



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

# MICROFINANCE

## in Central and Eastern Europe and the New Independent States

### 10<sup>th</sup> MFC Conference of Microfinance Institutions

MFC is celebrating and reflecting on **10 years of bridging the market gap**. Join MFC at our 10<sup>th</sup> annual conference in Sofia, Bulgaria 31 May – 2 June where you will have the opportunity to take part in workshops, meet practitioners and researchers and attend the investors fair, where investors will be looking for new business opportunities. For more details and to register on line please visit the conference web site: [www.mfc.org.pl/conference2007](http://www.mfc.org.pl/conference2007)

#### **“From Exclusion to Inclusion Through Microfinance: Learning From East to West and West to East”**

This is an EU funded project led by the Microfinance Centre (MFC) with its partners: the European Microfinance Network (EMN) and the Community Development Finance Association (cdfa), U.K. The methodology of work is based on four working groups that finalized their reports and have started the dissemination part of the project.

Below, excerpts of the working groups reports are presented.

#### **Working Group 1: Social and financial exclusion map**

*Justyna Pytkowska, Researcher, MFC*

The objective of Working Group 1 was to develop a ‘social and financial exclusion map’ that looked at how microfinance institutions respond to social and financial exclusion in the West and East of Europe and how good practices can be exchanged between MFIs in both parts of Europe.

Social exclusion is a complex phenomenon, dynamic and multi-dimensional, linking various dimensions of life from which people are excluded. Social exclusion refers to marginalization from employment, income, social networks such as family, neighborhood and community, decision making and from an adequate quality of life. It is often difficult to disentangle the causes and consequences. However, unemployment is the major factor contributing to social exclusion, as employment and job security promise an income to satisfy basic needs and provide social integration and social identity at the same time.

Financial exclusion can be described as the inability of individuals, households or groups to access necessary financial services in an appropriate form. The causes and consequences of financial exclusion can contribute to social exclusion. Those unable to access finance for enterprise development or

#### **Book the dates for the MFC training courses in April 2007:**

- **Staff Incentive Systems for MFIs** (English Language) 17-20 April, 2007, Sarajevo, Bosnia and Herzegovina
- **Essentials of Rural and Agricultural Microfinance** (Russian Language) 24-27 April, 2007, Tashkent, Uzbekistan

If you would like to learn more please visit MFC’s website: [www.mfc.org.pl](http://www.mfc.org.pl) and/or contact Aldona Rutkowska at [aldona@mfc.org.pl](mailto:aldona@mfc.org.pl).

personal consumption have greater difficulty in integrating economically through employment and self-employment. Equally they can have difficulty participating in mainstream social activities and those events specific to their cultural reference group. Those who are socially excluded, particularly with respect to networks, decision making and an adequate standard of living are excluded from mainstream financial services which require professional and personal references, credit checks and proof of employment. In times of crisis socially excluded people may rely on predatory “door step” lenders, further exacerbating their vulnerability and exclusion.

Microcredit can be a tool for social as well as financial inclusion, as it helps to prevent and redress all the areas of exclusion – poverty, low income, lack of employment – which are evidenced as a major component and reason for social exclusion. Microfinance, through its broader range of services such as savings and insurance, can further assist poor people to plan for future lump sum needs and to reduce their exposure to income changes or sudden expenses and to participate in social life.

The Working Group 1 report defines social and financial exclusion, their most common causes and then looks at how microfinance institutions in the East and West contribute to the better inclusion of the disadvantaged layers of population.

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## Working Group 2: Key constraints, challenges and policy recommendations

*Philippe Guichandut, Executive Director, European Microfinance Network*

Part of the project "From Exclusion to Inclusion Through Microfinance: Learning From East to West and West to East" led by the MFC in collaboration with EMN and the cdfa, the working group on "Key constraints, challenges and policy recommendations" decided to develop a specific tool to measure and monitor policy changes: "the eScorecard".

In the name, the "e" stands for Europe and symbolizes the internet interactivity of the instrument. It is presented as a questionnaire and the expected outputs will be diagrams comparing countries and various dimensions. Simple visuals are believed to be a powerful instrument for analysis and innovation.

