same model not only in Jalalabad, Osh and Naryn oblasts but in Chui region as well.

According to its social mission, MCA BTFF will strive to provide services to all of the entire country's social groups and to develop new loan products in order to meet their needs and requirements.

Bai Tushum Financial Fund - Kyrgyzstan

Since November 2003 the Bai Tushum Financial Fund has been working on improving the socioeconomic situation of women residing in remote regions of the country. In the framework of **CGAP/IFAD Pro-Poor Innovation Challenge,** the fund has developed **a loan product to finance groups of women engaged in milk production.**

The decision on rendering financial support to women was made due to their difficult position in the country, deterioration of their financial status, physical and psychological condition in the 10 years since the collapse of the Soviet Union. The sharp transition to a market economy resulted in a host of consequences such as deep economic and psychological crises, mass unemployment, and people's overall impoverishment.

Women and children in such an environment are the most vulnerable group of society. It is women who are subjected to discrimination on the labor market and other humiliations regarding their sex. Unemployment is one of the vivid social phenomena that endangers safe inhabitation of women and children in their own families. This is why the fund set itself the task of poverty reduction among women residing in the remote regions of Kyrgyzstan.

A pilot project on group lending for women was launched in the Osh branch. **By the end of February 2004, 18 women's groups (more than 100 women) were established in the Kara-Sui and Uzgen regions of Osh oblasts that were able to purchase milk cows and equipment for milk processing.** Microcredits for self-help groups (SHGs) were disbursed on a collateral-free basis at a good interest rate for the term of 18 months.

On forming SHG NAC Bai Tushum closely collaborated with the representative office of the Rural Consulting Service in Osh oblast. Here they provided training courses for group members, conducted screenings and prepared women for entrepreneurial activities. Groups became more integrated thanks to RCS - they chose a representative leader, and became members of SHG Association. Financial funds are needed to make the mechanism of social mobilization more effective. Bai Tushum rendered the essential support to established groups by disbursing micro-credits.

Thus, the fund's micro-loans contributed to the social mobilization of groups, and became a new source of profitable activity for rural women. Thanks to the microfinance services of the fund more than 100 women have been employed and received income. In addition, each SHG member by the end of the first phase of project will be able to keep a calf from one of their cows. MCA BTFF believes that after the successful completion of the first phase, lending by the SHG scheme will spread to other regions – Jalalabad, Chui and Issyk-Kul oblasts.

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GOVERNANCE IN MICROFINANCE

In microfinance, governance refers to the mechanisms through which donors, equity investors and other providers of funds ensure themselves that their funds will be used according to the intended purposes. Such control mechanisms are necessary because managers and providers of funds may have diverging preferences and objectives. Managers, for example, may work towards fulfilling the mission but they may also have preferences for non-pecuniary rewards. In the corporate governance literature, this problem is known as the agency problem and the associated costs as agency costs. The goal of every governance mechanism is to minimize agency costs by aligning the objectives of providers of funds with the objectives of managers.

Key mechanisms of an effective governance framework are ownership, board of directors, CEO and board member remuneration, auditing, and the market for corporate control (Keasey, Thompson & Write, 1997). The paper "Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States" by Professor Valentina Hartarska, Auburn University, USA, examines the influence of external mechanisms of control such as rating, auditing, and supervision by regulatory authorities, and internal mechanisms of control such as board independence and diversity, and management remuneration. Microfinance institutions (MFIs) operate in diverse economic and institutional environment and vary by organizational type (NGO, banks etc.), size and age. The role of these factors is incorporated in the analysis.

The objective of an MFI is to achieve outreach and sustainability. The study estimates the impact of each governance mechanism on outreach—measured by the number of active borrowers and by depth of outreach—and on sustainability—measured by ROA and by operational self-sustainability.

External governance mechanisms play a limited role. In particular, supervision by regulatory authorities, and rating (donor or network mandated) do not affect performance[1]. MFIs with audited financial statement, however, reach 100 percent more borrowers than MFIs without audited financial statements. The board is an effective governance mechanism, as MFIs with local boards achieve 50 percentage points higher operational self-sustainability. Larger boards and boards with a higher proportion of insiders have worse financial results. Specifically, holding all other factors fixed, adding one board member would worsen operational self-sustainability by 10 percentage points, and replacing one director with an insider would worsen ROA by 6.6 percentage points[2].

Policies to promote board diversity seem appropriate. Results indicate that replacing one board member with a woman (which is equivalent to increasing the proportion of women by about 17 percent) would improves depth of outreach by 58 percentage points, breadth of outreach by 48 percent, and ROA by 21 percentage points[3]. Somewhat surprisingly, local businessmen on the boards improve not sustainability but outreach; for example, replacing one board member with a local business person would increase the number of borrowers by 35 percent. The pursuit of both outreach and sustainability, it seems, may create difficulties for stakeholders who, by being represented on the board, hope to protect their interest. For example, results show that if one board member is replaced by a donor representative, depth of outreach would improve by 40 percentage points, but the number of borrowers served would decrease by 42 percent, and operational self-sustainability would worsen by 20 percentage points. On the other hand, replacing one board member with a person with financial and banking skills would improve ROA by 4.25 percentage points.

The analysis also sheds light on whether clients should be represented on the board. Results indicate that a replacement of a board member with a client would improve operational sustainability by 27 percentage points at the expense of 80 percentage points of depth of outreach.

The study finds that traditional mechanisms that serve to align the interests of managers with those of other stakeholders have a limited role in microfinance. Performance–based compensation does not improve MFI performance. Underpaying mangers, as suggested by the literature on NGOs, is ineffective and MFIs with underpaid managers achieve 2.4 times less outreach than managers who are adequately compensated. Manager experience does not affect sustainability and its impact on depth of outreach is small in magnitude (35 percentage points for 10 years of experience).

Finally, economic, institutional and MFI specific factors should be taken into consideration when evaluating the performance of MFIs and their managers. The size of the economy impacts positively outreach and sustainability, while high inflation harms both. Banking sector reform influences sustainability negatively but improves depth of outreach, perhaps because competition from other banks forces MFIs to serve poorer clients. Infrastructure reform improves both outreach and sustainability, as it decreases costs to MFIs and their clients. Improvement in competition policy worsens depth of outreach maybe because it makes wealthier borrower more attractive. Everything else equal, NGOs and non-bank financial institutions have about 200 percentage points better depth of outreach.

In summary, the paper presents the first evidence on the link between governance and performance in microfinance. It shows that stakeholders should not rely on external governance mechanisms to protect their interest and, if outreach is an important goal, stakeholders should compensate managers adequately. At the moment, the board is a powerful governance tool, assuming that it is not engaged in rubberstamping managers' decisions. Local environment and institutional factors matter and should always be included in a cross country analysis.

"Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States," Professor Valentina Hartarska, Auburn University, USA
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[1] All results apply for the period 1998-2002 and take into account MFI type, age and size as well as local economic and institutional factors.

[2] The magnitude of change applies for a board consisting of 6 members, which is the average value for the sample. In addition, replacing one board member refers to replacing one board member of a type not affecting performance with a type affecting performance. Insider refers to an employee of the MFI.

[3] Assuming that depth of outreach is 200, improvement of depth of outreach by 58 percentage points is equivalent to depth of outreach of 142 (or lowering the average loans size so that the ratio goes down to 142). Improvement of breadth of outreach by 48 percent, on the other hand would indicate that if the number of active borrowers is 2,000, improvement would be by 960 borrowers; that is, 2,000*1.48=2,960.

EFFECTIVE WAYS TO PROMOTE MFIs AN OVERVIEW OF RESEARCH CONDUCTED IN MKO EKI BiH

In post-war Bosnia and Herzegovina as World Vision International (WVI) began with micro credits, there were just a few micro-credit programs due to the very high barriers for entering, such as a lack of appropriate legislation, an insecure environment, and an unfamiliarity of the people with small businesses, etc. Nowadays, the barriers for entering are low, the legislation on micro-credit organizations is in place, and people are learning quickly about small businesses. All of this has resulted in an increase of competition. All competitors are trying to be focused, visible and recognizible in order to find their own market; all of us are keen on the development of new products, services, ideas, promotion and strategies for segmentation. Consequently, our market is becoming more and more sophisticated every day. It is very important to provide market-oriented products and services and design them according to the needs of clients. At the same time, it is now more important than ever to have a good image, marketing and market research strategy, and it is crucial to investigate what kind of organization identity we have, and what motivates our clients to buy from us and remain loyal to us. These issues are very common in the commercial sector and, as we have seen, many MFIs are using some basic principles, guidelines and tools particularly in the segment of promotion and image-building strategies.

But aren't our clients different from those served by the commercial sector? Aren't our missions, core values and social goals also different from those in the commercial sector? Do we need to approach our clients differently, and use new, or at least redesigned methods, according to their needs, customs and preferences, in sending our promotional message to them and to the general public, as well as the community we work in? In MKO EKI we think we should have a different approach. In order to investigate how to do all of the above in a most-efficient way, we decided to conduct our research with a clear objective - to find out the most effective ways of promotion for MKO EKI BIH.

Methodology and areas covered by the research

In EKI we conducted very serious and comprehensive research. The research was conducted by Danko Nikolic and Kenan Crnkic (both certified service providers from Micro Save Africa Market Research for MFI tools).

We have used all kinds of sources and conducted primary and secondary research and combined quantitative and qualitative data-collection methods, including the following:

- data from MIS, on typical client and their preferences;
- data from surveys: promotion tools survey, positioning level survey, branding and image survey;
- data from application forms and other records;
- data from staff feedback sessions, suggestion boxes;
- data from a promotion-competition matrix (this is a matrix we developed for this research - it includes all known methods of marketing communication and how, when and where they have been used by our main competitors);
- FGD (focus group discussion) in general about preferences towards promotion methods, EKI image and organization identity, personification, and of course, the most effective methods of promotion;
- PRA (Participatory rapid appraisal forms) with special attention to the following:
  a) promotion attribute ranking - a tool that shows effectiveness of different promotion methods e.g. TV, radio, newspapers, leaflets, presentations, word of mouth marketing, posters, presentations etc.,
  b) relative preference ranking - a tool that shows how different methods of promotion were used by different competitors formally and informally.

The research covered EKI's new, repeat and potential clients, as well as the general public from the territory of Bosnia and Herzegovina. We had a good gender balance, and we covered both rural and urban areas with special attention paid to rural areas.
After six months of conducting research, collecting data and analyzing our results, we came up with some very interesting, useful and challenging findings regarding promotion, but also regarding other related and important topics.

Some general findings and conclusions

For reasons of confidentiality, we cannot present here our concrete findings, but I must say that we were quite surprised to see which promotion method was considered most recognizable by our clients. The findings were opposite some marketing dogmas and definitions that are common and already used as mantras in the commercial sector. However, upon our analysis we concluded that our clients are different from those served by others!

It is important to underline that those conclusions and recommendations came from people we serve; the people for whom we work and exist. In general, they told us how they would like us to promote EKI, how they would like to be approached, what they like and what they think we should improve about our promotion strategy (for instance, more indirectly, but at the same time using more people they can identify with).
It was very interesting to see them put some typical, well-known and very expensive media in the last place (on the PRA map) in answer to our question „which way (kind) of promotion drew your biggest attention." One of the conclusions, obviously, was that a good and effective marketing strategy does not necessary have to be expensive - far more, it has to be well targeted and appropriate to the tastes of the group that we would like to approach. At the same time, the clients recommended that we use other promotional methods, basically telling us how and when to use them.
In terms of image, the clients sent us a clear message: „What we are communicates more clearly than anything we say or do!" We learned, that the new concept of famous marketing 4P should be "people, people, people, people." And that the best new marketing ideas are located between the ears of our employees and our clients.
To take advantage of this idea generator, we have to create an attitude of listening to and learning from our clients on a daily basis. I would like to underline the importance of staff training on this, as well as the importance of institutionalization of market research activities on all levels and functions in an organization. Because market and client needs are changing forever, we have to be able to monitor them on a regular basis.

Promotion is very important, according to our clients, but it has to be done at the right time, in the right place, be consistent with the image that we would like to create and through appropriate promotion tools, methods and media. Most importantly, however, it has to be in line with our clients' needs, culture, attitudes and sometimes almost hidden preferences. This client-oriented approach can be a decisive factor in surviving and growing on the market and in the environment characterized by aggressive promotion and emerging competition. I am personally of the opinion that using this approach (learning from our clients and reviewing on a regular basis) is the only way to find out the most effective ways of promotion, for other organizations as well as for the microfinance industry in general.

There is no magic formula when it comes to the best form of promotion for MFIs, but the best and most certain is to consider some best theories, best practices and lessons learned from others.
On that basis, market research should be obligatory for many reasons, from particularities of the region to the targeted population. This will enable learning from our clients about the best ways of promotion in their opinion. However, that process should be continuous, since preferences as well as competition are constantly changing. The only way to achieve this is to create an organizational structure based on a client-oriented approach and attitude of change management. It is a cost-effective way that would, at the same time, lead to the best possible results in all fields, as has been the case in MKO EKI. In my opinion, it is crucial to adopt such an approach as soon as possible, both for individual MFIs and for the whole microfinance sector. Generally, I consider it imperative for survival and further growth of each organization.

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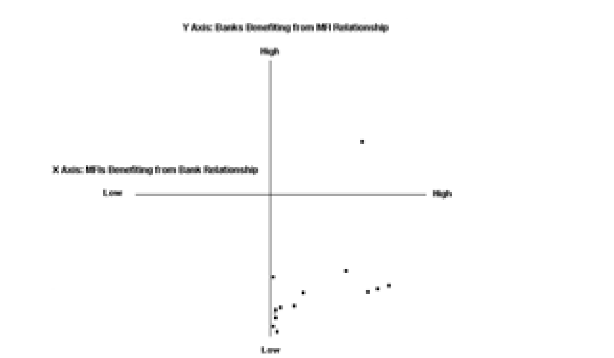
BANK – MFI PARTNERSHIPS IN GEORGIA

In September/October 2003 Georgian Microfinance Stabilization and Enhancement (GMSE) – a USAID-funded project – conducted a mapping survey to give direction and develop a strategy for Year 1 of the implementation and aimed to assess the most urgent needs pertaining the first six of GMSE's seven tasks.
Presented results refer to Task 3: Develop Partnerships with Commercial Banks with Branch Networks and Non-bank MFIs to Provide Additional Financial Services to MFI Clients.

There were no true partnerships between the non-profit NBMFIs and banks interviewed. All the non-bank MFIs (NBMFIs) surveyed used the banks for cash holding and transfers – due to security concerns, the existence of a bank in a region is a prerequisite for an NBMFI's operations. In some instances, non-bank MFI loan disbursements and repayments take place at banks. Some NBMFIs have credit lines from commercial banks for loan capital. One non-bank MFI even used its bank's gold pawn department to appraise the gold used as collateral by its own clients. But NBMFIs have found that even these simple relationships can be fraught with competitive danger. In the case of one non-bank MFI whose clients were making their repayments directly to a commercial bank, the bank in question decided to go more "down market" in its lending, and used the NBMFI's client list as a starting point for its activities. Future bank/non bank partnerships will need to be structured carefully, with these competitive sensitivities in mind.
However, the GMSE team found one bank/NBMFI partnership, between the BBK Financial Group, and the JSC Maritime Bank. BBK, which is based in Batumi, has taken an unusual approach to microfinance. BBK utilizes promissory notes, drawing up a note with an average of 3-4% interest per month and "purchasing" it from the "borrower." The company then sells the note to the bank. BBK has an account in the bank, and retains the risk for the note after sale. Georgia's non-profit NBMFIs remain clients of banks, rather than partners. As can be seen from the diagram below, few non-profit NBMFIs are fully utilizing bank services and opportunities, and aside from receipt of fees for services or interest income on loans extended to non-bank MFIs, banks have not been greatly benefiting from the relationships. Again, the sole exception is the partnership between the for-profit BBK Financial Group and the JSC Maritime Bank, which is represented in the upper right corner of the diagram.

