ISSUE NO.2/2003

MICROFINANCE IN CEE AND THE NIS

Semi-Annual Newsletter of Microfinance Centre for CEE and the NIS on microfinance industry in Central and Eastern Europe and the New Independent States

MICROFINANCING AND POVERTY IN SERBIA: THE IMPACT OF THE DRC/MDF MICRO-LOAN PROGRAMME

Background

The last decade of the 20th century in Serbia has been characterised by a decrease in living standards and an increase in poverty. After the political changes in October 2000, the overall situation in Serbia has improved, but the short period of political and economic transition and privatisation was also marked by increased unemployment.

These negative trends came as a consequence of a ten-year reduction in economic activities and political crises, war, international isolation of the country and NATO bombing. This situation caused a dramatic drop in salaries, which resulted in an increase in poverty and huge social changes. At the same time, Serbia hosted some 600,000 refugees from Bosnia, Croatia and Kosovo.

In 2002[1], poverty in Serbia was for the first time defined by using household consumption as the main aggregate in poverty measurement. The poverty line, defined in that way, reached 13,827 dinars ($222) a month for a four-member household, or 4,489 dinars ($72) by consumer unit. So, in 2002 every tenth inhabitant of Serbia was poor, as their consumption by consumption unit was on average lower than 4,489 dinars or $72 a month ($2.40 a day).

Regarding the geographic component of poverty, the region with the largest share of poor is Southeast Serbia. Western Serbia is the second largest region according to the number of poor and characteristics of poverty.

Since 2000, the establishment of macroeconomic stability and a real increase in GDP (5% annually on average), as well as a real increase in wages and other incomes, caused a growth in consumption and living standards. However, the poverty level in Serbia is still relatively high. Also, it should be taken into consideration that the above-mentioned data do not include all the refugees and IDPs who are more affected and vulnerable compared to the permanent population of Serbia.[2]

Unemployment presents one of the most difficult economic and social problems in Serbia. General social, political and economic trends had a very negative impact on the state and tendencies on the labour market. According to the data, the official unemployment rate is around 30% and is expected to reach 40% by the end of 2003. The structure of employment has also changed. There is a general change in the direction of a further decrease in employment in the state-owned sector and traditional industry areas compared to an increase of employment in the various fields of flexible employment, such as temporary and occasional employment, part-time jobs, self-employment, etc.

High unemployment rates have been present for many years. The reasons for such high unemployment rates are caused by negative economic trends, the lack of investments that would create more jobs, by the process of transition, structural changes, etc. Problems in these areas were made worse due to the NATO bombing in 1999 and the international isolation of the country.

Concerning the unemployed, people with the lowest levels of education suffer the most. Also, more than half of the overall number of unemployed are women (55.8%) and young people under the age of 30 (49%).

The aforementioned characteristics indicate that the unemployment rate in Serbia is very high, resilient, and structurally unfavourable, affecting less-educated people, women and those with physical limitations.

Micro-Loan Program – Micro Development Fund

Taking into consideration high unemployment rates and the increase in poverty in Serbia, MDF's mission is to support the improvement of social and economic living standards of economically active poor people in Serbia.

The main objectives of the MDF are:

- Reduce the poverty level by improving the overall economic situation and general living conditions of socially and economically disadvantaged people
- Enhance job creation by improving clients' ability to start and expand businesses

IN THIS ISSUE:

MICROFINANCE CENTRE
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- Support micro entrepreneurs to start or expand their businesses by providing micro loans and other related services
- Promote an improved small-business environment in Serbia

The activities of the Micro Development Fund are carried out under the umbrella of the Danish Refugee Council. The area of implementation includes 50 municipalities in Serbia, and regional offices are in Niš, Kraljevo and Užice. The administrative office is based in Belgrade.
The targeted beneficiaries of the micro-loan program are economically active refugees, internally displaced persons and the economically disadvantaged local population. The purpose of targeting these groups is to enhance coexistence within local communities while offering refugees and internally displaced persons opportunities to explore partnerships with the local population.
Individual lending methodology is used, while repayment of the loans is secured through collateral offered by the clients.

Micro–loan data as of August 31, 2003:
Number of loans disbursed so far: 4,238
Average loan amount: $1,110
Average loan term: 13 months
Number of active loans: 1,347
Repayment rate: 98%

Impact Research

Besides fulfilling financial goals, MDF's activities are aimed at measuring and understanding the influence of micro loans on clients' well-being. Therefore, at the beginning of 2003 DRC/MDF conducted an **Impact Assessment Research Study**. The purpose of the study was to identify the level of micro-loan program influence on the economic and social status of clients and whether the current loan product corresponds to the clients' needs.