The "eScorecard" aims to collect information about the different microfinance environments in the EU Member states. A favourable microfinance environment is necessary to be able to achieve economic development and social inclusion through self-employment, but is affected by a number of factors that need to be closely monitored. Once the information is collected, this eScorecard aims to be a tool for the exchange of information and knowledge about the microfinance environments between the different regions in the EU (East/West). It is expected that this exchange of information and knowledge acquired will have a positive influence in the strategies developed by EU countries for social inclusion and economic development.

The eScorecard does not aim to determine an absolute scoring/positioning of countries on their microfinance policy. It is a tool, which increases information and knowledge exchange that can aid policy makers in the selection of possible policy measures based on what works in other countries.

The seven organisations involved representing 6 European Union Member States reviewed the indicators and scoring methods for

the 5 dimensions selected (Micro-Entrepreneurial context, Welfare Bridge, Legal framework for microfinance activity, Financial bridge for micro enterprises and socially excluded people, Funding and support for micro credit providers). They developed a methodology for interactivity including terms of access, ensuring quality and security of data, a hosting concept and internet dissemination. They also prepared a toolkit for the policy exchange process. A specific website will be designed. It is hoped that extra financial support will be found in order for the eScorecard to be sustainable and effective as a policy exchange tool in the long term.

## Working group 3: Benchmarks and performance measurement

*Maria Doiciu, Access to Finance Component Leader, TA to Develop the SMEs Sector in Romania*

The last decade has witnessed significant growth in the micro finance sector throughout Eastern and Western Europe. During this period, many Micro Finance Institutions (MFIs) have emerged to offer diverse products to a multifaceted market. Thus, there is an increasing need to scrutinize how micro finance activities are affecting the geographic, social and economic areas in which they operate and how their efficiency, productivity and socio-economic impact can be measured and improved.

Given the diversity of political, economic and social conditions from one region to the next, the design and implementation of tools to measure performance and impact is not without difficulties. It is nevertheless vital to the health of the sector to possess the ability to evaluate its products, service delivery and impact.

The objective of the working group 3 is to develop a framework against which MFIs in Eastern and Western Europe can assess their performance and the impact of their activities both on an individual level and within the sector as a whole.

The Working Group has developed a framework based on a series of indicators that will enable MFIs, stakeholders and founders to improve their understanding of relative performance and that will provide good practice goals for the sector. This framework is

## MFC HIGHLIGHTS

### MFC Financial Education Program

MFC and the Russian Microfinance Center (RMC) have selected 16 organizations as dissemination partners for the financial education project in Russia. In March the partners will participate in training of trainers on delivering financial education workshops to low-income populations and in the next months they will run the workshops for their target populations. They will be using the MFC 'Plan Your Future' toolkit and 'Financial Literacy for the Poor' curriculum developed by Microfinance Opportunities and Freedom from Hunger. The selected organizations are Soglasie (Chuvashia), Integra (Moscow), Znanie (Moscow), Avrorra (Yakutiya), Vera (Belgorod), Baking industry support foundation (Komi), Znanie (Pskov), Regional agency for SME support (Chita), Center of Servicing Credit Unions - COKS (St. Petersburg), International Business Leaders Forum (Moscow), SME support foundation (Tula), Women Business Center (Kurchatov), FINPO (Ufa), Raduga (Irkutsk), Grameen (Saratov), Rost (Irkutsk).

### Microinsurance Market Studies

In 2006 MFC conducted three comprehensive market studies 'Market for Microinsurance - Low-Income Households Needs and Market Development

*Projections* in Ukraine, Romania and Azerbaijan; funded by KfW and the Microinsurance Centre. The full reports are available at the MFC website [www.mfc.org.pl](http://www.mfc.org.pl).