Several non-profit NBMFI managers interviewed felt that banks had little understanding of the services and benefits NBMFIs offered. While interested in working more closely with banks, the managers had little idea as to how. Some opportunity exists to expand linkages between banks and non-banks (see below), though there are also weighty barriers.

Bank/MFI Partnership Continuum



Barriers to Partnerships
There's good reason why cooperation between banks and non-bank MFIs in Georgia has been limited. Georgian commercial banks and non-bank MFIs are competitors. Nonbank MFIs are becoming more commercially oriented and professionally operated, while commercial banks are moving into the microfinance market, narrowing the gap between the two and increasing competition. This trend is good news for the consumer, as it fuels product and delivery innovations and diversification. However, it makes partnerships between bank and non-bank MFIs problematic.
The success of partnerships between banks and NBMFIs will, therefore, depend on non-bank MFIs' ability to differentiate themselves from banks, reducing the competitive threat. But even with such differentiation, non-bank MFIs have cause to be wary in basing their long-term strategies on close partnerships with commercial banks, as the latter move more deeply into the micro-

finance market. Georgian NBMFIs can and should, however, expand their use of banks' services. A first step to facilitate this will need to include training by the GMSE team that outlines different types of linkage opportunities, as well as facilitating information sharing between non-bank MFIs which have successful linkage relationships. And as a final warning, NBMFIs must take care not to share their client information too freely with commercial banks and to provide employee incentives in order to retain their best staff.

Model Linkages

Globally, a range of bank/non-bank linkage possibilities have evolved. These include:

	Sample linkage	Utilized by Georgian non-bank MFIs?	Constraints
1.	Banks lending to non-bank MFIs	Yes	vague legality
2.	Non-bank MFIs utilizing front or back office services of commercial banks (e.g. using banks for loan disbursements and collections)	Yes	none
3.	Banks and non-banks sharing facilities	Yes	competitive pressure/ potential to "steal" clients
4.	Non-bank MFI clients gaining access to products/services of commercial banks	No	competitive pressure/ potential to "steal" clients
5.	Banks buying non-bank MFI portfolio, or merging with non-bank MFI	No	none
6.	Non-bank MFIs acting as agents of banks or banks contracting with non-bank MFIs to conduct operations	Yes (BBK and the Maritime Bank)	Lack of bank demand. Banks are frequently more efficient microfinance providers and have strong regional infrastructures for lending

The greatest opportunities for expansion of linkages involve the first two options – banks lending to NBMFIs and the utilization of bank front and back office services by NBMFIs. These services include the use of banks for receipt of loan funds, utilization of banks' gold assessment facilities, use of banks' payroll distribution system, using banks to hold clients' cash collateral, etc. A few Georgian NBMFIs are already exploiting these relationships, and others could learn from their successes. Facility sharing – a simple and logical idea on the surface – is surprisingly fraught with difficulty in Georgia. Few Georgian banks have the facilities to handle the massive number of microfinance clients which non-bank MFIs service – at least in the larger cities. And the NBMFI whose client list was "stolen" by its partner bank will likely be hesitant to enter into a similar "space sharing" relationship again. The sixth linkage – utilizing non-banks as financial intermediaries – tends to provide transaction cost savings. It has been used to great effect by the BBK Financial Group and the JSC Maritime Bank. This type of linkage is generally most successful in environments where banks do not have existing infrastructures and have little experience with microfinance. However, the larger Georgian banks have infrastructures equal to or better than those of existing non-bank MFIs, with impressive coverage in regions outside Tbilisi˜. And commercial banks are quickly gaining experience in microfinance. Therefore, the GMSE should facilitate a "lessons learned" session facilitated by BBK for other NBMFIs, and quickly. BBK has already agreed to assist with this. As competition between banks and NBMFIs increases, the window of opportunity for partnerships is closing.

Summary and Recommendations

Non-bank MFIs need banks for their cash operations, however, little real partnership activity has gone beyond that. This is partly due to not fully appreciating or understanding the range of possibilities and benefits of linkages, and partly due to the competitive threat banks and MFIs pose to each other. The latter threat is real, as banks discover that the market for large loans – particularly in the regions – is saturated and they begin to move "down market."

"Potential for cooperation between banks and microfinance institutions dwindles and competitive pressures set in when banks start testing the microfinance market for themselves and microfinance institutions develop strategies for transforming into formal financial institutions."

Any attempt at facilitating bank/non-bank partnerships must, therefore:

- Educate both types of organizations as to linkage benefits and possibilities;
- Facilitate information sharing between non-bank MFIs which currently have successful linkage relationships with commercial banks, particularly including the BBK Financial Group;
- Through training and technical assistance, encourage product and target group differentiation between banks and non-bank MFIs in order to reduce the competitive threat; and
- Develop partnerships that emphasize technical linkages, rather than long-term cooperation.

In short, real partnerships may not be realistic in the Georgian environment. However, existing linkages can be improved and new linkages developed, with banks lending to MFIs, NBMFIs operating as agents of banks as BBK has, and expansion of MFI use of bank services (disbursing loans through the banks, etc.).

Georgia Microfinance Stabilization and Enhancement (GMSE) is a four-year, $10 million project funded by the U.S. Agency for International Development (USAID). The principle objective of the GMSE Project is to stabilize and strengthen microfinance institutions in Georgia. To accomplish this objective, the project will (a) award up to $5 million in grants to Georgian microfinance institutions based on best practices, and (b) provide technical assistance to microfinance institutions in order to ensure their long-term stability and sustainability. Special effort will be made to ensure that rural and women-owned enterprises benefit from GMSE's work. GMSE will be implemented through seven interrelated tasks.

Task 1: Promote the Unambiguous Legal Status and Tax Treatment of Non-Bank MFIs

Task 2: Increase Operational and Financial Sustainability of MFIs

Task 3: Develop Partnerships Between Commercial Banks and Non-Bank MFIs

Task 4: Increase the Institutional Stability of MFIs

Task 5: Develop Financial and Market Data

Task 6: Develop a Public Information Program to Promote Sustainable Microfinance

Task 7: Design, Launch, Manage and Monitor the Credit Innovation Grant Program (CIGP)

Microfinance Mapping Survey 2003, Georgian Microfinance Stabilization and Enhancement (GMSE), Kristen Weiss, Microfinance Specialist Kristen_weiss2001@yahoo.com

SAVINGS AND TECHNOLOGY

As the focus within the microfinance world shifts to a financial sector approach and the need to provide clients with a range of services (i.e., not just microcredit), many institutions are considering a move towards taking deposits. In doing so, they become subject to more rigorous regulation, and it is essential that their information management capacities are strong. In this paper, we will consider the repercussions on technology requirements for institutions that begin to offer traditional savings services.

Operational Considerations

As soon as an institution moves towards providing savings, software can no longer be restricted to the back office. The biggest change will often be a shift in organizational thinking as the technology enables many more users to interact with the system to perform their daily duties, eliminating operational bottlenecks and increasing points of service. With this comes the need for a focus on information management security. Users need to be issued individual passwords and accept the responsibility of running their own accounts as they understand a new security culture. Administrators need to implement policies to protect and manage the data. Management needs to emphasize that the software is meant to provide information to staff when they need it and how they need it. Typically, the institution will need to run a teller type window and give a confirmation of transactions to the client.

People and Culture

The human factor is often overlooked, yet resistance to change and new procedures remains a significant reason why technology initiatives fail. Natural resistance to change comes when individuals do not feel valued or are unsure of their role going forward. Management must begin to prepare staff as early as possible for the upcoming changes in technology, organizational thinking, culture, and way of doing business. If the users of the system perceive a challenge to their old way of working with no apparent benefit, they may sabotage the changeover process, either directly or indirectly. It is therefore important that management and the technology task force consider strategies to motivate employees to adopt the new technology and operational processes. Training and communication, reviewing job roles and responsibilities, and aligning incentive plans are all means for achieving this outcome. Some organizations have found that a symbolic means of "grieving the old" can help in the transition and acceptance of the new. For example, a staff gathering to burn all the old receipt books or forms would strongly demonstrate the new work reality. Given the opportunity, employees are quite capable of inventing creative alternatives to release the old way and embrace the new way of operating. In addition, it allows them ownership in the change process. Implementing new technology is hard work and staff must be motivated, supported and rewarded for helping the institution to successfully make the change and achieve its business goals.

Legal Considerations

In some places, the statute books have not yet caught up with the advances of technology and this may prove to be a real constraint in the way services can be offered to clients. Institutions may be required to ensure a certain level of information security, which may or may not be specifically mandated by law. In Peru, the bank superintendent has mandated that regulated microfinance institutions use robust and secure databases. In cases where the law is not explicit, an institution may still be found liable if adequate measures are not in place to protect depositor's savings. An institution in Asia has found it prudent to call its branches "collection centers" to circumvent legal restrictions which restrict withdrawals from savings accounts. Another alternative could be to use automated teller machines (ATMs), which are likely to not even be referenced in any existing laws.

Audit Considerations

A shift away from manual processes often necessitates alternative ways of logging transactions to reduce the risk of fraud. Consequently, the software has to have robust ways of tracking transaction history. Cash controls for tellers are particularly important. Also, it must be possible to treat dormant accounts differently, to protect the depositor's savings. The software must require supervisory authority to deactivate accounts that become dormant, with adequate logging and reporting on such procedures.

Flexibility in Product Definition

As institutions mature and market competition increases, they need to be able to react with new and innovative products that clients need and want. A management information system software application (MIS) must provide a high degree of flexibility in defining the parameters for new products at a global level and at the individual account level. For instance, some institutions might find they need added flexibility to specify parameters such as interest rate at the time the account is opened, against a range of values that can be selected. Or maybe, clients may choose to restrict the number of times they can withdraw in a month for a slightly higher interest rate. Term deposits are products that need to be specified and managed in a different way – this option should also be available in the software.

Interest and fee calculation

Interest can be calculated in many different ways, and software will need to allow a variety of periods for interest accrual (days or months), allow the setting of minimum periods to qualify for the rate, and establish penalties as required. In many jurisdictions, the institution has to withhold tax on the interest paid to clients and this also needs to be calculated and integrated with a chart of accounts in a way that makes these transactions easy to report.

In addition, many institutions will have to ensure that they recover the costs associated with offering such services to clients. Typically, they may want to impose fees on particular transactions or levels of transaction activity. It must be possible to set up fees and link them with products so that they can be automatically charged to an account.

Information Analysis

In order to understand the implications of offering certain financial products, managers must have tools to help them analyze information about their clients and the costs associated with delivering and offering certain services. Being able to determine the cost basis for a product is a basic requirement for honing product development. An institution must be able to understand the costs of taking deposits (transaction frequency versus transaction cost) and set on-lending rates high enough to cover those costs at a profit. Understanding client behavior patterns will also help in understanding which services are popular with clients and when they are most likely to want them (time of day, week or year). All these various kinds of information may also serve in the development of new products.

Customer Service

Technology offers many new and improved ways to serve clients. Institutions need to be able to innovate and serve clients faster and cheaper. When making deposits, clients will be dissuaded by long queues. Faster alternatives should be offered to allow them to make deposits, withdraw their cash and view their account details. Software that offers modules to allow the use of ATMs, smart cards and kiosks therefore offer an advantage. These technological innovations may actually prove critical in helping the institution build a strong savings base, making accessible a cheaper source of funds for on-lending.

Cost

There are many "hidden" costs associated with implementing new software and the task force team needs to be aware of these when constructing a budget. The budget should include the costs for software and hardware and ensure it covers recurring and additional costs such as maintenance and third party licensing. It should also include (a) people costs – the costs for additional consulting services, trainers and testers (b) consumables and other services such as office supplies, telecommunications, transportation, insurance, (c) office space requirements – for example, changes in infrastructure may require air conditioning and generators, or a theft prevention system. Offices also need furniture and lighting that are ergonomically correct for the type of technology selected.

Management Considerations

As institutions mature and diversify their products, especially savings products, the need to be preemptive in creating strategic technology plans increases. Management should seek advice from technology specialists, both inside and outside of the organization. They must establish technology priorities, set realistic short and long-term objectives, make choices that are measurable and directly linked to operational goals, and allocate sufficient financial and human resources to achieve them. Soliciting good system support people is critical – whether staff, part-time consultants, advisors, or through a commercial vendor. Technology is a broad field with many areas of specialty; no one technologist can sufficiently support an institution's needs. Having a diverse group of technology advisors is a significant benefit for a manager. Most importantly, management should cultivate change capital™ across the institution by providing strong leadership for change and the necessary education and incentives to motivate employees, which will result in the highest return on technology investments.

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MICROCREDIT ORGANIZATIONS AND SAVINGS MOBILIZATION IN BOSNIA AND HERZEGOVINA

For the past seven years Bosnia and Herzegovina has been struggling to regain a viable economy and to repair the extensive damage of the 1992-95 war. Micro Credit Organizations (MCOs) have made substantial contributions to this effort by providing credit services to individuals for income generation and to entrepreneurs seeking to build small businesses. The funding has been provided by governmental and non-governmental organizations. Today, some of the larger MCOs are regarded as self-sustainable[1], which has resulted in many of the donor organizations no longer providing loans or grants. To remain self-sustainable and to grow, the MCOs will have to find ways to identify continuous and sufficient funding sources, at reasonable interest rates. One possibility is for MCOs to begin mobilizing savings from their borrowers and the communities in which they operate. The goal of this assessment is to determine if a demand for deposit services exists within the markets served by the MCOs, whether the MCOs are interested in pursuing such a solution to long term sustainability, and, if they were to transform to begin taking deposits, how such a transformation should be implemented.

Findings

The main findings of the research are that

- MCOs would like to have the ability to accept deposits;
- There is a demand for savings products in the rural and economically disadvantaged population;
- Banks are unlikely to serve those needs.

Level of Interest from MCOs

Most of the nine MCOs interviewed[2] for the research expressed an interest and a desire to collect deposits and to use those deposits as an additional source of funds for future loans. However, many expressed concern and reticence in committing resources to examining this alternative because the existing law under which they operate limits them to only making loans. Most plan to wait until they see legal changes implemented before they begin to develop plans and strategies for soliciting deposits. A few have started to move towards the goal of savings recruitment by upgrading their technology systems or conducting modest market research, but not much beyond those efforts.

Most MCOs interviewed are exploring new products to meet the demands of their clients. This is usually in the form of loan products, but some are exploring the possibilities of providing leasing or insurance products. A characteristic that MCOs share is a strong desire to serve the rural and economically disadvantaged population. To do this they need more flexibility than the current law permits to explore different options, including deposit services.

The MCOs interviewed voiced strong opinions about the need for proper and effective regulation of any organization that accepts deposit. They believe that regulation is essential to assure the public that their deposits are in financially sound institu-

[1] A self-sustainable organization is one that can survive, continue its mission and grow without donor funding. An important aspect of this is financial; the organization must be able to cover its operational costs and its cost of funds. Other important aspects of sustainability include being able to invest in staff training, product development, and infrastructural upgrades.

[2] Interviewed MCOs: EKI, Partner, Mikrofin, LOK, Micro Sunrise, Mi-Bospo, Prizma,Sinergija Plus, MikroAldi

tions. However, they cautioned that MCOs are quite different from banks and should be regulated by a special set of regulations and examiners that specialize in micro credit.

Additionally, they recognize the demands that taking deposits will put on their organizations, and most expressed a need for outside technical assistance during a conversion period which they believe could last up to two years.

Market Demand

The findings show that most Bosnians save, but in different ways. Particularly, the rural and economically disadvantaged population save in "informal ways," as opposed to putting their money in the banks. Their savings may be in the form of purchases such as building material or animals. What money they have is kept in the home. Most expressed a need to have money set aside for emergencies. Market research showed that twice as many save at home as in a bank. The entrepreneurs presently prefer to put most of their profits back into their business rather than keeping it in the bank.

Because of the destruction from the 1992-95 war, most excess funds in the rural areas are being put into reconstruction of homes and businesses. However, eventually this use of funds will diminish and there will be a greater need for more formal ways of savings.