The aim was to analyse the quantitative effects of the loan product in order to use the results as a basis for better understanding the real impact on clients and to evaluate to what extent it corresponds with the objectives and mission of MDF. The results are used for further improvement and development of the micro-loan program design towards identified client needs.

The research was conducted in all three regions – Central (Kraljevo), West (Uzice) and South (Nis) in seven municipalities.

The study was retrospective (versus longitudinal); i.e. clients were asked to refer to a specific date in the past and the results were compared to the answers of the control group.

The survey consisted of interviews with MDF clients and non-clients. In the process of sampling, the stratified random choice sample was used. The number of clients was divided in three relatively homogeneous stratums and random choice samples were drawn from each stratum. Special attention was given to the process of selection of the control group. The control group constituted "incoming" non-clients from the loan waiting lists. Also, all available data from other DRC/MDF programs were used (mostly from the beneficiaries of a vocational training program).

Statistical tests used for data analyses were the t-test and chi-square test.

Supported by the external consultant, the whole eight-month process, from setting the research objectives to the final writing of the report, was managed and conducted using MDF internal capacities.

The following hypotheses were tested:

- Micro-loan programs create an improvement in the economic situation of the clients' families' livelihoods.
- Continued access to micro loans offers better opportunities for planning and development of the clients' businesses.
- Micro-loan programs offer a possibility for self-employment through either the start up of new businesses or the development of existing ones.
- The characteristics of the loan product are in accordance with the clients' needs.

Findings

Hypothesis 1: *Micro-loan programs create an improvement in the economic situation of the clients' families' livelihoods.*
Indicators used for measuring the influence of a micro-loan program on the household economic situation are: assets owned by the family, the level of savings, household income and larger investments (building/adaptation of a house).
Compared to the control group, clients' households have improved their standards of living to a larger extent. Also, a larger number of clients improved their family well-being compared to the period before taking a loan. These results suggest that micro-loan programs have led to improved economic situations for clients and their families.

Hypothesis 2: *Continued access to micro loans offers better opportunities for planning and development of clients' businesses.*
The indicators for measuring the impact of micro-loan programs on clients' businesses were: the level of business income/profit and business improvements.
Compared to the control group, clients have more significantly improved their businesses in the observed period of time. It can also be concluded that the clients' businesses are improved in relation to the period before taking the initial loan. These results indicate that the micro-loan program had a positive impact on the development and planning of clients' businesses.

Hypothesis 3: *Micro-loan programs offer a possibility for self-employment through either the start up of new businesses or the development of existing ones.*
Indicators used for measuring the impact of micro-loan programs on self-employment/employment were: percentage of clients whose income is provided solely by loan activity, percentage of clients that started the business with their first loan, number of paid/unpaid workers.
Taking into account all analysed indicators it can be concluded that micro-loan program offers possibility for self-employment of the clients. It can be also concluded that, in the observed period of time, micro-loans have contributed to the substantial accretion of new employments within the client group compared to the accretion of employments within the control group. These results indicate the positive impact of micro-loan program on creation of new employments.

Hypothesis 4: *Characteristics of the loan product are in accordance with the clients' needs.*
Loan product characteristics are generally in accordance with the clients' needs, while some of the loan product aspects are yet to be improved and adjusted to clients' needs. On the basis of preliminary results of this survey, some loan-product characteristics have already been changed (such as the introduction of a bonus system and lower interest rates for repeated loans as well as lower penalty rates).

Conclusion

Poverty and a high unemployment rate still present difficult economic and social problems in Serbia. The results of the Impact Assessment Research Study imply that micro-loans can be a useful tool for improving living standards, increasing overall employment and fighting poverty. Generally, current micro-loans programs in Serbia are mostly oriented to reaching refugees and internally displaced persons. Taking into account the needs of local populations and their limited access to micro-loans, further development of the micro-finance sector in Serbia could enable the improvement of living standards and the employment of a larger part of the population.