### Advancing Social Performance Management (2006-2008)

Current achievements and upcoming events:

- The meeting of stakeholders of the FORD Foundation sponsored project aimed at development of a package supporting SPM (including Social Audit and Strategic Management) took place on Dec 11-13 2006 in Warsaw. During the meeting the final project outputs and the package dissemination were discussed
- The 3<sup>rd</sup> meeting of the Social Performance Management Working Group was held on Feb 12-14 in Warsaw. The meeting was attended by the group member institutions as well as two new MFIs interested in learning more about SPM: Horizonti (Macedonia) and Eurocom Consultancy and Studies (Romania). Altogether there were 21 participants from 16 institutions (MFIs as well as associations) who shared experience in SPM institutionalization and discussed emerging industry standards for SP reporting.
- The second round of technical assistance in institutionalizing SPM to Working Group members (Aregak – Armenia, KEP – Kosovo, Partner, Zene za Zene – Bosnia and Herzegovina) is in the process of prepara-

an infrastructure that will enable practitioners to compile data, which in itself will inform the more effective setting of appropriate benchmarks and standards for groups of practitioners.

MFIs will be able to use the framework to afford greater professionalism, consistency and transparency in their activities, improve efficiency and thereby increasing their credibility in the eyes of founders and other stakeholders and professionalism in the sector.

Further work is needed to enable MFIs to both report against the framework and identify capacity building inputs to help improve performance where necessary.

The next steps to be taken are the promotion of the framework amongst MFIs, their associations (networks) and stakeholders, the collation and segmentation of data, the establishment of indicators appropriate to individual regions and segments of the MF sector.

Main Indicators	
I. Scale and Outreach	Number of Active Borrowers
	Gross loan Portfolio
	% of Targeted Borrowers
II. Profitability and Sustainability	Operational Self-Sufficiency
IV. Efficiency and Productivity	Cost per Borrower
V. Portfolio Quality	Portfolio at Risk (30 or 90 days)
	Write-off ratio

## Working Group 4: Innovative approaches and products for combating financial exclusion

*Agata Szostek, Consultant, MFC*

The objective of Working Group 4 was to gather examples of innovative approaches and products for combating financial exclusion in Eastern and Western Europe.

tion. The visits take place in March and April 2007 and will be followed by distance mentoring.

- MFC plans to extend distance mentoring services to all its SPM Working Group members. The documentation of this process will support development of guidelines for institutionalizing SPM and identify pros and cons of different mentoring approaches.
- Prizma has been selected as one of 7 leading MFIs from all over the world to participate in Global Action Learning Programme. The Programme gathers global pioneers in SPM and seeks to improve SPM practices as well as research cost-benefit issues of SPM. The programme is managed by the ImpAct Consortium in which MFC is one of 7 members; MFC is responsible for the Programme regional implementation. The kick off meeting gathering all 7 action research partners, local consultants and 6 ImpAct Consortium members took place in Delhi, India on 16-18 January.

MFC is looking for consultants who are interested in joining the SPM program from summer 2007. The consultants should:

- Have good knowledge of microfinance in the region
- Be fluent in English and in Russian
- Have experience in MFI management
- Have knowledge and practical experience with facilitation of workshops/training courses/delivering technical assistance

The starting point was, that one of the key requirements for reducing social exclusion is the financial inclusion of poorer people, which microcredit can facilitate.

The 21 case studies which have been gathered represent attempts to overcome the greatest challenges faced by MFIs trying to deliver sustainable credit to micro-entrepreneurs. They are born of long experience of MFIs, working with people facing different kinds of disadvantage, in a variety of economic, social and environmental contexts. For this reason, the authors believe they are essential reading, for both MFIs grappling with those challenges, and policy-makers who want to increase financial inclusion and generate economic development within their countries.

The case studies focus on a least one of three challenges facing MFIs and the micro entrepreneurs they support. These are:

1. Reducing the costs of delivering micro-finance
2. Increasing the availability of private sector finance
3. Developing the micro-enterprise sector and increasing the sustainability of micro-enterprises.

The first set of microfinance case studies offer ways to address the first issue by using information and communications technology, particularly the internet, and by improving risk analysis.

The second set addresses the need for more private finance by increasing partnerships with banks, and offering loan guarantees.

The third set focuses on the development of the micro-enterprise sector and increasing sustainability of micro-enterprises by offering not only micro-credit but also other financial and non-financial services such as: leasing, micro-insurance, and/or business support.