The Role of Banks

In the rural areas and among the economically disadvantaged, banks are still regarded with suspicion because of the losses that many experienced with the collapse of the banking system in 1991. Banks are also viewed as being difficult to get to, unfriendly to less economically well off citizens, and inflexible and bureaucratic in their procedures. The more rural (villages of 2,000 or less) customers have to travel quite far to get to a bank, which makes them very inconvenient. None of the banks interviewed for this assessment have plans to expand their branch network into the rural areas and will continue to focus on the more populous urban areas.

The research also determined that the economically disadvantaged have special needs that are not served by current banking products. This economic group needs to have frequent and convenient access to their account. They usually make frequent deposits and withdrawals and in small amounts. This is not a type of product that banks are interested in providing.

The lending methods used by MCOs also differ considerably from those of the banks. Banks usually require collateral and only lend to properly registered businesses. The very small size of the average MCO client would make both of these requirements onerous. The average MCO loan is backed not by collateral but guarantors. Most borrowers are emerging entrepreneurs and cannot or do not have the financial means to register their budding enterprise. The MCOs understand these needs and limitations and correspondently structure their loans requirements. Our findings indicate that banks and MCOs serve different markets and that both serve an important function of economic growth in Bosnia. If MCOs begin taking deposits, they will continue to draw from a segment of the economy not targeted or served by the banks.

Enabling MCOs to Take Deposits

If MCOs are allowed to begin receiving deposits, significant changes and assistance will be needed. First, the existing legal framework needs to change to allow MCOs to transform to another legal structure. Then, new laws need to be created to allow for the functioning of a financial services company other than a bank. This structure may be in the form of a savings and credit association or a micro bank.

A critical enabling step will be the creation of appropriate and effective regulation. What section of the government should undertake this endeavor will have to be thoroughly discussed and reasoned through. In conjunction with proper regulation, deposit insurance is an important consideration. The MCOs believe that it is an essential step in ensuring the depositors that their money is safe.

Because MCOs have, so far, only made loans they would need to make a significant infrastructural change both in concept and execution to begin receiving deposits. All would need additional hardware and software, as well as capacity building in market research and product development. When all of these enabling steps have been taken, the MCOs will need to have a strong, effective, specifically targeted publicity program.

There are two donor initiatives underway in BiH which will have implications for the MCOs. The World Bank is working to change the existing Law on Microcredit Organizations and to create a new law on Finance Companies. First, it will amend BiH microcredit law to allow an MCO to fund, or to invest in a for-profit, shareholder- or member-based organization. Once the amendments are in place they will launch an effort to create a new law that will allow for the creation of finance companies. The amendments to the Law on Microcredit Organizations will not address how an MCO should initiate a transformation; only allow it to do so. The alternative structures will have to be explored by the MCOs.

The International Fund for Agricultural Development (IFAD) is working on a new law allowing the creation of Savings and Credit Associations (S&Cs). As part of a project to develop a replicable model of sustainable, small-scale commercial livestock production, IFAD is seeking to support the development of an S&C industry to help rural areas establish small saving and credit associations in which the farmers would be the members. The first obstacle to getting this concept underway is the lack of a law under which such institutions would operate, which IFAD hopes to complete by year end 2003. They will also support the development of regulatory policy and procedures. Once the framework has been set up, IFAD will go about developing the S&C associations themselves: they are envisioned as small associations functioning in rural communities.

The World Bank initiative to create a law for Finance Companies will give MCOs an alternative that will allow for a more expanded product line of loans. However, it will not provide MCOs with the option of taking deposits or of offering other financial services. The IFAD efforts to introduce a new law for S&Cs is focused on creating very small organizations that will primarily take savings deposits. There is no consideration or collaboration with MCOs on how such a law could benefit them. Based on our research we find that both initiatives fall short of both giving MCOs the flexibility that they will need to properly service their markets and providing the resources that they will need for long term sustainability.

"Microcredit Organizations and Savings Mobilization in Bosnia and Herzegovina. An Assessment for USAID" conducted by Financial Sector Business Advocacy Training (FSBAT), Monica Lindh de Montoya, James Kent McNeil, October 2003

THE MICROFINANCE ENVIRONMENT IN ARMENIA
INSIGHT FROM A FINANCE BANKING COLLEGE

Background

A strong private sector is vital for increasing incomes among a broad scope of the population and for the development of the Armenian economy as a whole. Since 1997, many humanitarian organizations such as USAID (USA), GTZ (Germany), the International Foundation of Agricultural Development (Italy), ECLOF (Switzerland), ICCO (Netherlands), and Izmirlyan Foundation (Switzerland), have provided microfinance services to the most vulnerable layers of the Armenian population in order to support small business - the biggest slice of registered business in Armenia. These services include granting small and medium credits, mainly non-collateralized, to entrepreneurs who cannot afford the services of commercial banks. The total number of the programs' beneficiaries is about 30,000.

Most microfinance institutions are registered as non-profit foundations whose loan-granting activities do not fall under the government's licensing requirements. Simultaneously, since the second half of 2002 the "Law on Credit Organizations" was adopted to regulate the loan-granting activities of commercial organizations, which according to law should be licensed by the Central Bank of Armenia (CBA).

In order to provide Microfinance Institutions (MFIs) a wide range of consultancy services, training courses and to support them in joining forces for problem solving and networking, since October 2002 the Financial Banking College Foundation (FBCF) began implementation of the "Bank and Non-Bank Financial Institutions Mentoring and Training" (BNBFIMT) program, supported by the Shorebank Advisory Services grant, funded by USAID. One of the six main directions of this program is the "Assistance to MFIs," which has the following objective: to contribute to MFIs in order to create a competitive and stable micro-business market in Armenia.

Our Clients

Upon the commencement of the BNBFIMT program, the FBC has been cooperating with a number of leading Armenian MFIs including: *"Aniv" Foundation,* "Armenian ECLOF" Foundation, "Armenian Habitat" Charitable NGO, "FINCA Armenia" Charity Foundation, GAF (German-Armenian Foundation), "Horizon" Foundation, MDF "Kamurj" Charity Foundation, "SEF International" Ltd. (recently transformed to Credit Organization) and UMCOR/"Aregak" Microfinance Program.

We focused on the following five areas:

1. Technical assistance

- Strengthening operational management:
- development of organizational charters, branches and representative offices
- development of a full package of internal policies, regulations and procedures
- New product development, e.g. factoring, leasing, mortgage lending
- Development of the manual, "Description of Abilities and Skills for MFI Staff" for five positions.
- Gathering and analyzing of quarterly statistical data of MFIs
- Providing consultancy on legal issues

2. Training

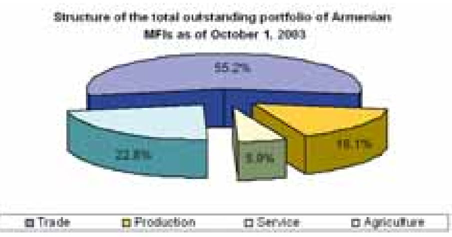
MFIs have chosen the following subjects for trainings out of 20 presented topics. The training preparation process begins with the discussion of the syllabus with the management of the organization. Therefore, trainings are tightly tailored to MFIs' needs and can consist of one or more topics from the listed subjects. For example, the most recent training for loan officers included three topics: financial analysis, credit analysis and communication skills.

3. Lobbying

Because of legislative changes during the last few years, the loan granting foundations are facing unfavorable legal conditions, which pose obstacles to further activity. These issues are:

I. The uncertainties concerning the legal status of loan granting foundations, as well as the legal grounds for lending activities

The "Law on Credit Organizations" (in effect since 2002) defined the loan/credit granting activity as the subject of licensing by the CBA. The question here is whether the loan-granting foundations with their social missions, sources of funds and non-commercial nature of activities should fall under this law's regulations.



Microfinance Market in Armenia SWOT analysis

- **Strengths**
- High demand on micro loans
- Professional management of MFIs
- International donors' support

- **Weaknesses**
- Uncertainty in the MFIs' legal regulations
- Unequal tax conditions for MFIs vs. Banks and CO
- Lack of product variety

- **Opportunities**
- Unserved regions
- New product development
- Shift from asset- and collateral-backed lending to cash-flow lending

- **Threats**
- Institutional and legal instability
- Excessive government regulation for non-deposit-taking MFIs

II. Limitation of administrative expenses

According to the "Law on Foundations", the administrative expenses of foundations should not exceed 20% of total yearly expenses. As loan generation, monitoring and collection are resource-consuming processes, they involve substantial expenses on loan officers, which form the main portion of administrative expenses. Therefore, the limitations defined by the law are intolerable to the loan-granting foundations.

III. VAT taxation on interest

According to the recent changes in the legal act "Law on VAT," from January 2004 loan-granting activity is exempted from VAT for all institutions. FBC considers this fact a mutual triumph, as the VAT payments of the microfinance organizations during all of last year considerably exceeded their profit-tax payments.

The consolidation of MFIs' effort in problem solving raises the awareness of both government officials and the public (through the number of publications in the local mass media) about MFI activities and the obstacles they face.

4. Networking

Since commencement, the BNBFIMT program initiated the organization of monthly roundtables for MFIs in FBC, which actually substituted the MF Forum. The creative environment of the roundtables contributed to the decision-making and problem-solving process, as well as to the establishment of the close personal relationships among the participants-representatives of all MFIs. The relevant information and knowledge is disseminated and shared among the roundtable participants.

5. Institutional development

Now, when the program enters its final stage (the program will operate until through March 2004), it is time to think about the program's legacy. We are thinking of continuing cooperation between the MFIs and FBC in the fields of training and technical assistance.

The program also offers its input in the organization of the union/association for MFIs. This idea is not new and was discussed several times with MFIs, when the organizations faced various problems that could be solved only by a consolidation of efforts. The program summarized the following list of the main functions to be fulfilled by the union:

- To represent, identify and lobby interests of its members
- To develop a code of ethics and unified standards to evaluate the performance of local MFIs
- To organize credit-rating agencies
- To provide consultancy and training and marketing
- To network with donors and international microfinance organizations

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Imp-Act

IMPROVING THE IMPACT OF MICROFINANCE ON POVERTY: ACTION RESEARCH PROGRAMME

The following publications summarize the experience from a three-year ImpAct project and have been published by the MFC with support from OSI. You can download these works from MFC's Web page www.mfc.org.pl/Publications.

MFC Spotlight Note #1: Challenging the Industry: Poverty-Focused Microfinance in CEE and the NIS (March 2003), Michal Matul

MFC Spotlight Note #2: Sustaining Social Performance. Institutionalising Organisational Learning and Poverty Outreach at Prizma (June 2003), Sean Kline

MFC Spotlight Note #3: Improving Cost-Effectiveness of Exploratory Practitioner-Led Research:Key Factors to Consider When Selecting Tools (July 2003), Katarzyna Pawlak & Michal Matul

MFC Spotlight Note #4: Scoring Change; Prizma's Approach to Assessing Poverty (November 2003), Michal Matul and Sean Kline

MFC Spotlight Note #5: Realising Mission Objectives:A Promising Approach to Measuring the Social Performance of Microfinance Institutions (November 2003), Katarzyna Pawlak and Michal Matul

MFC Spotlight Note #6: Role of Microfinance in the Household Reconstruction Process in Bosnia and Herzegovina (January 2004), Michal Matul and Caroline Tsilikounas

MFC Spotlight Note #7: Cost-effective client assessment in a small microfinance institution: the experience of Demos in Croatia (February 2004), Caroline Tsilikounas and Biserka Kljaic

MFC Spotlight Note #8: Counting (On)Your Prospective Clients: Guiding Principles in Measuring Microfinance Client Satisfaction and Loyalty (February 2004), Katarzyna Pawlak and Dorota Szubert

MFC Spotlight Note #9: Promoting Client-focused Organization - Partner's Exit Monitoring System (February 2004), Katarzyna Pawlak and Selma Jahic

MFC Spotlight Note #10: Beyond Numbers: Prizma's Exit Monitoring System (March 2004), Michal Matul and Sefika Vejzovic

MFC Spotlight Note #11: Client Desertion - a Microfinance Plague: How To Diagnose It Successfully? (April 2004), Katarzyna Pawlak and Michal Matul

IDEA CENTRES

MFC has recently added a special section to its Web page **– IDEA Centers.** The goal of these resource centers is to stimulate access to knowledge in areas critical for regional microfinance development and to create a learning environment.

Themes:

- **Regional Microfinance Sector**
- **Regional Performance Benchmarks**
- **General Insights to Regulation and Supervision of Microfinance**
- **Microfinance Regional Laws and Normative Acts**
- **Applying Regulation by Risk in CEE/NIS – Current Practices and Trends**
- **Market Research and Product Development**
- **Monitoring Drop-out and Client Satisfaction**
- **Evaluating and Improving your Social Performance**
- **Innovations**

Please visit the centre of your interest to read related documents and discuss issues on the forum
www.mfc.org.pl/IDEA

MFI RATING FUND

WHAT IS THE RATING FUND?
The Microfinance Rating and Assessment Fund is a fund established jointly by the Inter-American Development Bank (IDB) and CGAP (the Consultative Group to Assist the Poor) to provide financing for microfinance institution (MFI) ratings and assessments. It was established to improve MFI performance, promote transparency, and the flow of funding resources to the microfinance industry.

WHAT DOES THE RATING FUND OFFER?
The Rating Fund provides partial financing of rating and assessment services for MFIs. An independent rating or assessment is a powerful tool to mobilize resources from investors and donors. Depending on management needs and the kind of funding sources it wishes to attract, an MFI has a choice of two services under the Rating Fund.

Assessment Measures trustworthiness by analyzing institutional capacity and performance. It evaluates operational and financial performance and management's capability to meet objectives and fulfill the contractual obligations of a range of stakeholders.
Credit Rating An opinion of the ability and willingness to pay a specific debt obligation on time. It measures creditworthiness.

HOW DOES AN MFI JOIN THE RATING FUND?
After choosing a rating agency and negotiating a price, the MFI goes through a simple application process that takes at most two to three days to complete. MFIs meeting the fund criteria are automatically approved. The Fund finances up to three ratings: 80 percent of the cost of the first rating, 60 percent for the second rating, and 40 percent for the third. The actual amount varies per region. In return, the MFI commits to transparency, which makes it more attractive to investors.

HOW DOES AN MFI BENEFIT?
A rating or assessment gives MFI management the analysis it needs to improve performance, and shows investors that the MFI is committed to improving performance, and is a strong candidate for investment.
Improving Performance Managers can use the evaluation process to focus on how and where to improve. Managers can also more easily compare their performance with peers and evaluate their standing in the microfinance industry.
Attracting Investors Completing a rating earns an MFI a higher transparency ranking on the MIX Market, which links investors with MFIs. This gives an MFI an enhanced profile, which dramatically opens up pathways to diversified funding sources.
Investors are seeking complete, accurate, and verified information on which to perform due diligence and monitor their investments. They are increasingly turning to the MIX Market as the premier forum to find accurate information about MFIs.
info@mfirating.org; www.ratingfund.org

CGAP's NEW INFORMATION SYSTEMS FUND (IS FUND)

Many MFIs still find it difficult to produce reliable information as they attempt to integrate software into their operations. In order to help MFIs who find it difficult to articulate their information systems (IS) needs, evaluate technology and/or implement it institution-wide, the IS Fund will co-finance consulting services at any stage of the information system development cycle (see stage definitions below). The IS Fund also aims to stimulate and develop a mature market for specialist information services (IS) consulting services for microfinance by attracting a pool of competent suppliers who can support the entire IS implementation process.

Information System (IS) Development Cycle Stages:
- Preparation – help an institution review their processes and procedures, documentation, administrative and infrastructural issues.
- Needs assessment – draft current and future requirements for an IS.
- Software evaluation – assess software currently in use and determine how well it suits the needs of the organization.
- Selection of software – help assess different software products for fit with MFI, prioritize requirements, interact with vendors and assist in final decision.
- Implementation –oversee rollout of new software and act as project manager, interacting with vendor to ensure services contracted for are delivered to the standards required
- Optimisation – ensure software continues to work well.

Funding:
The IS Fund will finance 60% of the IS consulting assignment, up to a maximum of $15,000 per MFI.