For more information and full text of the study's results please contact Jasmina Glisovic at j.glisovic@mdf.org.yu or Milica Milivojevic at drc.ue@eunet.yu

[1] *According to the Survey on the Living Standard of the Population by the Ministry of Social Affairs of the Republic of Serbia and the World Bank*
[2] *The survey did not include either Roma or the 25,000 persons living in collective centers*

NEWS FROM THE FIELD

MICROFINANCE PROGRAM TO PROVIDE NEW SOURCES OF FUNDS FOR TAJIKISTAN'S POOR

The Asian Development Bank (ADB) will help regulate and expand Tajikistan's microfinance market through an assistance package worth $8.64 million.

This assistance for the Microfinance Systems Development Program will provide poor households and small enterprises with easier and more reliable access to financial services such as loans and savings facilities.

The package consists of a policy loan and an investment loan for $4 million each, and a technical assistance (TA) grant for $640,000.

The policy loan aims to create a supportive legal, regulatory, and supervisory environment for a strong and commercially viable microfinance sector. It will finance the development of a strategy and policies for the sector, create the required regulatory framework, and establish institutions to oversee microfinance development.

The investment loan, meanwhile, will expand the reach and sustainability of the country's microfinance institutions by transforming the current unregulated credit programs into licensed and regulated financial institutions.

Since 1995, NGOs have been providing limited financial services such as small loans and compulsory savings. Many of their clients are women in rural areas.

ADB's project will select at least two NGO programs and transform them into deposit-taking microfinance institutions that comply with all regulatory requirements. This is expected to increase their outreach by 100%, with half of the new clients women.

Apart from small loans, the new institutions will be able to provide savings and passbook accounts and term deposits.

The project will also explore the promotion and establishment of microfinance services in rural areas through commercial banks. The possibility of partner arrangements between microfinance institutions and commercial banks will be considered.

The TA will complement the loans by strengthening the supervision of the National Bank of Tajikistan and helping the new microfinance institutions to provide services efficiently and cost effectively.

The two loans are from ADB's concessional Asian Development Fund. The policy loan has a 24-year term and the investment loan a 32-year term, both with grace periods of eight years. Interest is charged on both at the rate of 1% per annum during the grace periods and 1.5% per annum subsequently.

The government will contribute $390,000 to the investment project, NGOs $700,000, and beneficiaries $220,000.

The National Bank of Tajikistan is the executing agency for both the project's loans. The project is due for completion at the end of 2007.

More information can be found at www.adb.org/media

IMPROVING FINANCIAL SERVICES FOR KYRGYZ REPUBLIC'S RURAL AREAS

The Asian Development Bank (ADB) has approved a $550,000 technical assistance (TA) grant to improve financial services for the Kyrgyz Republic's rural areas by strengthening savings and credit unions and microfinance systems.

The TA will help the National Bank of Kyrgyz and Financial Company for Savings and Credit Unions manage savings and credit unions and microfinance institutions effectively. It will review regulations, create and implement policies, procedures and systems, and provide on-the-job training to support off- and on-site supervision of microfinance institutions and credit unions.

The TA aims to develop a sound and viable financial system that can provide a range of financial services on a sustainable basis, especially in rural areas. ADB helped pilot the first savings and credit unions in 1996, followed by the Rural Finance Institutions loan in 1997. Other aid agencies have been supporting microfinance and rural finance in close coordination with ADB.

The number of savings and credit unions has grown from 83 in 1998 to 329 in 2003, with assets representing around 4% of the total financial sector and about 24,000 members.

However, the rapid growth in the number of savings and credit unions has posed a challenge to the financial sector to establish an effective oversight mechanism. A number of credit unions were found to have engaged in fraud.

The National Bank is the executing agency for this TA, which is scheduled for completion in December 2003.

More information can be found at www.adb.org

SKOK LISTED AMONG POLAND'S LARGEST FINANCIAL INSTITUTIONS

For the first time SKOK are listed among Poland's largest financial institutions in a recent ranking in the national daily "Rzeczpospolita". Stefczyk Credit Union - the largest SKOK - is ranked 79th among the top 100 financial institutions in 2002 - commercial and cooperative banks, insurance societies, pension and investment funds. With assets exceeding PLN 608 million and 180 thousand members, Stefczyk CU is not only the largest financial cooperative in Poland but the largest cooperative organization (it ranks higher than Krakowski Cooperative Bank – the largest cooperative bank, at 87th). Only the eight largest commercial banks operate larger networks than that of Stefczyk CU (currently 142). The ranking listing the 37 largest SKOK provides further confirmation of the excellent results of the Polish credit union movement achieved in 2002. In July 2003 the Polish credit union movement celebrated the opening of the 1,000th SKOK outlet.