The authors believe that the case studies offer a set of ideas, of starting points for new approaches, which are grounded in the experience of MFIs across Europe, and worthy of closer examination.

They would like the microfinance institutions to recognize that they serve a unique market and should be more innovative in developing marketing approaches, products, services and cost-effective delivery mechanisms. ■

For more information, please contact Dorota Szubert, SPM Program Manager at [dorota@mfc.org.pl](mailto:dorota@mfc.org.pl)

### Central Asia Microfinance Center Workshop "Microfinance in Central Asia: Current State and Future Prospects", January 22, 24, 26.2007, Bishkek (Kyrgyzstan), Almaty (Kazakhstan), Dushanbe (Tajikistan)

150 representatives of the MF community in the 4 countries of Central Asia and Afghanistan participated in the workshop, including representatives of Central Banks, parliament deputies and other government bodies; a wide range of financial institutions (banks, non-bank MFIs, CUs etc.), donor community, consultants etc.

The highlight of the trip was the workshop in Dushanbe: the event attracted about 80 participants, including representatives of the Parliament and a number of ministries, and the event was widely covered by the local mass media.

A very representative group of the MF sector in the country attended the workshop in Bishkek while around 30 participants, mainly from the MFI community joined the workshop in Almaty. Several donor representatives and the Government Fund to Support Entrepreneurship that supports a \$90 mln MF program, also participated. ■

## Social Audit in AgroInvest

*Dragana Djuric, Executive Officer, AgroInvest, Serbia*

Every organization that cares for its performance and clients will eventually come to the stage when it will start to examine its way of work, how did they get to where they are now, how are the clients doing, what is staff opinion on the institutional performance and structure, is the organization moving away from its core and social objectives, have we forgotten our identity, why are we doing what we are doing, are we only profit driven?

All these types of questions, and many more, have been included in the Social audit tool. The social audit is actually a kit ready to use for processes in organization, such as strategic thinking and planning processes, learning and appraisal processes.

During the process, three dimensions were examined. *Intent and design*, *Information systems* and *Management systems*. The tool is a specific discussion guide leading the moderator and the examined party through the introspective method of enlightening certain processes and performance.

### Intent and design

The first dimension represents the institutional Mission, its goals and objectives and how they reflect on the organization in practice. Is the Mission defined the best way to respond to needs of the main stakeholders? Does the promise that the institution has made to the world relate to the organizational setting in reality with reference to the clients, staff, community and owners? Do staff and management understand from the Mission what is the institution's goal and why it needs to be achieved?

The first dimension related to the organizational culture of AgroInvest, has an extremely important role in each of the planning and decision making processes. Therefore, the Mission and social goals are always being reexamined as a critical process, when management is striving to responsibly address cultural issues.

### Information systems

This is the second dimension; the dimension parallel to the operations, procedures and practice in the institution. It is, by definition, the best

way an organization can choose to translate the Mission into practice. However, the *Social audit* gives another context – it questions whether the organization implements its concepts and how it does this. Are the key people in the organization adopting, through everyday actions, the definition of mission and social objectives and do they have enough information to perform adequate actions to be aligned with organization's strategic goals. The question asked within this dimension takes into account staff at all levels.

### Management systems

Management systems are the result of key decisions. They say much about how the organization treats its clients (the change we want to achieve), staff (commitment towards clients and organization), board of directors (support, actions required and performed on the institutions highest levels), transparency towards external partners, good reporting results, expansion, fundraising. All this is being examined through asking simple questions and finding answers in practice. How does the management perceive the results? Does the management decide to go for profit rather than for staff and clients satisfaction? Or vice versa? What are the reasons for some decisions?

This is a simple, comprehensive, self-assessing means to recognize and critically address issues in the organization. Later on, through follow up questions and interviews conducted some ideas can be resolved or put to one side as discussion points. As the discussion continues, a clearer picture emerges and a conversation can be conducted, almost without noticing that the topic is guiding both parties to resolving the issue.

A very positive and inspiring tone has been given to the process, since the topic itself was very delicate and the discussion differs as the interviewers are replacing each other.