MFI Eligibility Criteria:
The IS Fund will support established microfinance institutions that are preparing for growth. To qualify, MFIs must have:
- An active microfinance client base above 3,000
- Total microfinance loan portfolio over $300,000
- Microfinance operations for at least two years

Consultant Eligibility Criteria:
To qualify as registered IS Fund Consultants, consultants must have:
- 1 year of experience in microfinance information systems, OR
- 3 years experience in broader financial services information systems

Application Instructions:
Both MFIs and consultants may apply using the IS Fund Online Application available at www.isfund.org, or for more information please contact us at info@isfund.org.

The following rating reports are available on-line at www.ratingfund.org:

Albania	**Armenia**	**Kazakhstan**	**Kyrgyzstan**
BESA 2002	Aregak/Umcor 2002	KCLF 2002	Bai Tushum 2002
PSHM 2002	MDF Kamurj 2002		FINCA Kyrgyzstan 2003
Rural Finance Fund 2002			
Bosnia and Herzegovina	**Georgia**	**Romania**	**Russia**
Partner 2002	CHCA 2003	OMRO 2003	FORA 2003
	Constanta 2003		RWMN 2002

Four more rating missions will be concluded in the first half of 2004: BosVita Bosnia and Herzegovina, RFPK Kosovo, KAFC Kyrgyzstan, FINCA Samara, Russia.

NEWS FROM THE REGION

On March 31, 2004 the **Association of Kazakh MFIs** was officially registered. It was founded by 6 MFIs and is currently headed by Shalkar Zhusupov, Executive Director of Kazakhstan Community Fund (KLF). A press-conference also took place and was shown on national channels in the news. The members of the Association of Kazakh MFIs are: Kazakhstan Community Fund (KLF), Kazakhstan Fund for Support of Entrepreneurs, Baspana, Association of Societies, CU „Almaty Credit", Fund for Support of Farmers and Entrepreneurs (Shymkent), MCO "Vozrozhdenye".

Calvert Foundation has approved a US$200,000 two year term credit facility for **XacBank**. With this increased loan capacity, the Bank will be able to expand its development lending program to the rapidly growing micro-business and consumer loan sectors in Mongolia.
XacBank has successfully met the minimum Paid-In Capital requirement of MNT 4.0 billion (US$ 3.6 million) set by the Bank of Mongolia to be met by all banks by 1st of April 2004.

A **Round Table "CGAP Guiding Principles on Regulation and Supervision of Microfinance"** was organized by the Russian Microfinance Center (RMC) in Moscow on April 6-7, 2004. The meetings with representatives of leading microfinance institutions in Russia and representatives of Russian Parliament, Ministry of Finance and Economy and Central Bank aimed at discussing CGAP's Guiding Principles in Russian context.

Four microfinance institutions in CEE/NIS have been rated since the beginning of 2004:

- **Finca Kyrgyzstan** received ACCION CAMEL overall score 3.7
- **Constanta Foundation,** Georgia was rated B+ (GIRAFE composite scoring: b a a b a c) by Planet Rating
- **FORA Fund,** Russia was rated A+ by Microfinanza Ltd.
- **PARTNER,** Bosnia and Herzegovina was rated A (GIRAFE composite scoring: a a a a a a) by Planet Rating
- **MI-BOSPO,** Bosnia and Herzegovina was rated A (GIRAFE composite scoring: b a a a a a) by Planet Rating

EBRD's first loan to an NGO
Since 1994, when the EBRD established the Russia Small Business Fund, the Bank has been financing micro and small enterprises (MSEs) via the commercial banking sector. Over the last ten years, the financial intermediaries participating in EBRD's MSE lending programmes have disbursed more than 550,000 MSE loans for over €3 bln in the CEE and NIS regions. 30,000 businesses are now being financed each month through 50 partner banks, including the 12 microfinance banks in which EBRD is a shareholder.

In March of this year, EBRD departed from the familiar path of lending to banks and made its first loan to an NGO when it signed a €1m loan with Alter Modus in Montenegro. Established by three Montenegrins in 1997, Alter Modus began providing business loans to small entrepreneurs in 1999, with a special emphasis on women, refugees and internally displaced persons. As of March 2004, Alter Modus had an outstanding loan portfolio consisting of 3,100 loans for €3.2 million. In March alone, Alter Modus disbursed over 400 loans for a total of nearly €660,000.

Over the last four years, Alter Modus has received support from UNHCR, DANIDA, Community Fund the US Department of Agriculture, Church World Service and NOVIB. It has adopted CGAP policies and procedures and put in place strict financial controls. In addition, Alter Modus has proactively supported the creation of a legal and regulatory environment for non-depository microfinance institutions that is unique in the region. The founders worked closely with the Montenegrin government, lobbying for the adoption of a new law on NGOs and later with the Central Bank to draft a new regulation under which all MFIs in Montenegro must be licensed and supervised by the Central Bank. All this has been done in the context of the management's clear objective to achieve long-term commercial viability.

In 2003, Alter Modus reached financial sustainability and this, combined with its well-performing loan portfolio and industry best-practice standards, allowed EBRD to 'pilot' a new way to support micro enterprises. While it is unlikely that EBRD will become a major funding source for microfinance NGOs anytime soon, this first experience has allowed the Bank to establish some broad criteria for considering a microfinance NGO for a loan.

Such criteria include: appropriate supervision/oversight by relevant authorities; adequate legal framework/status allowing recourse in the event of default; adherence to industry best-practice standards; financial sustainability; professional management committed to long-term commercial viability; financial statements in accordance with international standards; etc. While these are not hard and fast rules, they are a good indication of the kind of standards EBRD is likely to employ if and when it starts to grow a portfolio of loans to microfinance NGOs.

Prizma's Board of Directors has appointed Kenan Crnkic as Prizma's next Executive Director. Kenan joins Prizma after working as operations manager at one of the largest microfinance organizations in Bosnia- Herzegovina. With strong research and fundraising experience, and a strong commitment to Prizma's service to poor women and their families, Kenan's leadership at Prizma promises continuity and strong potential for institutional growth in the coming years. Kenan is a regional trainer for the Microfinance Centre for CEE-NIS and a certified trainer in MicroSave- Africa participatory research tools.

Microcredit Romania has opened a new web site. Visit the **www.micro-finance.ro** site to find the latest news, newsletters and resource materials about microfinance in Romania.
Microfinance Romania is a three-year project funded by USAID to improve the legal and regulatory environment for microfinance institutions, creating the conditions for the growth of a healthy microfinance industry in Romania.

BENCHMARKING

What is Benchmarking?

Benchmarking is a continuous process of measuring products, services, and processes against the industry best practices in a systematic way. Best practices are those practices that produce superior performance, are selected by a systematic approach and can be adapted to fit a particular organization. Benchmarking is a process whereby organisations pursue enhanced performance by learning about their own organisation through comparison with their historical performance and with the practices and outcomes of others. The main outcome of benchmarking is therefore learning how to change and improve organisational performance. Benchmarking involves answering the questions:

- How do we compare?
- Who performs better?
- Why are they better?
- What actions do we need to take in order to improve our performance?

There is considerable evidence showing that businesses that benchmark make more money. Businesses prepared to question how they operate and behave in a systematic way by comparing with best in class operators will be significantly more profitable than businesses achieving average industry performance. Benchmarking helps minimise business complacency by challenging the acceptability of current performance and asking the question „where can we do better?" Businesses that become complacent with their performance tend not to make the necessary changes to maintain and develop achievements within their industry.
Realistic organisations are able to learn from the rest of their own and other industries by identifying their major weak spots. They are aware of best practice operating elsewhere and can observe more efficient operations, gather new knowledge and set goals against which their progress can be measured.

It is a technique which is being used increasingly throughout the international business community and public-sector organisations. By looking at the relative performance of UK and US service businesses a study found that the financial performance of a company tends to be significantly higher among those that embrace benchmarking wholeheartedly[1].

Background in Benchmarking

The concept of benchmarking in a modern commercial and industrial sense came to the fore in the 1970's when Japan captured significant market shares from the USA corporations. These US corporations and, Xerox in particular, used benchmarking to identify and demonstrate that they were under-performing relative to the management standards set in Japan. These corporations were then able to remain competitive by using benchmarking to continually assess performance and then use the data to develop strategies to improve that performance.

Benchmarking was originally developed by companies operating in an industrial environment, benchmarking and therefore has been predominately applied within business enterprises. However, organisations such as government agencies, hospitals and universities have recently discovered the value of benchmarking and now apply it to improve their processes and systems. In addition, industry associations now increasingly use the tool to improve sector-specific processes. Most recently, public authorities have begun to explore the use of benchmarking as a tool for improving policy implementation processes, by focusing on the framework conditions which underlie the business environment and the economy more generally.

Why Benchmark?

In the private sector, the purpose of benchmarking is to gain a competitive edge. A benchmarking approach has become embedded in successful commercial organisations as a means of seeking innovation outside the industry paradigm - a way of keeping at the forefront of the competition. Recent surveys show that benchmarking is the third most used management tool. Interest in benchmarking is continuing to grow across the world. Benchmarking is also being recognised as a valuable tool for external learning strategies. Bill Cockbum, the Managing Director of BT Group stated,"In my experience, identifying the toughest competitors and world class performers, and then aspiring to beat them is the best way to achieve competitive advantage."

There are many benefits of benchmarking. The key benefits to organisations are:
- provides realistic and achievable targets
- challenges operational complacency
- creates an atmosphere conducive to continuous improvement
- allows employees to visualise the improvement which can be a strong motivator for change
- confirms the belief that there is a need for change
- helps to identify weak areas and indicates what needs to be done to improve.

Types of Benchmarking

Benchmarking is a very versatile tool that can be applied in a variety of ways to meet a range of requirements for improvement. At the outset of benchmarking projects, it is vital to be clear on exactly what is to be achieved through benchmarking and apply an appropriate methodology. Different terms are used to distinguish the various ways of applying benchmarking. The first word in each term relates to either the purpose for benchmarking or the type of a partner. Standard benchmarking terms include:
Strategic Benchmarking is used where organisations seek to improve their overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. It involves considering high level aspects such as core competencies, developing new products and services; changing the balance of activities; and improving capabilities for dealing with changes in the background environment. The changes resulting from this type of benchmarking may be difficult to implement and the benefits are likely to take a long time to materialise.

Performance Benchmarking or **Competitive Benchmarking** is used where organisations consider their positions in relation to performance characteristics of key products and services. Benchmarking partners are drawn from the same sector. However, in the commercial world, it is common for companies to undertake this type of benchmarking through trade associations or third parties to protect confidentiality.

[1] The study was conducted by Professor Chris Voss and his colleagues at the London Business School.

Process Benchmarking is used when the focus is on improving specific critical processes and operations. Benchmarking partners are sought from best practice organisations that perform similar work or deliver similar services. Process benchmarking invariably involves producing **process maps** to facilitate comparison and analysis. This type of benchmarking can result in benefits in the short term.

Functional Benchmarking or **Generic Benchmarking** is used when organisations look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.

Internal Benchmarking involves seeking partners from within the same organisation, for example, from business units located in different areas. The main advantages of internal benchmarking are that access to sensitive data and information are easier; standardised data is often readily available; and, usually less time and resources are needed. There may be fewer barriers to implementation as practises may be relatively easy to transfer across the same organisation. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking.

External Benchmarking involves seeking outside organisations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the leading edge, although it must be remembered that not every best practice solution can be transferred to others. In addition, this type of benchmarking may take up more time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations.

International Benchmarking is used where partners are sought from other countries because best practitioners are located elsewhere in the world and/or there are too few benchmarking partners within the same country to produce valid results.

The Benchmark is only the starting point - Benchmarking is a tool for continuous improvement.

Who provides benchmarks?

Associations for benchmarking and benchmarking clubs that are either industry-specific (i.e. banking, telecommunications) or process-focused (human resources, product development) engage in collecting information from their members in order to identify „Best in Class" business processes, which, when implemented, will lead member companies to exceptional performance as perceived by their customers. Their objectives are the following:

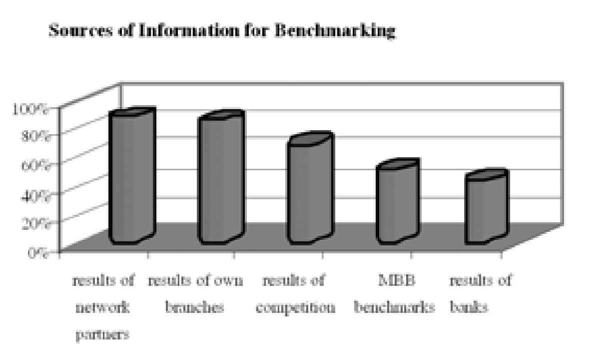
- To create a cooperative environment where full understanding of the performance and enablers of „best in class" business processes can be obtained and shared at reasonable cost.
- To use the efficiency of the consortium to obtain process performance data and related best practices from inside the industry.
- To support the use of benchmarking to facilitate process improvement and the achievement of total quality.

Benchmarking in the Microfinance Industry

In microfinance industry this role has been taken up by the Microfinance Information eXchange (MIX) – the Washington-based organization dedicated to improving transparency and establishing performance standards in microfinance.
Since 1999 the MicroBanking Bulletin (MBB), now housed at the MIX, has been publishing performance benchmarks for MFIs all over the world. The MBB has built a database of information from 124 organizations all over the world. These organizations report their financial and non-financial data on an annual basis. Their information is used to calculate 50 benchmark indicators covering such areas as institutional characteristics, outreach, productivity and financial performance for 17 peer groups classified according to the size, target market and location. It allows for comparisons among organizations which operate in a similar environment and run similar operations. Participating MFIs receive Customised Performance Reports that analyse their performance in comparison to the benchmarks of their peers and the best MFIs in the world (financially self-sustainable MFIs). The Report provides an insight for the MFI managers into the position of their organizations in view of the others in the same market.

In 2001 the Microfinance Centre for CEE and NIS (MFC) teamed with the MIX to expand the database of information from the region and work out the benchmarks on the sub-regional and national levels. As a result of a partnership launched in 2003 between the two organizations, the MFC is now responsible for data collection and processing from the whole region of CEE and the NIS. There has been a growing interest in the benchmarking project among the MFIs in the CEE/NIS. Since 2001 the number of MBB participants from the region has grown by 50%. The project benefits major and smaller organisations, reaching companies of all sizes and target markets. Please have a look at the last page of this newsletter where the latest benchmark indicators for regional peer groups are shown along with the world top performers (FSS MFIs).

The recent survey carried out among 50 MFIs in CEE and the NIS revealed that the majority of institutions (86%) carry out internal benchmarking, that is compare results of their branch offices, and 70% benchmark themselves with direct competitors. Nearly all MFIs (89%) that are members of international networks regularly compare results with the network partners. Over half of the surveyed MFIs (52%) use MicroBanking Bulletin benchmarks.
Comparing results with the others leads to introducing certain improvements – re-designing some processes (64% of surveyed MFIs) or re-designing some products (46% of MFIs). The below graph illustrates the sources of international for benchmarking.

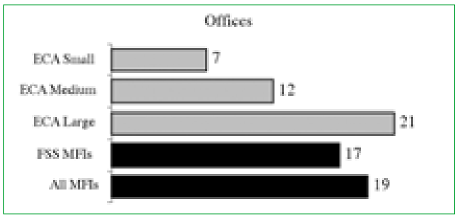


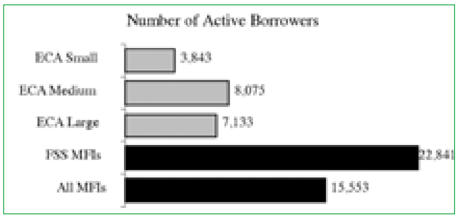
Where to Find Further Information?