The newly established branch in Warsaw is the latest of 149 outlets currently operated nationwide by Stefczyk Credit Union.

For further information please contact: Dariusz Kijanka, Foreign Relations Officer dkijanka@skok.pl.

INAISE – International Association of Investors in Social Economy

It has been announced that the next INAISE conference **"Social Finance, Social Entrepreneurship, Inclusion and Sustainable Development: Expanding the Social Finance in Central and Eastern Europe"** will take place in Bratislava, Slovakia on 3 - 4 June, 2004. The conference is co-organized by the Integra Foundation, Slovakia.

For more info please check INAISE web site www.inaise.org

FINCA/SAMARA CELEBRATES 100,000TH USAID LOAN IN RUSSIA

An official ceremony commemorating the 100,000th loan by the United States Agency for International Development (USAID) non-bank finance programs in Russia was held in Samara on May 28, 2003. FINCA/Samara, one of the most successful USAID-assisted micro-lending programs, hosted the ceremony.

Microfinance institutions, supported by USAID, are now active in over 30 regions of the Russian Federation. FINCA/Samara was chosen for this memorable event for its outstanding success in building a local micro-lending program.

Since starting operations in Samara in 1999:

- 4,200 enterpreneurs have received almost $16 million in loan capital.
- 2,700 entrepreneurs are FINCA/Samara permanent active clients.
- The outstanding loan portfolio has reached in excess of $3 million
- 13,000 jobs have been created during this period.
- The program is present in 32 towns and villages of the Samara region and neighboring regions.

More info available at www.mfc.org.pl.org/Publications

GIVING BACK: ASIAN CREDIT FUND AND STRATEGIC CORPORATE PHILANTHROPY IN KAZAKHSTAN

How can a sophisticated idea employed by a few leading Fortune 500 businesses find a home in the vastly different business culture of Kazakhstan? It takes vision, teamwork and a lot of persistence. **Asian Credit Fund (ACF)**, a small business development lending organization with only 16 employees, has successfully translated the concept of strategic corporate philanthropy, employed by giants such as Cisco Systems and Apple Computers, into a successful program—they have finished one project and are well into planning the next.

ACF is headquartered in Almaty, Kazakhstan, a remote Central Asian "Stan" that is best known as the Soviet Union's nuclear testing range and as the oil capital of the region. Despite the relative immaturity of the country's banking system, which was initiated after the break-up of the USSR in 1991, ACF has met great success as a non-bank lending institution. **After reaching its financial break-even point, the company decided to use some of its revenues to enhance its business context in a unique way.** By adopting philanthropy as a growth strategy, ACF is improving factor conditions, demand conditions, and the macro-context for its business. Also, the immediate social benefit is obvious in Kyzyl-Kairat, the first location for this program's implementation. After only six months of working with village leaders, the community has pulled together to address its problems, no longer content to "wait and see," or wait for somebody else to solve them.

In this project, village residents, working in conjunction with several private businesses and ACF, provided the village with a new **soccer arena, complete with parking lot; uniforms for the village and school soccer teams; sports equipment for the school; and a stereo for an after-school dance group. Five young men from the village also took the opportunity for job skills training, which was followed by practical internships**—one of which has already resulted in a permanent job.

The main focus of Kyzyl-Kairat's **community project is to provide opportunities for young men to learn job skills and to have organized leisure activities.** The social problems that stem from large numbers of unemployed young men are widely recognized in Kazakhstan. Research by UNDP and UNICEF points to higher levels of crime, alcoholism, drug abuse, and transmission of sexual diseases by males aged 14-29 than any other group. UNICEF has indicated that the chief cause of these anti-social behaviors stem from a dearth of opportunities for positive involvement with each other, and within their community.

Providing the space and equipment for organized leisure activities was a positive step towards meeting the needs of this underserved group. Creating a village soccer arena realized the dreams of many local parents. The facility would allow local youths to play in the village, rather than commute to neighboring communities. Further, by providing a social center for the village, the arena facilitates the strengthening of social bonds between people of all ages in Kyzyl-Kairat.

The sports field was made possible with donations and participation from private companies (Tas-Kum, Kazelzashita, and Kazahautodor), the village government, community members, local students, and ACF staff. Volunteer work parties bulldozed a new field, painted equipment and field markers, and planted 500 trees to make an attractive sports area. Additionally, ACF donated uniforms for the village and school soccer teams.