The panel meeting is an opportunity to share all controversial or unclear matters. It provokes discussion, debate and finally highlights the action point/activity that should resolve the issue and clarifies which individual/team is responsible for it.

In the AgroInvest case, this tool revealed many weak points in the systems and management processes and will result in creating a strategy with a holistic approach to the institution.

### Dimension development process after Social Audit in AgroInvest

Intent and Design	Since the main purpose of this dimension is to determine the level of commitment to the mission and goal process, it is important for AgroInvest to make sure the main purpose of the organization and mission is well articulated and well understood. Also to make sure that the mission and the social goals of AgroInvest are also understood by the clients, so that all stakeholders including clients can be familiar with the mission. AgroInvest will also develop new ways of contributing and giving something back to the community.
Information system	One problem for AgroInvest was the unstructured and informal information flow. Due to this a lot of important information was lost in the process. Therefore a basic need of formalizing and structuralizing the information systems was identified. Although the information system should not be too robust, it should have a workable structure, be easy and user friendly, in order to raise awareness at all levels in the organization.
Management system	There was a definite need to review the management system and incentives systems to involve the social perspective. The management and incentive systems in AgroInvest were financial and profit oriented. There is a developed bonus system including both individual and team bonuses, which has been developed for the branches but not for the managerial level. The need for a balanced incentive system was identified in order to keep the loan officers motivated and on target.  A new system for customer service is going to be developed, at present there is no special system in customer service, but there is always a need to listen to clients more.

### Next steps in AgroInvest after the Social Audit

After the Social Audit AgroInvest was committed to	<ul style="list-style-type: none"> <li>■ Include Social Performance Management (SPM) in future strategic plans.</li> <li>■ Include social indicators in reporting and to the MIS</li> <li>■ Include social indicators in the incentives system.</li> </ul>
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### Separate Action Plans were developed for operations, MIS and HR.

Most important next steps for AgroInvest	<ul style="list-style-type: none"> <li>■ Operations – reduce the number of clients per loan officer (currently 500/staff)</li> <li>■ MIS – include new indicators and initiate a structured follow up procedure</li> <li>■ HR – create an incentive system including social indicators</li> </ul>
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## MFC MEMBERS CORNER

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**MFC is pleased to welcome 5 new members to its network. The number of MFC's members increased to 104.**

**ROMCOM**, Romania is a new organisation founded in 2006, just before Romania's membership of the EU. Its mission is to fulfil the financing needs of MSMEs during Romania's integration into the EU. Romcom aims to finance 60-70 investment projects per year, creating and supporting 300 – 500 jobs annually. Further information can be found at: [www.romcom.ro](http://www.romcom.ro)

**HAQIQ**, Tajikistan is a young organisation, founded in 2005. Clients use Haqiq for small loans and leasing to be used in the production, storage, processing and marketing of foodstuffs and services. To date its services have had a positive impact on client's living standards.

**NOR HORIZON**, Armenia is another young organisation, working on a countrywide scale. The organisation focuses on the SME sector and as a facilitator of increasing financial access, Nor Horizon not only provides loans but also a business consulting service.

**MICROCREDITBANK**, Uzbekistan is a registered bank, established in May 2006. As of the end of 2006 it had attracted approximately 13000 borrowers and 89000 savers. Microcreditbank focuses on encouraging the rural population to use the banks microcredit services, helping the development of private entrepreneurship and farming, as well as supporting small business development – including family businesses and self employment.

**BEREKE** has been registered since 2003 as an NGO to promote better life through the provision of financial support to low income people in Kazakhstan. Since its inception Bereke has successfully focussed on providing credit to women entrepreneurs running small businesses, as of end of 2006 it has approximately 3500 women borrowers. Bereke's operational area includes the new regions in the north of Kazakhstan and its credit services are split, nearly 50 – 50 between urban and rural areas. Bereke services a portfolio of over 2 million USD (end 2006), using both solidarity and individual lending methods. It offers 3 loan products: urban group loan, rural group loan and an individual loan, with an emphasis on loans for investing in working capital.