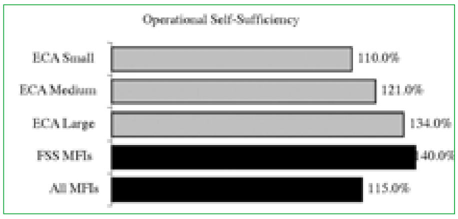
www.mixmbb.org – you can download the latest issues of the MicroBanking Bulletin with benchmark tables
www.mfc.org.pl/MicroBankingBulletin - you can find abbreviated MBB benchmark tables for CEE and NIS
www.mfc.org.pl/IDEA - this resource centre contains a number of documents related to benchmarking in CEE/NIS

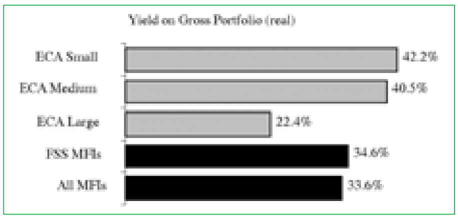
Sources: Prospect Management Services www.prospectmanagement.co.uk
Public Sector Benchmarking Service www.benchmarking.gov.uk
Constructing Excellence www.cbpp.org.uk
Katalyst www.katalyst.com
Value Based Management . Net www.valuebasedmanagement.net/methods_benchmarking.html
www.change-management-toolbook.com/cl_01.htm

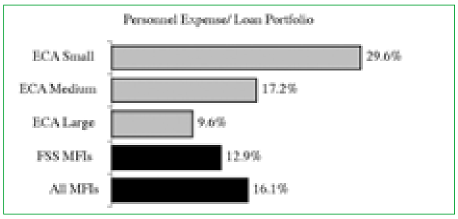
MICROBANKING BULLETIN BENCHMARKS

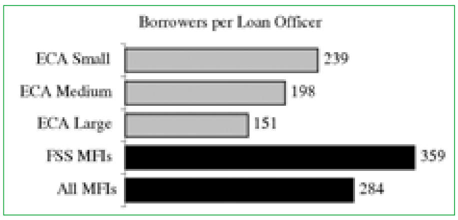


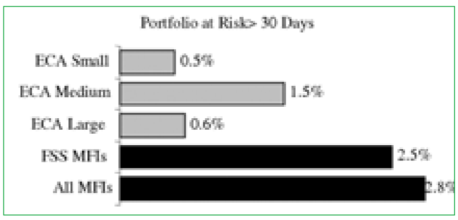












Performance Benchmarks	All MFIs	FSS MFIs	ECA Large	ECA Medium	ECA Small
Institutional Characteristics					
Age	**8**	**10**	5	5	3
Total Assets	**7,931,000**	**14,482,358**	11,149,406	5,223,780	1,871,945
Offices	**19**	**17**	21	12	7
Personnel	**120**	**174**	76	80	48
Financing Structure					
Capital/ Asset Ratio	**42.7%**	**40.4%**	42.0%	60.9%	70.9%
Commercial Funding Liabilities Ratio	**44.1%**	**76.0%**	1.2%	16.7%	4.1%
Debt/ Equity Ratio	**1.9%**	**2.5%**	2.4%	1.0%	0.4%
Deposits to Loans	**15.3%**	**21.9%**	0.0%	0.9%	0.0%
Deposits to Total Assets	**12.3%**	**16.4%**	0.0%	0.8%	0.0%
Gross Loan Portfolio/ Total Assets	**70.9%**	**73.1%**	95.7%	77.5%	64.5%
Outreach Indicators					
Number of Active Borrowers	**15,553**	**22,841**	7,133	8,075	3843
Percent of Women Borrowers	**62.9%**	**61.9%**	39.5%	57.5%	83.3%
Gross Loan Portfolio	**5,347,516**	**10,154,579**	10,670,240	3,865,741	1,175,688
Average Loan Balance per Borrower	**532**	**621**	1,584	739	354
Average Loan Balance per Borrower/ GNP per Capita	**54.3%**	**66.4%**	113.2%	77.3%	35.0%
Overall Financial Performance					
Adjusted Return on Assets	**0.1%**	**5.7%**	2,20%	3.4%	-4.0%
Adjusted Return on Equity	**2.3%**	**14.6%**	14.1%	6.9%	-5.5%
Operational Self-Sufficiency	**115.0%**	**140.0%**	134.0%	121.0%	110.0%
Financial Self-Sufficiency	**104.0%**	**128.0%**	115.0%	110.0%	93.0%
Operating income					
Adjusted Financial Revenue Ratio	**27.1%**	**30,20%**	25.4%	33.7%	29.0%
Adjusted Profit Margin	**0.3%**	**19.4%**	8.8%	5.9%	-15.5%
Yield on Gross Portfolio (nominal)	**39.8%**	**39.9%**	25.6%	44.8%	50.2%
Yield on Gross Portfolio (real)	**33.6%**	**34.6%**	22.4%	40.5%	42.2%
Operating Expense					
Adjusted Total Expense Ratio	**27.7%**	**23.7%**	22.4%	30.9%	32.2%
Adjusted Financial Expense Ratio	**6.2%**	**6.2%**	4.7%	3.9%	4.9%
Adjusted Loan Loss Provision Expense Ratio	**1.8%**	**1.4%**	2.5%	2.0%	1.2%
Adjusted Personnel Expense Ratio	**10.5%**	**8.7%**	8.9%	12.6%	15.9%
Adjusted Administrative Expense Ratio	**8.4%**	**6.2%**	6.4%	12.4%	10.4%
Adjusted Operating Expense Ratio	**19.1%**	**15.8%**	15.2%	25.0%	26.3%
Adjustment Expense Ratio	**1.8%**	**1.3%**	3.2%	1.9%	4.2%
Efficiency					
Operating Expense/ Loan Portfolio	**29.4%**	**22.2%**	16.4%	34.2%	51.3%
Personnel Expense/ Loan Portfolio	**16.1%**	**12.9%**	9.6%	17.2%	29.6%
Average Salary/ GNP per Capita	**6.7%**	**7.5%**	7.6%	8.5%	6.4%
Adjusted Cost per Borrower	**142.0%**	**123.0%**	229.0%	260.0%	112.0%
Productivity					
Borrowers per Staff Member	**121**	**132**	93	100	103
Borrowers per Loan Officer	**284**	**359**	151	198	239
Personnel Allocation Ratio	**48.3%**	**45.0%**	62.7%	51.3%	44.8%
Risk and Liquidity					
Portfolio at Risk> 30 Days	**2.8%**	**2.5%**	0.6%	1.5%	0.5%
Portfolio at Risk> 90 Days	**1.5%**	**1.5%**	0.4%	0.2%	0.3%
Risk Coverage	**1.3%**	**1.5%**	7.4%	2.5%	1.1%
Non-earning Liquid Assets as a % of Total Assets	**8.6%**	**6.0%**	3.2%	12.3%	21.4%

HAPPENINGS AT THE MFC

Training & Consulting

5 YEARS IN SERVICE FOR MICROFINANCE

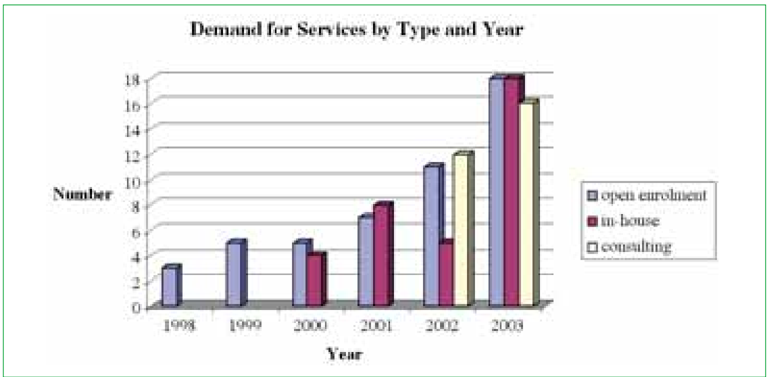
The MFC Training & Consulting Unit had a remarkable year in terms of activity volume during 2003, and I just wanted to share some of the highlights with you, and also tell you about some of our plans for the coming years.

During 2003, we had the pleasure of delivering **18 open-enrolment courses, 18 in-house trainings and 16 consulting assignments, for a total of 52 events.** To give you an idea of the magnitude of this achievement, consider that during the 5 years since the first training course conducted by MFC in 1998, through 2002, we delivered a cumulative total of 60 trainings and consulting assignments. Since 1998 through 2003, therefore, MFC has conducted 112 training and consulting assignments. We have had the privilege of serving over **1,780 participants** during this time.

By the time of our 7th Annual Conference in May 2004, we expect to have executed at least 18 additional training and consulting events. Needless to say, we are very proud and pleased to see our services are in so much demand.

In January 2004, at the invitation of the European Microfinance Network (EMN), we conducted the first-ever training for MFIs operating in 8 European Union countries. MFC intends to co-operate with EMN over the next few years to expand training services to EU MFIs.

In order to meet the needs and challenges of the ever-evolving microfinance industry in our region, we have committed ourselves to several capacity-building initiatives over the coming years. First of all, we are seeking to add eight to ten new training courses to our portfolio in areas of increasing relevance to MFIs, such as governance, **marketing, human resource management and staff incentive systems, rural lending, and asset/liability management.** We have already begun work on several of these and expect to be able to begin offering them by the end of 2004. Secondly, we plan to significantly increase our capacity and professionalism in the area of consulting. We plan to partner with a well-known and respected consulting firm to help build our in-house capacity, as well as to develop links with professionals in areas outside of our sphere of expertise. It is our goal to continuously offer top-quality, diversified and relevant services to MFIs in the region.



I would like to extend my deep appreciation to all persons and organizations who have supported, and continue to support, us throughout the past six years, in particular, CGAP, Eurasia Foundation, USAID, OSI, and CAMFA. I would also like to take this opportunity to thank whole-heartedly the T&C unit staff, and all MFC trainers, without whom none of the good work we have been able to provide would have been possible. Thank you all for your support, hard work, dedication and friendship!

We are proud to be here for you, and proud to be of service.

John Guzowski
MFC Acting Training & Consulting Manager

Current training calendar is available at the MFC page www.mfc.org.pl or upon request from MFC Training Coordinator at inessa@mfc.org.pl

New Product Development, September 2003, Warsaw

Financial Analysis, October 2003, Moscow

Human Resources Management, November 2003, Dubrovnik

Efficiency in Microfinance, January 2004, Paris

Research

<INSIDE> Approach – a way to institutionalize learning from clients

The PLP (Practitioners Learning Program) is a 2-year action research global project focused on client assessment (CA) approaches and methods for microfinance practitioners managed by the SEEP Network. MFC and its Armenian member MDF Kamurj work jointly to investigate the best practices in institutionalizing learning from clients and developing new client-responsive products.

Facing the challenge of institutionalizing CA can be daunting for many microfinance institutions. MFI's lacking a clear approach and method to institutionalizing the CA process often end up with a proliferation of information and confusion as to how to integrate the information into their internal and external activities. Through their PLP activities, MDF Kamurj and MFC, have identified a successful approach to institutionalizing CA activities that focuses on putting the process first to ensure the proper use of tools and staff and client buy-in.

Internal preparation (including secondary data analysis)
First, prepare internally and identify the information that is currently available, including management information systems, secondary sources, and previous research.

Nonstop, continuous human resources feedback and appraisal
Concurrently, focus extensively on understanding staff through human resources surveys focused on staff attitudes, motivation and satisfaction.

Staff training and development
Based on the human resources survey results, provide staff training and development about the CA process.

Information mapping
After staff training and development, identify and prioritize the institution's information needs. MDF and MFC found that focusing priorities enabled them to have more internal capacities to complete high quality work in the field.

Development of task forces
To further ensure staff buy-in and involvement, develop taskforces. MDF Kamurj/MFC created three taskforces—Client Monitoring, Product Development, and Market Research. The taskforces are comprised of a small inter-level and inter-functional team, ensuring that the ideas and perspectives of staff from all levels and departments are reflected in their approach.

Establishment and adherence to guidelines
Establish and follow clear, simple guidelines when designing CA tools and systems. MDF Kamurj/MFC answered why, what for, by whom, how, how often, and when to start before they designed their tools and systems.

Having identified and implemented a clear CA approach has helped MDF and MFC communicate their goals and outlook for the future for both their staff and their clients. However, MDF and MFC also recognize that CA is an on-going process that they are continuously trying to improve through innovation, fostering a learning culture and the use of tools efficiently and practically.

For more information on the <INSIDE> Approach please contact Michal Matul (michal@mfc.org.pl) or Gagik Vardanyan (Gagik_vardanyan@mdf-kamurj.am). See www.mfc.org.pl/research for more information about the MFC Research Unit work.

Partnership with the MIX

On October 30, 2003 the MIX and the MFC entered into a Partnership Agreement.

The aim of this agreement is to streamline the process of data gathering and analysis from the CEE/NIS region, improve MFI reporting practices and the exchange of information.

Within the scope of this agreement the MFC will act as the main focus of data submission for the MicroBanking Bulletin. The MFC will be responsible for data verification and analysis as well as the preparation of Customized Performance Reports for each MBB participant from the region.
All analyzed information will be shared with the MIX for benchmarking and cross-regional analyses to be published in the MicroBanking Bulletin.

The MFC will also represent the MIX in working with local associations/networks to introduce MIX's tools and methodology for performance monitoring of their members. This will help build the capacity of local networks and their members as well as increase the pool of data available for performance monitoring and benchmarking.

For more information about this partnership please contact Justyna Pytkowska, MFC Researcher at justyna@mfc.org.pl

Strategic Partnership with CGAP

We are very pleased to announce the strategic partnership between the Consultative Group to Assist the Poor (CGAP) and MFC.
Both institutions will closely cooperate and engage in joint projects. MFC will translate and disseminate CGAP publications in the C&EE and the NIS region.

For more information about this partnership please contact Magda Kicińska, MFC Network Marketing Manager at magda@mfc.org.pl

MFC MEMBERS' CORNER

MIKROFIN, Bosnia and Herzegovina

Almost three years ago, since MIKROFIN's re-registration as an Independent Local 'Microcredit Organization', CARE and MIKROFIN have redefined their partnership responsibilities. CARE considers the full institutionalization of MIKROFIN a fundamental priority, enabling the institution to access and deal commercial lending.

One of the main growth obstacles of many Microfinance Institutions lies in their low level of owned-equity. International investors and commercial banks consider quasi-equity and short-term loans from affiliates with suspicion because they distort the debt-equity ratios, which they usually use to assess solvency. CARE holds lending-investments within MIKROFIN from funds provided by both the United States Department of Agriculture (USDA) and Ireland AID. From 1997 to 2001, CARE was lending these loan funds at a concessional rate and based on performance, re-negotiating the lending terms on an annual basis. From a cautious and conservative start-up phase these lending arrangements were efficient in stimulating institutional rigor. Although, in the medium term, when MIKROFIN reached a capacity to attract commercial investment it harmed it. Thereby in 2002, CARE has initiated a restricted donation to equity phase through forgiveness of debt contracts. The restrictions stipulated in these contracts are associated with ownership of the funds in case of transformation of the institution and linked to the poverty focus for which these funds should serve. Up to now, 75% of these loan funds have been gradually capitalized to MIKROFIN's equity.

In November 2004, CARE will conclude its direct involvement with MIKROFIN bringing to its end its sub-grantee agreement through the two-year MIKROFIN Expansion and Technical Assistance (META) Project. The Microenterprise Office, Financial Division of USAID, awarded this project to CARE/MIKROFIN in recognition to its performance and best microfinance practices.

Nevertheless, CARE intends to keep an indirect tie with MIKROFIN by offering it access to a convertible loan, in case MIKROFIN converts to another commercial form, from its affiliated capital market fund. MicroVest[1], which started operations last year, is an independent institution with a professional investment management team. Three non-profit institutions founded MicroVest: CARE, MEDA and Seed Capital Development Fund[2].

Exponential growth is the landmark of the solid management of MIKROFIN. In a competitive environment where past competitive advantages are insecure, MIKROFIN team set its strategy to become an existential adapting exercise.