ACF staff and villagers work together to make the school playground an attractive social center.

After-school clubs and recreation were also addressed by the community project. **ACF donated a stereo system to the school, which provides opportunities for a school-based dance group, as well as teen dances on the weekends.** In addition, ACF donated other sports equipment such as volleyballs, ping pong tables and paddles, and basketballs. Through the active leadership of individuals such as Alik Dugashev, the coach of the village soccer team, the donated equipment will be used to help local kids and teens become positively involved in their community, and in their own development for future success.

The community project undertook another, more direct approach toward helping teens prepare for the future. **Through an ACF grant, five young men attended a certificate program in job skills and safety training.** The program gave them the confidence and competence necessary to intern in ACF clients' businesses, and in the City of Talgar's public works department. Their certificate and practical job experience give these unemployed youths a much-needed head start in the job market. One intern has already found permanent employment: He did such a good job in his internship that the City of Talgar decided to keep him on.

The results of ACF's community project has helped to reweave the social fabric at the local level and, by developing partnerships with private companies, strengthen civil society at all levels in the area. The benefits to ACF are manifold: employee morale is improved through teamwork on the project and heightened respect for the company; the organization's public reputation is enhanced; partnerships with private companies strengthens ACF's business networks and expands the potential client base; well-trained potential employees helps ACF clients, which also helps ACF; and a motivated and developing community means more potential clients for the loan fund. ACF hopes that such economic benefits, combined with the more obvious social benefits to the community, will serve as an example to other businesses and spark an interest in similar strategic corporate philanthropy.

Bryan Williams, a graduate student at the University of Florida in Gainesville pursuing a PhD in International Development Policy, is currently with Mercy Corps and ACF on a fellowship from Coca-Cola at the University of Florida World Citizenship Program. ***The full text of this article can be found at www.mfc.org.pl/Publications.***

Asian Credit Fund

ACF was created six years ago by Mercy Corps, and has since become a successful and innovative non-bank lending institution in Kazakhstan. In addition to unsecured and secured micro-loans, ACF also focuses on small to medium enterprise development loans which have been shown to have great impact in both job and wealth creation. ACF is also pioneering a new residential mortgage loan program to help provide safe and affordable housing for people who cannot qualify for home-ownership loans from commercial banks. These programs have been supported by United States Agency for International Development (USAID). USAID administers US foreign assistance programs providing economic and humanitarian assistance in more than 80 countries world-wide.

ACF's community project is particularly noteworthy because of the history of the organization. Itself a donor-funded non-governmental organization started by Mercy Corps in the late 1990s, ACF has moved beyond dependence on Mercy Corps and USAID grants to become a donor in its own right. On this transformation Zhanna Zhakupova, ACF's Executive Director said "we are a small organization working in large urban centers and small peri-urban villages. But if the business community follows our example, it can not only help build a better business environment, but also promote a strong civil society in Kazakhstan." This follows Mercy Corps' mission of renewing hope, finding solutions, and leaving behind a legacy of change.

MFC MEMBERS' CORNER

Microcredit Organization EKI, B&H

World Vision International (WVI), Bosnia has supported micro credit activities since February 1996. Over the past seven years WVI has opened eight micro credit branches and nine satellite operations. WVI the micro-credit program named the Bosnian Enterprise Fund (BEF), which was later changed to Economic Credit Institution (EKI) as the name was felt to be more inclusive throughout Bosnia.

In February 2001 EKI registered as a local micro credit institution. Now EKI is the largest MCO in Bosnia and Herzegovina, with a loan portfolio of over $14 million (27 million KM) and more than 11,000 active clients. EKI has a board of directors consisting of seven members, two of whom are World Vision representatives and five local representatives of various professions.

	Active Borrowers	Offices	Gross Loan Portfolio	FSS	Loan Officers
1998	602	4	$1,759,241	78%	16
2000	3,498	7	$5,445,808	118%	28
June, 2003	11,386	8	$14,841,071	155%	51

From 1996 to 2002, EKI was supported by international organisations and local financial institutions: SIDA, The World Bank, LOIN, UNHCR, USDA, USAID, EU and FINNIDA. The program has disbursed over 30,000 loans worth $65 million.

EKI provides financial services and technical support to those who cannot get bank credit and to businesses that are able to create or sustain jobs throughout Bosnia and Herzegovina wherever there is need and opportunity.