### **MFC Innovation Award**

Microfinance Centre (MFC) announces the first edition of its **Innovation Award** for microfinance providers in the Region of Central and Eastern Europe and the New Independent States

The MFI whose innovation is selected as being the most stimulating, wins **one place at a MFC training course of choice** and **free participation at the Conference for one of its staff.**

The Award ceremony will take place at the 10th MFC Conference in Sofia, Bulgaria and the winners will attract publicity within the local and national microfinance industry, from investors, policy makers, donors and regulators.

Deadline for sending applications is **March 30, 2007.**

For more information on the award go to the conference web site: [www.mfc.org.pl/conference2007](http://www.mfc.org.pl/conference2007) or contact the organizers via email: [award@mfc.org.pl](mailto:award@mfc.org.pl)

## **USD 12.6 Mln loans given to MFIs in Eastern Europe and Central Asia**

According to the microfinance capital markets update edited by CGAP and the Microfinance Information eXchange (the MIX), in the region of Eastern Europe and Central Asia 6 debt deals for an amount of USD 12.6 Mln were made. Among the microfinance institutions that received loans were: Finca (Russia and Azerbaijan), KEP (Kosovo), Partner (Bosnia Herzegovina), Bereke (Kazakhstan) and FinDev (Azerbaijan).

## **Changes effective from December 21, 2006, were introduced to the Law of Kazakhstan "On Microcredit Organizations"**

and pertain to the maximum allowed loan size per one borrower, increasing it 8 times (from about \$8,000 to \$64,000).

## **MicroRate and M-CRIL combined their rating operations under the name MicroRating International**

For more information please visit: [www.microrate.com](http://www.microrate.com).

## **Association of Microfinance Organizations of Kazakhstan (AMFOK) Third Annual National Conference: "Microfinance in Kazakhstan: Situation, Problems, Prospects" took place in Almaty, Kazakhstan, February 16, 2007.**

The conference was held in Russian with simultaneous translation into English.

## **Integrating Microfinance - Brighton, UK, April 16th - 20th, 2007**

A short course for busy development professionals, delivered by two leading institutes in this area, it brings the microfinance expertise of the Boulder Institute to the development and poverty focus of the Institute of Development Studies. For more information please go to: [www.bouldermicrofinance.org](http://www.bouldermicrofinance.org).

## **Social finance for people and planet, 9-12 May 2007, Canterbury, Kent, UK**

The Social Finance Forum 2007 will be hosted by INAISE and Charity Bank.

For more details about the programme please go to: [www.inaise.org/EN/fr\\_1.html](http://www.inaise.org/EN/fr_1.html)

## **The 4th Annual Conference of Sanabel, The Microfinance Network of Arab Countries, will take place on June 12-14, 2007 in Yemen**

You can find more info at: <http://www.sanabelnetwork.org>

## **SOS-Enterprise, the website for successful crisis intervention and prevention in micro-enterprises is online**

Evers & Jung, Germany, has published the website [www.sos-enterprise.eu](http://www.sos-enterprise.eu) which is part of the EU project "Crisis Intervention Tools and Management of Change in Micro-enterprises" supported by the "Innovative measures financed under Article 6 of the European Social Fund Regulation" programme of EU DG Employment, Social Affairs and Equal Opportunities.

## **The Luxembourg Fund Labeling Agency (Luxflag), created in July 2006 to grant a distinctive label to microfinance investment funds, has granted its first labels to three microfinance investment vehicles.**

Luxflag's purpose is to promote the raising of capital for microfinance by awarding its distinctive label to investment funds or similar vehicles which fulfill the criteria to qualify them as eligible Microfinance Investment Vehicles ("MIVs"). The Label is open to eligible MIVs wherever they are domiciled. The first Luxflag Microfinance Labels were granted at a ceremony in Luxembourg on 31 January, in the presence of Mr Jean-Louis Schiltz, Luxembourg Minister of Development Cooperation and Humanitarian Action to the following funds:

- The Dexia Micro-Credit Fund
- The European Fund for Southeast Europe (EFSE)
- The responsAbility Global Microfinance Fund