Since its very beginning in 1997, CARE has noticed five managerial factors that made MIKROFIN successful:

- commercial and donor partnership evaluation has been a key finitude in identifying the best options in order to act strategically
- conservatism in managing its exponential growth has avoided the institution to glide in a momentum
- MIKROFIN always monitor where it stands, defining its interest more precisely than its RoA by focusing on its financial management opportunities and risks
- keeping the focus on its mission and values were essential in building experience and core competencies
- institutional authenticity has enabled MIKROFIN to feel free to reinvent itself in order to predict potential future down turns and keep its financial performance high

CARE considers that over the last six years of its operation, MIKROFIN created an adaptive and self-correcting organizational design that became more robust overtime, which result in sustained productivity improvements and steady increases in commercial borrowings from local banks and international investors. MIKROFIN has always taken into account its clients' concerns seriously in developing and adjusting its micro-credit loan products and services; organizing to execute has truly become a competitive edge of MIKROFIN.

For CARE, it has been a learning experience to be associated with MIKROFIN in promoting economic development and poverty alleviation. These lessons have as well strengthened CARE expertise, which shall benefit worldwide many more marginal individuals without access to financial services.

Guy Dionne, P. Eng. & Agr.
Former CARE Program Manager
UNDP Economic Development Coordinator
Bosnia and Herzegovina

Financial Modeling: A tool for Quality Business Development Services

Preliminary findings
by Guy L. Dionne, October 2003

This paper explores CARE International's experience in bundling microfinance and Business Development Services (BDS) by using financial modeling as a tool for measuring household income contributions and analyzing financial products relevance in the Dairy Cattle Sub-sector in Kosovo. Herein, CARE2 wants to share and formally document its current dairy microenterprise monitoring and share the actual array of experience in sub-sector interventions.

Financial Modeling of Dairy Cattle Farm Units in Kosovo

In order to facilitate the due diligence process of dairy farms, the CARE COMMPETES Project has developed a Dairy Cattle Financial Modeler - software run on an Excel platform. The COMMPETES Project uses four parallel monitoring and reporting sub-systems to collect data on direct and indirect project results for the following project elements: monitoring of fodder crops and dairy cow nutritional balance, monitoring of production costs, business planning and dairy sub-sector investments, monitoring of dairy contributions to household incomes. More specifically the monitoring of household income is done through a longitudinal assessment technique using a Dairy Cattle Financial Modeler aiming at forecasting monthly cash flows and annual operating profits (from gross revenues integrating the cost of goods sold, which are in turn deducted from variable and fixed costs). The Modeler also follows the asset movement on the balance sheet and provides a dairy farming enterprise analysis in terms of liquidity, solvency, profitability, financial efficiency, dairy profitability, household revenue and investment potential.

The full article is available at: Find Resources on ED at www.kcenter.com/care/edu

[1] MicroVest - www.microvestfund.com
[2] CARE - www.care.org; MEDA - www.meda.org; Seed Capital Development Fund - www.microvestfund.com/SCDF.html

ALBANIAN SAVINGS AND CREDIT UNION (ASC UNION)

Based on the Transfer Asset Agreement between the Rural Finance Fund, the Albanian Ministry of Finance and the Albanian Savings and Credit Union in May 2003, all the assets, activities and staff of the **Rural Finance Fund** was transferred to the **Albanian Savings and Credit Union.**

SCA Office in Kuqan village

ASC Union was created in January 2002, based on the experience of the previous microfinance projects in force since 1992. ASC Union is a federative organization of the Albanian Savings and Credit Associations (SCAs), which are self-created, self-managed and self-reliant. Based on democratic governance, ASC Union is the apex organization of the SCA network. The members are the SCAs and their representatives determine policy and activities.

The main functions of the Union are:

- **Representation:** the Union represents the network of SCAs through the interaction of its partners, including the government, the National Bank of Albania, donors, commercial banks and professional organizations.

- **Refinancing:** the Union is the central refinancing facility of the network, providing wholesale loans to member SCAs and connections to the banking system. The Union, strongly capitalized by its SCA members, is able to offer internal insurance mechanisms and guarantee schemes to commercial banks or other financial institutions.

- **Training and services:** the Union provides technical training to the elected bodies and members of the SCAs in all relevant fields.

- **Control:** the Union is in charge of the internal control system of the network, based on common accounting standards, a common MIS allowing for the establishment of consolidated statements and a set of prudential rules. Only SCAs fulfilling particularly severe quality requirements are accepted as members of the Union. The National Bank of Albania directly regulates and supervises the Union, receives consolidated reports on SCAs performance and soundness, and retains the right to directly regulate an SCA and to withdraw the financial license in case of default.

- **Board of Trustees:** The Union board is elected by the General Assembly of the Union, which consists of the representatives of Savings and Credit Associations' network members. The actual Board comprises seven people who represent different rural areas.

- **Legal Framework:** ASC Union and the Savings and Credit Associations, which are its members, are registered based on the law for SCAs and licensed and supervised by the Bank of Albania.

- **Impact:** This program has contributed significantly to the development of rural areas by providing credits to poor people who have no access to the banking system. It enabled thousands of private initiatives for investment in income-generating activities, and it had a significant impact on job creation, improving living conditions, decreasing rural migration and strengthening social life in the village.

Main indicators of ASC Union:

	Dec. 31, 2003
Total number of villages	328
Total SCAs	94
Number of SCA members	8,161
Loan portfolio	
Union network loan portfolio US$	7,715 ,590
Number of active loans	7,621
Average outstanding loan US$	1,012
Portfolio at risk (over 30 days)	0.85%
Performance indicators	
Equity / Debt	77%

Zana Konini, Executive Director, ASC Union, ascunion@icc-al.org

Kazakhstan Loan Fund

Having gone through the process of registration concluded on Feb. 19, 2004 the "Kazakhstan Community Loan Fund" changed its name to "Kazakhstan Loan Fund".
The reasons for changing the name are as follows. Kazakhstan Community Loan Fund got its name in 1997, when the main and only product was peer lending. Since then many things have changed, for example the fund launched additional products: individual and consumer lending. The fund also developed additional lending services.
Taking into consideration the above mentioned facts, the "community" definition does not correspond with the fund's services. That is why the fund was renamed the Kazakhstan Loan Fund.

At the same time the fund has developed a new logo in the form of a rock painting - the symbol of the sun. Since ancient times, the sun symbol has meant fertility and fecundity, wealth and prosperity. The sun symbol reflects the main objective of the fund's activity, which is to support entrepreneurs to develop their businesses, and to create an atmosphere of stability and prosperity for their families.
The logo is presented in a bronze color. Bronze symbolizes the precious metal and is reminiscent of its ancient origins, as it is one of the first metals that people used in their houses and to cultivate the land. Bronze later found its solemnity in coin manufacturing and had become a measure of value.
Solarium is painted in a circle to remind us of the coin's form, which shows the direct meaning of the financial services provided by the fund.

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General Director
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Bai Tushum Financial Fund - Kyrgyzstan

The Bai Tushum Financial Fund (BTFF) is a non-commercial, not-for-profit organization aimed at supporting the social and economic development of rural and urban areas of the Kyrgyz Republic. It was created in September 2000 by co-founders Swiss Caritas and ACDI/VOCA. After a law for microfinance organizations was passed in August 2002, Bai Tushum obtained its National Bank license as a microfinance agency. This new status allows the fund to expense loan loss provisions (subject to a change in the tax code), which will result in significant reductions in the taxes it is required to pay, and to lend borrowed funds.

Customers and Products: Currently Bai Tushum offers six different loan products:

- Crop and Livestock loan products are available to farmers, individual entrepreneurs and legal entities that are involved in relevant business activities.

- Crop Production loans finance the production of seed, grains, industrial crops and vegetables.

- Livestock loans finance milk and dairy production; cattle, pig and sheep breeding and fattening; poultry farming, beehiving, animal breeding, fish farming.

- SME/Agricultural processing loans finance agricultural processing; the manufacturing of packages for food and agricultural products and food; and the manufacturing of consumer goods, construction materials, and other eligible businesses involved in production.

- SME/ Trade loans finance all kinds of trade; public catering (cafes, bars, restaurants etc.); and service provision in rural and urban areas (automobile services, barbershops, recreation, tourism and other eligible small and medium businesses).

- Bai Tushum in collaboration with EU TACIS is also implementing a pilot project to introduce mortgage finance for micro and small entrepreneurs to acquire fixed assets for housing and business purposes. During 2003 Bai Tushum disbursed 34 mortgage loans for the amount exceeding 5.2 million soms.

- To promote self-employment among rural women who do not have the collateral to access credit resources, Bai Tushum has developed a new group-based loan product using CGAP/IFAD grant. This will enable rural women to buy milk cows, process and sell milk products. As of Dec. 31, 2003 Bai Tushum has disbursed 70 such loans amounting to 1.050 million soms in Osh oblast (Kara-Sui and Uzgen regions). This project is implemented in collaboration with Rural Consultative Services, a local NGO. Initial results show a high demand and success rate, and Bai Tushum is now replicating this prototype to finance other types of businesses as well.

All of these loans range in size from 10,000 to 1,000,000 soms ($230-$23,000 dollars). The average loan balance is $1,580. Loans are backed by collateral (immovable property), and borrowers must have at least a 25% stake in any financed activity. The maximum, and typical, loan term is 12 months. Interest rates range from 20-28%. Borrowers pay a 1% loan processing fee.

Loans are disbursed and repaid in local currency, in cash or through bank transfer. Interest rates are fixed, but may be revised by mutual agreement of the borrower and lender. Interest is paid monthly or quarterly and penalties are charged in cases of late interest or principal repayment. The fund does not provide repeat loans to customers with multiple delinquencies. Loans are not provided for financing existing debts, starting new businesses, speculative businesses, growing or processing tobacco, the production or sale of liquor, or other businesses or projects with negative environmental or social impacts.

International Rating: To further its plans to access commercial funding from international investors, Bai Tushum obtained a positive (“A”) rating from Microfinanza, Ltd. The rating noted a number of challenges and achievements. Significant among the challenges are increased competition, particularly for small and micro-enterprise loans, by institutions offering loans at lower interest rates.
Strengths noted in the assessment included comprehensive and formal procedures and internal controls, rapid and efficient loan disbursements, tight management of costs; positive financial results, a solid governance structure, and good training policies.

Microfianza assigns an “A” rating to those MFIs that have demonstrated “Strong capacity to meet its financial obligation; very good operations; stable even if it could be affected by major internal or external events” Translated into numbers an „A” rating is measured at 8 on a scale of 1-10.

Bai Tushum Indicators – 2001-2003				
	Dec-00	Dec-01	Dec- 02	Dec 03
Number of outstanding loans	633	700	1,124	1,408
Total outstanding loan balance (US$ millions)	0.811	1.180	1.737	2.200
Average loan balance (US$)	1,287	1,683	1,628	1,477
Delinquency rate (portfolio at risk basis > 30 days late)	15%	7.5%	7.9%	4%
Portfolio yield (annualized)	38.4%	34.6%	36%	34%
Operational self-sufficiency (annualized)	230%	135%	156%	277%
Return on assets (annualized)	1.8%	8%	12%	18%

Product Costing: Using another CGAP grant Bai Tushum conducted a costing exercise to determine the real costs for each individual loan product in each of its branches. This exercise has been very productive, and its results are likely to positively impact the future profitability of the BTFF. The management of the BTFF plans to fine-tune the various loan products and how these should be priced in different branches. BTFF also plans to use the contents of this report in revising its strategic plan and position itself strategically in the local market. Bai Tushum used both conventional as well as the Activity Based Costing (ABC) method for computing the costs associated with each product. Bai Tushum is the only MFI in Central Asia to conduct this exercise.

In December 2003-January 2004, Financial Fund Bai Tushum conducted a research “Assessment of micro-credit impact on the living standards of the Fund’s clients”.

The aim of the research was to:

- Identify micro-lending programme impact assessment on the economic and social status of the clients and correspondence of the product to the needs of the clients,
- Identify satisfaction level of clients with the Fund’s programmes,
- asses the level of use of loans by the clients and receipt of income during

The research was conducted in all the three branches of MCA Financial Fund Bai Tushum and in Head Office as well.
It was done using instruments provided by SEEP network on Micro-finance services impact asessment and Network on Supporting and Training Small Businesses.

The number of clients who participated in the research was 136 (10%) from total number of clients - 1343. 85 % of clients participated in the poll (client selection was done on a random basis, every 25th from the list). Thus, 40 clients from Osh branch, 30 from Jalal-Abad and 15 from Chui branch participated in the poll.

Research results showed that the advantages of the Fund’s loan programmes are rapid and efficient document processing and flexible schedule for interest repayment. Loan products of the Fund such as SME, livestock, crop production, planting, mortgage are the most popular of all loan products among the population.

In general, research results showed that:

- Microcredit programme positively affects the economic situation of the client families.
- Permanent and continuous access to microcredit provides wide possibilties for planning and developing businesses.
- Microcredit programme creates opportunities for self-employment through creating new business or developing the existing one.
- Characteristics of loan products meet the needs of the clients.

Micro-crediting programme provides opportunities for self-employment of the clients. During the reporting period, micro-credits contributed to the significant increase of new jobs available. Impact assessment identified that every loan of USD 250 creates or helps to create one vacancy – a loan disbursed by the Fund during a credit cycle (11-12 months) creates up to 6 permanent and 8 temporary jobs.

However, at the same time, the research showed that Fund’s programmes have certain lapses as well. Below are the aspects that clients are not happy about:

- High interest rates for existing loan products,
- Procedure of a monthly interest repayment for primary clients,
- Short duration of loans (only 12 months).

Taking into consideration the remarks of the clients, and after conducting the financial environment analysis for competition taking into consideration financial possibilities of the Fund, the leadership of the Fund took a decision on a significant reduction of interest rates for the existing loan products.

Besides, the Fund started implementing new types of credit services, such as group lending for women and lending to trade-service cooperatives, which are disbursed on collateral-free basis for the persons who are not able to participate in individual credit programmes of the Fund.
Due to right research analysis and measures taken in time, the flow of clients to the Fund has increased significantly, level of loan disbursement sharply grew in all the branches, repeat clients who use credit lines became more active. Loan portfolio growth over two months of 2004 was 12%.

In future, research results will be used for improving existing and implementing new loan products, developing effective mechanisms for interest repayment, improving Fund’s policies and procedures, improving the quality of services, implementing new methods for increasing awareness about Fund’s financial services among population and attracting new clients. Analysed data will be used for developing strategic and marketing plan of the Fund and will contribute in following up the social and financial mission of the Financial Fund Bai Tushum.

Gulnara Shamshieva, Bai Tushum Financial Fund, Kyrgyzstan gshamshieva@baitushum.com

Kosovo Enterprise Program (KEP)

Kosovo Enterprise Program (KEP) is a locally registered, financially self-sufficient MFI providing access to financial and non-financial services to low-income, micro and small entrepreneurs throughout Kosovo. KEP started as a Project of International Catholic Migration Commission (ICMC).
KEP is a socially responsible market leader with an outstanding portfolio of 6.5 million Euros and over 5,500 active clients.
KEP grew from a small operation comprised of two branches, 18 staff, and a portfolio of 180,000 Euros in 1999 to a financially and operationally self-sufficient MFI with a 6.5 million Euro portfolio, 11 branches, and 60 staff who work throughout Kosovo.

KEP currently offers four lending products:

- Solidarity Group Loans
- Individual Loans
- Village Banking
- Consumer Loans

KEP also offers training and consultancy services to MFIs, NGOs and private companies throughout the Region.

	Number of Loans Outstanding (end of period)	Value of Loans Outstanding (end of period)	Operational Self-Sufficiency	Financial Self-Sufficiency
1999	170	107,220.35 €	4.01%	3.78%
2000	1,875	1,472,255.20 €	25.20%	20.90%
2001	4,203	3,861,374.55 €	85.67%	62.32%
2002	5,237	5,589,410.40 €	171.34%	126.25%
2003	5,440	5,989,490.10 €	171.18%	141.29%
Feb 2004	5,504	6,519,466,85 €		

www.keponline.net

FORA (Fund Opportunity Russia)

In March 2004 FORA disbursed **2 349** group loans and **380** individual loans. Thus, **2 819** projects have been financed in one month.

As of the end of March 2004, FORA had **13 581** active clients.

In March 2004, a new hub of FORA in Lipetsk started operating. Before that, it had been the largest satellite of FORA, which served as the basis for the new hub.