Vision: to reduce the economic causes of poverty in Bosnia and Herzegovina.

Products: EKI use an individual and solidarity-lending methodology and have six products on offer.

Target groups: low-income people, women, the handicapped, refugees and displaced persons, entrepreneurs who are able to create or sustain jobs

Future Goals and Challenges: EKI aims to reach 15,000 active clients and over 63 million KM in the next three years and hopes to have much better geographical coverage within the next three to five years (growth to 10 branches) and maintain operational sustainability of over 120% during the period.

Key issues facing EKI are the development of management, strong and efficient administrative, personnel and information systems, increased focus on meeting client needs and the development of a strong relationship with World Vision to complement projects focused on alleviating poverty. Management believes it is important to avoid donor pressure and to institutionalize training and create a body of their own materials. Board development is a long process that the organization must continue to pursue.

Despite the fact that EKI has sufficient capital to register as a commercial bank, it does not see this as likely in the short term. Rather, it may link with other organizations to provide complementary services.

More information can be found at www.mfc.org.pl.org/Publications

Ai-Ken Microcredit Agency

Ai-Ken Microcredit Agency was founded in December 2002 by Mercy Corps, an international non-profit organization, on the basis of its Small and Medium Enterprise Credit Program (*Program*). In the spring of 1998 Mercy Corps and the Central Asian American Enterprise Fund (*CAAEF*) entered into a partnership to provide credit to small and medium-sized businesses in Kyrgyzstan. The program aimed to create sustainable employment and foster the creation and development of a strong private business sector.

When the SME Credit Program began in Kyrgyzstan it filled a unique niche as the first organization offering loans to individual entrepreneurs. At the time, interest rates were much lower than local bank rates and the program offered flexibility with collateral and repayment schedules. Other lending organizations were forced to offer similar terms in an effort to compete. Ai-Ken MCA continues to be an industry leader in Kyrgyzstan because of its quick and efficient lending process, flexible loan terms, honesty and transparency in dealing with clients, as well as competitive interest rates.

Mission: Ai-Ken Microcredit Agency is a non-profit public fund dedicated to improving the economic and social welfare of Kyrgyzstan by providing individuals and enterprises access to financial services that lead to increased family income, job creation, and economic development in local communities.

Values: the agency strives to maintain a high standard of professionalism, transparency, and fairness in all its operations. By placing a priority on building long-term relationships with clients, the agency aspires to create an atmosphere of mutual respect and honesty in all its activities.

Development Goals: **t**he agency pursues the following development goals in its activities:
- provide access to financial resources to sustainable businesses that are capable of creating added value in the economy and to increase jobs;
- maintain business activity among individuals and legal entities that provide Kyrgyzstan with necessary products and services;
- stimulate subsequent creation of a true lending culture among private businesses;
- demonstrate high standards of lending among credit institutions.

Loan Products:
- working capital loan (Production; Trade; Service);
- fixed assets financing loan (Production; Trade; Service);
- seasonal loan (Tourism and Agro-processing);
- Revolving credit line (starting summer 2003)
- leasing (starting September 2003)

Achievements (as of June 30, 2003):

Total loans disbursed	$ 749,955.68
Total number of loans disbursed	246
Gross Loan Portfolio	$ 605,674.24
Active Borrowers	242
Average outstanding loan size	$ 2,503
Number of clients per loan officer	45
Repayment rate	100 %
Operational self-sufficiency:	148%
Portfolio-at-Risk >30 days	0.0 %

More information can be found at www.mfc.org.pl.org/Publications

MFC MEMBERS' CORNER

Kazakhstan Community Loan Fund (KCLF)

The Kazakhstan Community Loan Fund (KCLF) is a non-banking financial institution with a license from the Central Bank of Kazakhstan to provide loans to small and micro businesses throughout Kazakhstan.

Founded on November 20, 1997, KCLF began lending in the city of Taldykorgan and now has branch offices in Shimkent, Almaty, Taraz and its headquarters in Almaty.

KCLF uses a **peer group methodology** to provide small, working capital loans to urban and rural clients. KCLF's main purpose is to provide access to credit and training to women and poor entrepreneurs through a group-lending process of empowerment.