Since 2003 FORA has been a member of the Small Entrepreneurship Public Council of the City of St. Petersburg. After the new Governor was elected, the composition and structure of the Council changed, and it was decided to arrange meetings of the Council quarterly, with participation of the Governor. The first of such meetings with participation of V.I. Matvienko took place on the 26 of March. The Council made the proposal about introducing amendments into the law on the unified imputed profit tax. The Governor fell in with the proposal, and the amendments will be introduced at the nearest meeting of the Legislative Assembly of St. Petersburg. It is planned to develop the system for giving microcredits to small business entrepreneurs and individual entrepreneurs using state guarantees for the entrepreneurs having no collateral provision and the system of subsidizing interest rates; the municipality is planning to enter into agreements about preferential credits (15% annual) with banks.

FORA Loan Analysis March 2004

Type	Group Loans	Individual Loans	Total
No. of loans deployed	6,621	906	7,527
Total Amount (US$)	6,783,253	1,537,185	8,320,438
Average Amount (US$)	1,025	1,697	1,105
Female	5,280	447	5,727
% Female	80%	49%	76%
No. of new clients	1,902	334	2,236
Amount disbursed to new clients (US$)	1,522,792	514,286	2,037,078
Average amount disb. to new clients (US$)	801	1,540	911
Jobs sustained	9,717	2,411	12,128
New jobs expected	831	253	1,084
Average job impact	1.59	2.94	1.76
Manufacturing	12	15	27
Service	51	24	75
Retail	6,472	842	7,314
Transport	3	15	18
Trade	83	10	93
Agriculture	-	-	-
TOTAL	6,621	906	7,527

www.forafund.ru

Constanta Foundation

2003 Achievements

In 2003 Constanta Foundation became a member of Microfinance Network, which is a global association of leading microfinance practitioners, being comprised of both nongovernmental finance and banking institutions.

Constanta further elaborated its own effective computerized Management Information Systems software, which enables the organization to promptly and easily produce any program related report for the purposes of management decision taking.

In the course of time Constanta managed to build good partnership with the local banks primarily aimed at supporting the development of micro and small business in the regions of Georgia.
In 2003 Constanta Foundation underwent the rating for the first time. The rating mission was conducted by Planet Rating. The final rating score received by the Foundation was B+.

According to the results of a study - A Regional Mapping of Microfinance in Central and Eastern Europe and the NIS - conducted by Microfinance Centre for CEE and NIS (MFC), Constanta is listed as one of the largest microfinance institutions in the region.

In 2003 Constanta managed to open 4 branches, 6 service points, thus enabling the hundreds of micro and small business operators or owners to get access to financial services.

Some Performance Indicators

GENERAL INDICATORS	2003	2002	2001	2000
Number of Active Borrowers	18 588	16 134	13 202	9 733
Number of Personnel	207	146	99	70
Average Outstanding Loan Size (US$)	190	182	113	68
Women Borrowers	71%	71%	78%	100%
Loans Below US$300	70%	69%	90%	100%
Gross Loan Portfolio (US$)	3 536 047	2 943 822	1 494 731	666 486
On-time Repayment Rate	98 %	98 %	99 %	99 %
Operational Self-Sufficiency	137%	176%	140%	101%
Personnel Productivity	90	110	133	139

www.constanta.ge

NEW MFC MEMBERS

FINCA Armenia

„FINCA Armenia" (Foundation for International Community Assistance) is a non-commercial, non-government organization whose aim is to ensure loan access to entrepreneurs with different level of incomes. FINCA was registered in Armenia in January 2000. Initially the loans were offered to women only. Later on, considering the local culture, loans were offered both to men and women. At this point the correlation of male to female borrowers in FINCA makes 55% to 45%. Later FINCA has expanded its activities to other regions as well and by the end of February 2004 it was offering loans in 18 towns/regions through HQ office and 2 regional (satellite).

Currently, FINCA Armenia has 2 loan products: individual loans (loans secured by collateral) and group loans (loans guaranteed with non-traditional type of security - group solidarity). The number of FINCA's active borrowers at this point is 5700. The average size of individual loan (as of February 2004) is $3400, and the average size of group loans is $586.

The foundation makes regular market surveys to the end of improving its credit program and creating new products to support, through financial services, the economically active part of population and contribute to the social and economic development of the country.

Most of FINCA Armenia's borrowers are involved in trading business. 10% of the total number of active borrowers are production enterprises. 5% of the borrowers are involved in the sphere of services. Dependent on the type of business and pay ability of borrowers, the loan size ranges between $70 and $20,000. FINCA Armenia's best clients are offered grace conditions, such as lower interest rate, longer loan term, grace period, flexible payment schedule, higher loan amount.

The loan portfolio of FINCA Armenia, which at the end of February 2004 was $2,039,700, is ensured by 28 loan officers. The repayment rate is currently 99.6%.

FINCA Armenia is planning to develop its activities through expanding into new regions and attracting new clients by offering new products and modifying the existing products for better client satisfaction.

FINCA Armenia: 2a Agatangeghos Str., 375023 Yerevan, Armenia, tel: (374 1) 552 861, 545 532, 545 531, fax: (374 1) 584 863, email: aram@finca.am

FINCA Kosovo

The Foundation for International Community Assistance ("FINCA International, Inc.") is a non-profit microfinance organization incorporated in the USA serving over quarter a million active clients in over 20 countries worldwide with the total loan portfolio over 50 million USD. FINCA provides financial services to the world's poorest families so they can create their own jobs, raise household incomes, and improve their standard of living.

FINCA Kosovo program was established in February 2000. The initial funding for FINCA Kosovo has been provided from the United States Agency for International Development (USAID). This has been followed by additional funding from UN Interim Mission in Kosovo (UNMIK) and the OSCE (loan capital grants), as well as EAR and German and Swiss Governments (long-term loans through the German Development Bank (KfW)). FINCA Kosovo was the first non-banking financial institution (NBFI) registered with UNMIK Banking and Payment Authorities (BPK).

FINCA Kosovo strategic objectives are to:

- Create a model, self-sustainable microfinance institution to serve Kosovo;
- Develop local staff capacity;
- Build confidence in the financial sector and specifically the micro-finance sector;
- Expand the model project to several regions within Kosovo.

Microfinance is FINCA Kosovo's only activity. 72 staff including representatives of major ethnic and religious minorities serve our clients from our 5 Kosovo-wide located branches providing about 2,200 active clients with both solidarity group and individual loans, with the portfolio totaling up to equivalent of 5 million USD.

FINCA Kosovo provides 2 loan products suitable for the small entrepreneurs:

- Village Banking loans (solidarity group lending). This methodology is more suitable for very small entrepreneurs who don't have significant assets to secure their loans. Instead, the borrowers form self-governed group and guarantee each-others' loans. This loan product is more popular in the rural areas;
- Small Enterprise loans (individual collateralized). These loans are suitable for small entrepreneurs with some business history and some assets to be pledged. More popular in the urban areas.

Both products have modifications tailored to the start-up female entrepreneurs.

In addition to the business loans, FINCA Kosovo provides 2 other loan products aimed to improve its clients' standard of living:

- House Improvement loans (household renovation-related activities);
- Consumer loans (firewood, education, household appliances, vehicles etc.)

FINCA Kosovo: 23 Komuna e Parisit Str. Prizren, tel: (381 29) 449 62, 250 62, fax: (381 29) 449 62, e-mail: yshulhan@villagebanking.org

FINCA Kyrgyzstan

FINCA (Foundation for International Assistance) Kyrgyzstan is part of FINCA International. FINCA International is a non-governmental organization based in Washington, D.C. that provides microfinance services at more than 20 locations worldwide.
FINCA Kyrgyzstan began in May 1995 with USAID support as a village banking program. The program started its operations in

the republic's capital. Now in its eighth year of operation, FINCA offers full service in all seven oblasts, having five regional and seven satellite officers.

Savings and Credit Groups, or Village Banks, are the primary mechanism for FINCA's micro-credit lending efforts. SCG consists of five or more members, mostly women, who come together to guarantee one another's loans and to provide mutual support. Most clients of FINCA Kyrgyzstan engage in selling goods at local or regional markets. Trade, including cross-border trade, plays a large role in the economy of the country. Groups meet weekly, bi-weekly or monthly over the course of a three-month or four-month cycle to make loan repayments.

To qualify for a new loan, SCG members must repay 100% of the previous loan and all accrued interest. Additional loan amounts are determined by the repayment performance during the previous term. High ratings provide not only higher loan sizes but less frequent payments and lower interest rates.

In 1998, FINCA added an individual loan product to support micro-manufacturers such as bakeries, canteens and shops.

Individual loans are offered to former group borrowers as well as new clients. These loans range from $2000 to $12,000.

To make its products more customer-friendly, the program continues to make refinements in grace periods, seasonal loans, repayment schedules and loan terms.

FINCA went through an external rating in 2003 from the ACCION CAMEL.

FINCA Kyrgyzstan's overall score as of Aug. 31, 2003 is 3,7, which is above the median ACCION CAMEL score seen in recent years. Institutions that have scored in this range have gone on to demonstrate high success with slight adjustments in the management of key resources.

In October 2003, FINCA Kyrgyzstan reregistered as a joint-stock "Microcredit Company" in compliance with new Kyrgyz microfinance legislation.

FINCA is now working on diversifying its range of loan products.

The new type of loan – a consumer loan – was approved and is in its pilot stage. Consumer loans are provided to any community member who is currently employed for the purchase of furniture or technical appliances.

Mortgage loans are also being developed. Agricultural loans are being planned to start in the autumn of 2004.

FINCA Kyrgyzstan: 127a Gogol St., Bishkek, tel: (996 312) 901 132, fax: (996 312) 901 131, e-mail: gabdul@finca.org.kg

FINCA Tomsk

FINCA Tomsk Mission

FINCA Tomsk provides financial services to small entrepreneurs in the Tomsk and Novosibirsk regions of Russia so they can create their own jobs, raise household incomes, and improve their standard of living. FINCA delivers these services through a professional locally managed, self-supporting financial institution capable of providing long-term financial services to small entrepreneurs in Western Siberia.

Brief History/Background of Organization

FINCA Tomsk is part of the global FINCA network. Since 1984, FINCA affiliates have made micro-loans to poor people, mostly women, in the developing world. Today, FINCA operates programs in 22 countries throughout Latin America, Africa, and the Newly Independent States of the former Soviet Union.

FINCA launched its Tomsk program in 2001 under a grant from the United States Agency for International Development and is locally registered under Russian law. Through offices in the cities of Tomsk (2001) and Novosibirsk (2003), FINCA has disbursed 11,000 micro-loans totaling over $8M from early 2001 to the end of March 2004. At the end of March 2004, FINCA had 1,400 active clients in the cities of Tomsk and Novosibirsk and is poised for continuing growth. 85% of FINCA Tomsk clients are women.

Primary Products/Services

FINCA has introduced two main loan products: (1) its "Village Bank", or group lending methodology (Business Development Groups) – from 23 March 2001; and (2) its Small Enterprise Loan, or individual loan product – from 20 March 2002.

The core of FINCA's lending activity in the region of Tomsk continues to be the group loan product (BDG or Business Development Group loans), while in the larger city of Novosibirsk, Russia's 4th largest city, individual Small Enterprise Loans are more popular. The Business Development Group loans do not require collateral, but instead each member of the group guarantees the loans of all group members. Generally, these clients do not have credit histories or sufficient collateral to qualify for a more traditional bank loan. The FINCA individual loans are generally larger than the Business Development Group loans and require both collateral and a co-signer. They are targeted towards clients who have larger, more established businesses with greater capital needs, but whose needs still fall under the minimum loan sizes of most small enterprise lenders in the formal sector.

FINCA also offers seasonal or parallel loans to both group and individual clients. These loans are meant to supplement a current loan in response to extra business expected during a specific time of year or holiday and are available half-way through the loan cycle. The first seasonal loan was disbursed in December 2001.

In 2004 FINCA Tomsk plans to introduce additional financial products to better serve the small business community, including micro-leasing and a new individual micro-loan product. FINCA also plans to test an individual consumer loan product in summer of this year to further expand its client base in the region.

FINCA Tomsk: Tomsk, 7, Gagarina str., 4th floor, tel: (7 3822) 585 001, e-mail: info@finca.tomsk.ru, www.finca.tomsk.ru

FINCA Samara

FINCA/Samara is a branch of FINCA International, LLC, and legally registered in Samara on 1 April 1999 after winning a United States Agency of International Development (USAID) grant to start a microcredit program in the Samara region of the Russian Federation. Samara was chosen because of the positive economic climate, progressive leadership, an advanced business environment. FINCA/Samara's mission is to provide financial services to families in the Volga Region so they can create their own jobs, raise household incomes and improve their standard of living..

FINCA SAMARA
Small Loans - Big Changes

Since its inception in 1999, FINCA/Samara has established a presence in 33 towns and villages of the Samara region and neighboring regions. The headquarters office is in Samara city, with satellite offices located in Togliatty, Otradny, Syzran and the village of Sukhodol. Starting in June 2002, FINCA/Samara expanded beyond the Samara oblast to the neighbouring regions of Orenburg and Ulianovsk, opening its program in Buguruslan and Buzuluk (Orenburg) and Dimitrovgrad (Ulianovsk)

During its first five years of operation, FINCA/Samara has been able to establish itself as a reputable financial services' provider on the local market. The company's loan products are accessible for all entrepreneurs, even those that are not able to receive credit through traditional financial channels. Moreover, FINCA Samara has a large active client base of repeat clients, because each client is treated individually by well-trained loan officers, regardless of the size or the physical location of the client's business. In other words, FINCA Samara through a customer oriented business approach fills an important niche in the financial services sector in Samara and neighboring oblast by making its products and services easily accessible to all.

FINCA/Samara achievements:

- **more than 21,000 loans to 5,500 entrepreneurs**
- **Total disbursement has exceeded $24,484,733**
- **2,927 active clients at the moment**
- **active portfolio $3,893,957**

As a result of the success in building a local micro lending program in Samara and the neighboring regions, FINCA/Samara was chosen to host an official ceremony, commemorating the 100,000th loan,made through the USAID non-bank finance programs in Russia. The ceremony, held in Samara on 28 May 2003 in Samara oblast Headquarters, was treated as a symbol of the regional small business development.

Recently, FINCA Samara added another distinction winning the award for the "Best Foreign Company in the Volga Region". More than 11,000 enterprises from 14 Volga regions took part in this competition, and FINCA Samara was selected for its outstanding work in the financial services sector.

In order to maximize its potential target market, FINCA Samara offers a variety of financial products, including:

Product	BDG	SEL	Seasonal Loan	Parallel loan	Credit Line
Loan Term	12-24 weeks	Up to 1.5 year	12-16 weeks	5 weeks	Up to 1 year
Loan Size (Max)	30,000 rubles ($1,000)	500,000 rubles ($16,667)	50,000 rubles ($1,667)	25,000 rubles (833)	500,000 rubles ($16,667)
Interest rate	1%/wk	1%/wk	1.5%/wk	1.5-2%/wk	Traders:0.875%/wk Producers: 0.75%/wk
Client status	Active or New	Active or New	Active or New	Active Only	Active Only
Collateral	None	Mixed	Mixed	Mixed	Mixed
Payments	Weekly, bi-weekly, monthly	Bi-monthly, monthly	Two equal	One	Monthly

Beyond the above, FINCA/Samara offers a wide range of benefits to our long-term clients, including: interest rate reductions, flexible repayment schedules, and parallel and seasonal loans,.

The typical FINCA/Samara client is female (76% of clients are women), age 40-45, with a college education. In many cases, they were former workers of the enterprises, which were closed in the post-Soviet period. The average loan sum is - $1,819, and over 70% of our borrowers are SEL (individual loan) clients. The vast majority are involved in retail trading: 85% (goods – 58%, products – 27%), with service providers (10%) and small producers/processing (5%) comprising the remaining 15%.

FINCA/Samara constantly improves the quality and variety of existing services and plans to introduce additional loan products in the future, including education, home improvement and rural loans. Through product diversification, geographic expansion and innovative approaches to the delivery of financial services, FINCA Samara will be able to strengthen its position in the ever-increasing competitive market in Samara and the surrounding region.

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FINCA – Tajikistan

FINCA – Tajikistan, a legally registered branch of FINCA International, Inc. in Tajikistan, was officially launched in the city of Kugan-Tube in southern Tajikistan on 17 December 2003. Thanks to initial funding from the United States Agency for International Development (USAID), FINCA – Tajikistan is now providing working capital to micro-entrepreneurs located primarily in the Khatlon Oblast of Tajikistan. With offices in Kurgan-Tube and Dushanbe, FINCA – Tajikistan has disbursed over US$30K to 132 micro-entrepreneurs between December 2003 and March 2004. Nearly 67% of these micro-entrepreneurs are educated women representing one of typically two sources of household income supporting 2 to 3 family generations.

Our goal in Tajikistan is to become a self-sustaining micro-finance institution within three to five years by providing micro-entrepreneurs with the working capital needs to grow their businesses by producing value added finished goods and purchase inventory. The strategy developed and now being implemented to achieve this goal involves the availability of commercially driven loan products that meet the business needs of micro-entrepreneurs in various stages of development and segments of the economy. Our activities began with the uncollateralized traditional "Group Solidarity Loan" (GSL) product with maximum sizes ranging from US$250 to US$1,000 for the first and third loan cycles, respectively, and optional durations of 12 to 16 weeks. We intend to introduce the "Small Enterprise Loan" (SEL) product to larger micro-entrepreneurs with sizes ranging from US$1,000 to US$5,000 sometime during the summer of 2004.

Clients of FINCA Tajikistan

For further information on our activities and plans, you may contact Adam A. Blanco, Country Director of FINCA International – Tajikistan, at aablanco@finca.tajik.net, tel: +(992)(372)24.82.25 office, Ulitsa Omar Khayam #5, Dushanbe, Republic of Tajikistan, 734003

FINCA Uzbekistan

FINCA Uzbekistan, a member of the FINCA International network began lending in July 2003 with funding from USAID. Its mission is to provide financial services to low-income families so that they can create their own jobs, raise household incomes, and improve their standards of living. FINCA Uzbekistan offers two products: a solidarity group-loan (Village Banking) product with savings, and an individual collateralized lending (Small Enterprise Loan) product. It currently offers these programs in Tashkent city and in Tashkent region, where it works in three villages.

FINCA Uzbekistan's core credit product is the Village Banking loan. Village Bank loans are provided to groups of at least six microentrepreneurs who are predominately poor women. This collectively guarantees one another's loans. During the first loan cycle, clients are able to borrow from $50 to $250 for a credit term of four months, making payments on a biweekly basis. A flat monthly interest rate of 4% is charged. Successive loans can be 50% more than the previous one, and after the fourth loan cycle clients can qualify for larger loans of up to $1,000 each and lower interest rates of 3.7%. Successful clients on their fourth loan cycle or higher can move to monthly payments. FINCA Uzbekistan requires Village Bank clients to save 10% of the loan principal, enabling the majority of clients to build substantial savings while with FINCA. As of January 31, 2004 FINCA Uzbekistan has 86 active Village Banking groups with 541 active Village Banking clients, 84% of them women. It has disbursed $189,483 to date and has a current outstanding portfolio of $61,544.

FINCA Uzbekistan's new loan product is for individuals who own small businesses with higher capital requirements and would be more likely to increase the number of employees if their businesses grew. This new loan product was initially offered in December 2003. Targeted businesses include bakeries, grocery stores, mechanic shops, and tailors. These Small Enterprise Loans start with initial loans of up to $750, with up to a 50% increase in subsequent cycles. Loan cycles would include biweekly payments switching to monthly payments by the third loan cycle. Loan terms are initially up to six months with increasingly longer terms per cycle up to a 12-month loan. The initial interest rate is 6% declining monthly, falling to 3.5% in the third or higher loan cycle. As of January 31, 2004 FINCA Uzbekistan has 18 active small-enterprise loan clients. It has disbursed $10,511 to date and has a current outstanding portfolio of $9,098.

Along with the provision of loans, FINCA Uzbekistan also trains clients on how to use credit responsibly. Over the course of the loan cycle, clients are trained in the necessary accounting skills to track internal savings and the repayments of their loans. Through FINCA Uzbekistan solidarity group meetings, clients also learn valuable lessons in group management skills, which enable them to conduct meetings themselves.

The primary beneficiaries of the FINCA Uzbekistan program are economically active poorer microentrepreneurs and their families. The targeted entrepreneurs will allow them to reinvest in their family's well-being, secure employment for themselves by investing in their businesses, increase their incomes and economic activity, thus contributing to the economic development of their local communities.

FINCA Uzbekistan: 62 Amir Temur Str., Tashkent, tel: (998 71) 134 7965, fax: (998 71) 134 8965, e-mail: edgreenwood@yahoo.com

Microfinance Development Fund (MDF), Mongolia

Our mission
Our mission is to assist in the development of a strong microfinance sector that is capable of serving low-income and poor households in the rural areas of Mongolia. We accomplish this by providing financing and promoting best practices to qualified commercial banks and non-bank financial institutions that actively serve such economically active households. It is our belief that providing financial services to support rural households' economic activities can enable them to diversify and increase their sources of income.

In addition, our mission is to provide training and technical assistance to Microfinance Institutions (MFIs) regarding micro-lending procedures. To address the weakness of the Non-Bank Financial Institutions (NBFIs) and the lack of familiarity with best practices in micro-lending, the MDF is committed to developing a technical assistance and training component to its operations.

Types of services and methodology we offer
The MDF is a wholesale on-lending facility to accredited Microfinance Institutions such as commercial banks (including wholesale commercial banks) and non-bank financial institutions (NBFIs) for on-lending to the target population (through sub-loans), i.e. the poor and vulnerable middle of the target area.

The loan source of $4.7 million -- equivalent to the amount of the Mongolian Togrogs -- had to be lent for low interest to the participating financial institutions (PFIs) that were selected as subsidiary borrowers.

All potential MDF applicants are required to meet the following minimum eligibility criteria:

- Activities must be conducted in accordance with the law of the Government of Mongolia
- Criteria and requirements set by the Bank of Mongolia for commercial banks and NBFIs in Mongolia must be adhered to.
- Loan interest provided to individuals and families has to be below the market interest rate
- 75% of the loan capital has to be provided to the outreach soums*, families and individuals of the project selected areas, while 40% has to be provided to the poor and vulnerable families with small income, individuals and small enterprises in order to increase their income and support their activities.

Type of clients we work with
The outreach of financially and institutionally sustainable microfinance services to the targeted poor and vulnerable with small income households, individuals and micro enterprises achieved in remote rural areas of the 8 core aimags*: Bayan-Olgii, Bayankhongor, Dornod, Dundgovi, Ovorkhangai, Omnogovi, Tov, Uvs, and Bayangol district of Ulaanbaatar city.

** soum – administrative unit of aimag*
** aimag – largest administrative division of Mongolian province*

mdf@mbox.mn

Kyrgyz Agricultural Finance Corporation (KAFC)

Legal status and organizational structure

Kyrgyz Agricultural Finance Corporation (KAFC) was established in 1996 by the Government of the Kyrgyz Republic and the World Bank to provide financial resources to the newly emerging private farmers and rural enterprises.

The Government of the Kyrgyz Republic is a sole shareholder of KAFC. Now, KAFC is a closed joint-stock company. According to its 2004 business plan, KAFC plans to transform itself into a rural bank and become an open joint-stock company. One of the priorities for KAFC's privatization is an option to offer a stake in KAFC to international financial organizations, so that it can continue to develop while providing for KAFC's sustained growth in the future.

Cooperation

At present, KAFC is an implementation agency for two of the World Bank's and one of Asian Development Bank's projects in Kyrgyz Republic. KAFC is participating in the realization of a poverty-alleviation program by the United Nations Development Program (UNDP) and a German government project for the development of cooperatives „Raiffeisen" in Kyrgyzstan.

KAFC cooperates with many international organizations such as „Rabobank" (Netherlands), the Japanese Agricultural Finance Corporation, Asia-Pacific Rural and Agricultural Credit Association (APRACA), the Swiss Development office in Bishkek and other providers of consulting and training services.

KAFC's lending activity

KAFC provides financing to the following sectors of the economy:

- Agriculture (crop production, cattle breeding, poultry farming, beekeeping, fish breeding, etc.).
- The processing industry and other spheres considered as agribusiness (processing, packing and storage of products).
- Services sector (tourism, catering, consulting, marketing, transportation and other services provided to rural populations).
- Trade (trade-supply activities in villages).
- Other profitable activities in rural areas that have positive cash flows, as demonstrated in business plans.

KAFC provides loans according to the following terms:

- Short term - less than 1 year;
- Medium term - from 1 to 3 years;
- Long term - more than 3 years, but less than 7 years.

KAFC extends loans of the following two types:

- Working capital loans for the purchase of production inputs, raw materials for the processing industry, and other means of production, etc. In this case, the borrowers' own contribution in the project should be no less than 20%. This means that KAFC finances 80% of borrowers' business projects; the borrower's contribution can be represented in terms of cash or in terms of commodities and should be reflected in the business plan, including the cash-flow projections. A borrower's contribution in non-cash can be represented, for instance, in terms of payments as wages, equipment and tools, rent, and leftover raw materials.

- Investment loans for the construction and building of production facilities, procurement of agricultural and non-agricultural equipment and machinery, etc. Investment credits require a 30% contribution from the borrower for a given project. This contribution could be as cash investments, construction materials, transportation and equipment installation costs and other costs.

KAFC does not finance the following activities:

- Refinancing of existing debts
- Tobacco production
- Strong alcoholic beverages production
- The purchase and rental of land

Interest rates

At the present time, the minimum interest rate is 15% in national currency; the maximum, 23%.

National network

KAFC has a wide network all over the country - 11 branches and 47 representatives. Employees number 305,112 of whom are loan officers.

kafc@infotel.kg

Micro-Entrepreneurs Development Support Center (MDTM), Tajikistan

MDTM was registered on January 29, 2003 as part of the project implemented by the Representation of ACDI/VOCA in Tajikistan. ACDI/VOCA received a grant from the United States Agency for International Development (USAID) in October 2001 to implement and manage the Ferghana Valley Regional Microlending Program (FVRM), which is part of the Stability and Food Security Project.

MDTM's mission is to „Improve the lives of the Tajik people by creating new opportunities for economic development by providing high-quality financial and technical services to micro-entrepreneurs in northern Tajikistan."

MDTM serves both rural and urban clients. The main office is situated in the city of Khujand, and there are five sub-offices in rural areas. The main product is a loan for trade, agribusiness and production. It is designed to provide working capital to micro-entrepreneurs. These loans range from $100-$1000, with terms of one to six months.

There is also a special product designed for livestock production for people who grow domestic animals for sale. Both products are disbursed using the solidarity group methodology.

In January 2004 MDTM started disbursing individual loans to successful former group borrowers.

As of March 1, 2004 the outstanding loan portfolio was $315,000 with 1,622 active clients.

MDTM is planning to become fully self-sufficient by the end of 2004. We plan to receive additional funding or receive a loan to increase the loan portfolio.

Shoira Sadykova, Deputy Director, shoira@acdivoca.khj.tajik.net

European Microfinance Network (EMN)

The European Microfinance Network was launched on April 28th 2003 in Barcelona.

Despite a dense mainstream banking network, many small businesses and families do not have access to financial services in Western Europe, more especially very poor people, excluded and unemployed persons. The objective of the EMN is to facilitate and develop, in collaboration with all types of financial institutions, access to these services for all segments of the European population.

More precisely it aims at :
- Promoting self-employment, microentreprise and microfinance in Europe;
- Supporting the development of microfinance programmes by disseminating good practice in microfinance delivery;
- Improving the regulatory frameworks to enable the most effective delivery of microfinance and self-employment, at European Union and Member State levels.

The network currently has 24 members. They are practitioners, research organisations and consultantants in microfinance. These organisations represent 10 European Union Member States. The Microfinance Center for Central and Eastern Europe (MFC) brings the experience of new accession countries. Several members of the network are banks or foundations created by banks. Other members work in partnership with the banking sector. EMN does not wish to create conflict amongst different types of institutions, but at facilitating the development of a continuum of financial institutions to meet all financial needs, including those of disadvantaged people.

As a new organization EMN will concentrate its efforts at the beginning by offering the following services:
- Information sharing
- Training on best practices for loan officers and top managerial leaders
- Facilitate exchanges among the members
- Organization of a first microfinance conference for Western Europe
- Promote microfinance at European Commission and Member State levels

EMN is currently supported by the European Commission (DG Employment and Social Affairs) and its members.

European Microfinance Network
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Oikocredit

Oikocredit, as a worldwide cooperative society, promotes global justice by challenging people, churches and others to share their resources through socially responsible investments and by empowering people with credit.

The Oikocredit concept is mainly carried by the investments of our 545 members: 482 churches and church-related organizations, 32 Support Associations (representing over 22,000 individuals, parishes and congregations), the Oikocredit International Share Foundation and 30 project partners. In terms of policy-making the membership is represented by 16 Board members, mainly from the South. The day-to-day business is in the hands of the International Support Office in the Netherlands, 11 regional offices, managed by local professionals, and 10 country representatives around the world. Financing the enterprises of poor people is the core of our business. By the end of 2003, Oikocredit had 362 projects with a value of EUR 107.6 million in its portfolio. Our clients range from Microfinance Institutions and small and medium enterprises to cooperatives of, for instance, small coffee farmers.

Oikocredit provides loans in local and hard currency, as well as equity investments About half of our portfolio consists of loans to Microfinance Institutions.

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MFC Network Membership

Microfinance Centre for CEE and NIS (MFC) is a top-notch organization of 89 involved in microfinance in 27 countries in the Central and Eastern European/New Independent States region.

By becoming an MFC member, you get access to a host of cutting-edge microfinance products and services available only to the members. MFC products and services are custom-tailored to meet members' needs. They will help your organization to become more competitive and knowledgeable about industry standards and best practices.

MFC members benefit from:
- **Access to members-only information** via the MFC member list-serve including information on new funding, career development options, and new research projects.
- **A 30% discount on MFC training courses and the MFC annual conference,** where you will learn about current best practices and innovations and network with fellow MFC members.
- **Promotion of your company on the MFC website** and via the MFC Newsletter, which reaches an audience of more than 3,000 people and 2,000 companies and organizations worldwide.
- **Tangible contact with investors** via the MIXMarket—an internet exchange information platform, www.mixmarket.org, and the MBB publication (MicroBanking Bulletin) where your data contribute to the industry benchmarks.
- **Participation in MFC governance** by providing input into our strategic organizational development.
- **Access to action research projects** including free technical assistance on the latest issues and testing and implementation of innovative tools that can provide you with a competitive edge and expansion opportunities.
- **Access to scholarships** for training seminars, conferences, and similar events (depending on the availability of scholarship funds).

Membership fee is USD 350 per year.

More information about the membership application procedure is available through the MFC web site – "How to Become a Member" section, or upon request from Alicja Krzeszewska alicja@mfc.org.pl

LIST OF MFC MEMBERS

Albania	
Albanian Savings and Credit Union	ffrural@albaniaonline.net
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For the Future Foundation	fff@albaniaonline.net
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MCI Microfinance Program „BARAKOT”	btolbaev@buzton.com

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.

BOARD OF DIRECTORS

Ken Vander Weele, Opportunity International Network(OI) – Treasurer
Maria Nowak, ADIE France
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 three languages – English, Russian, Bosnian-Serb-Croatian -portfolio of 13 training courses developed by CGAP, MFC, Bankakademie
20 local trainers

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

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
Performance Monitoring and Benchmarking

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

USAID CGAP OPEN SOCIETY INSTITUTE

TheSEEPNetwork miX

MFC SUPPORTERS

United States Agency for International Development (USAID)
Consultative Group to Assist the Poorest (CGAP)
The Ford Foundation
Open Society Institute
The SEEP Network
The Microfinance Information eXchange (MIX)

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

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