KCLF offers small, stepped loans that teach entrepreneurs how to borrow money while placing few restrictions on group membership. The maximum initial loan size is $100 and terms are two to four months and extend to 12 months for larger loans. KCLF clients may take different loan sizes and different loan terms within the same group. Groups are taught the concept of saving for emergencies and are encouraged to establish "Buffer Funds". Group members are also trained by KCLF loan officers about how to manage their finances and business growth. While the majority of KCLF's clients are mini traders, almost 17% of its clients are running value-added, small-scale production and service businesses.

KCLF also supports business start-ups with credit and hands-on assistance. Since its inception, KCLF has directly contributed to the success of almost 1,732 business start-ups.

To meet the needs of its clients and demand from the market, KCLF launched an **individual lending** program at its original branch site in August 2001. Loan sizes ranging from $500-$5,000 for fixed assets or working capital.

As of July 29, 2003, KCLF has **208 active individual clients with a portfolio of $373, 323** and is gearing up for the program's further expansion.

One more additional financial product of KCLF, which is functioning in the Taldykorgan branch only, is **consumer group lending**. The purpose of this product is to meet the requirements of consumers. The loan amounts reach $500. The number of active clients in consumer group lending is **348 persons with a portfolio of $65,650.**

KCLF's **84-person staff** is managed by Shalkar Zhusupov, general director. Seventy-five percent of the staff is female, including all branch managers and chief accountants.

In early 2002, KCLF went through an external evaluation, performed by Micro-finance monitoring services M-CRIL, and received an **A mark**. The company repeated the evaluation in mid-2003 and is awaiting the results.

The key to KCLF's success has been well-structured tools for financial management, continuous client contact and feedback, and the monitoring of critical financial and administrative indicators. Through KCLF's branch network, it has disbursed more than 55 691 loans worht for $18.8 million and has supported the creation and retention of over 4,000 jobs. KCLF is also in the process of researching client and non-client needs for other products, including consumer loans and a product specifically geared for rural lending.

More information can be found at www.mfc.org.pl.org/Publications

Statistics of the MFC Members

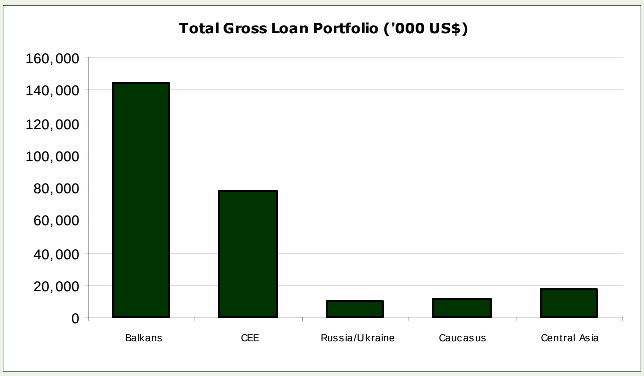
Together, 62 reporting MFC Members serve nearly 250,000 active clients. The gross loan portfolio of these MFIs exceeds US$ 260 million. MFC Members operate in 23 countries in 5 sub-regions. The largest number of MFC members is located in the Balkans – 29 MFIs.

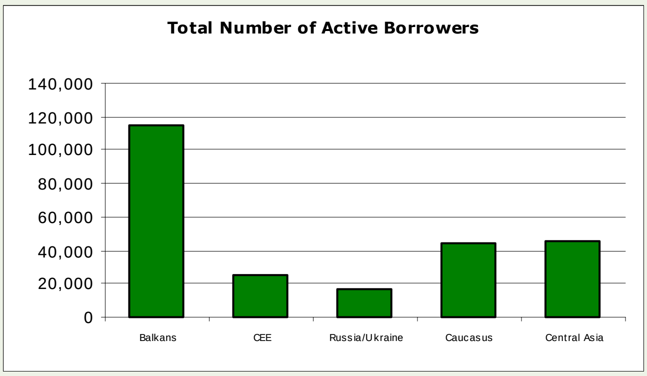
The MFIs reaching the biggest number of clients include:

Constanta Foundation, Georgia – 16,607 active borrowers
UMCOR/AREGAK, Armenia – 15,123
XAC Bank, Mongolia - 14,257
FORA Fund, Russia – 11,607
WV EKI, Bosnia and Herzegovina – 11,152

The deepest outreach measured by average loan size to GNP per capita is achieved by the following MFIs:

MikroPlus Croatia – 10%
Horizonti, Macedonia – 17%
Barakot, Uzbekistan – 19%
CRS – USTOI, Bulgaria – 24%
ICMC-DEMOS, Croatia – 25%





The full text of the report on Member statistics is available from *www.mfc.org.pl/Publications*

NEW MEMBERS OF THE MFC NETWORK

Two organizations joined the MFC Network in the first quarter of 2003:

- **Hungarian Foundation for Enterprise Promotion, Hungary**
- **MIKROFOND EAD, Bulgaria**

Hungarian Foundation for Enterprise Promotion

Established in 1990, the Hungarian Foundation for Enterprise Promotion (MVA) is an independent public service organization promoting SME development programs within the government's economic development strategy.
Services are offered to start-up micro enterprises as well as SMEs which are capable of gaining strength and financial standing in the marketplace.

The Foundation operates on a nationwide scale, offering programs through a network called the Local Enterprise Agencies (LEA). These agencies and enterprise promotion foundations are the most important partners, some of which were established by the MVA itself. The foundation enters into long-term cooperation with these organizations on the basis of equal status in order to implement nationwide joint programs.

Services of MVA:
1. Financial programs:

Micro Credit Program (MCP)
The Micro Credit Program started in 1992, and since then more than 19,000 credits have been disbursed, to the tune of 112 million euros.

The differences between micro credit and other commercial credits include:
- Preferential interest rate,
- Local Enterprise Agencies – the network of the MVA – providing personal contact for entrepreneurs.
- The experts of the Local Enterprise Agencies provide business information and advisory assistance to clients.
- More subjective evaluation and rating procedures of the clients
- Start-up enterprises can be supported

These special procedures and conditions have an effect on the rate of repayment. In risky sectors the rate of late payments or non-payments is surprisingly low. (The average rate of repayments is above 90%).

START Credit and START Guarantee Fund
The START Credit Program provides credit to middle-sized enterprises. Trade banks provide the START credit and MVA manages the START Credit Guarantee Fund, which undertakes an 80% guarantee to the START credits. The undertaking is automatic, so this scheme is very useful for enterprises that have a viable business plan but do not have enough collateral.

Sport Loan
The foundation's latest credit program started in 2000 and provides special credit to sports enterprises that make investments. Indirectly the program aims to develop sport facilities.

2. Non-financial activities:
The network of the MVA beside the financial programs provides other type of support for the SMEs, so called basic and value added services:
- customer service desk
- basic IT services
- establishing incubator houses
- organising seminars, conferences, training programs, international businessmen meetings, etc.

***e-mail:* info@mva.hu, *web site:* www.mva.hu**

MIKROFOND S.A.

MIKROFOND EAD

Microfond EAD is a non-bank financial institution in Bulgaria that provides micro loans to high-risk business and start-up projects and activities that cannot attract funding from conventional bank institutions.

Background:

Mikrofond EAD originates from the Microcredit program of the Resource Center Foundation – Sofia.

The Microcredit Program was launched in 1999 in close cooperation with the Soros Economic Development Fund (SEDF) - New York (as a financial guarantor of the lending program), OSI, New York (as a donor for operational expenses) and the United Bulgarian Bank (UBB). The program targets Bulgarian regions with high unemployment levels, low economic growth and several distinct ethnic communities.

At the beginning of 2002 the microcredit program was transformed into the Mikrofond-Sofia Foundation.

The last step in the development of the program was the establishment of Mikrofond EAD – a joint-stock company owned by the Mikrofond Sofia Foundation – to reflect the new strategic objective to create a sustainable microfinance institution.

Facts:

1. Since 1999 Mikrofond (former Microcredit program of the Resource Center Foundation) has disbursed about 1,200 loans to entrepreneurs rejected by banks and who had no other source of funding.

2. The quality management system is certified against **ISO 9001:2000** to emphasize Mikrofond's commitment to quality and professional management.

3. The company has appointed KPMG as financial auditor for 2003 to improve transparency and procedures.

Target clients:

The target clients are all economically active people who cannot access funding for their businesses from existing banks and other financing institutions.

Results:

	END OF 2000	END OF 2001	END OF 2002	JULY 2003
Number of active clients	115	290	645	805
Outstanding portfolio (US$)	830,000	1,940,000	3,400,000	4,800,000
Total number of disbursed loans / aggregated/	160	360	1,000	1260
Total disbursed amount /aggregated / US$	1,100,000	2,800,000	5,700,000	8,100,000

Outreach:
Mikrofond EAD operates in 18 underdeveloped urban and rural areas of the country.

***e-mail:* breskovski@ngorc.net, *web site:* www.micro.ngorc.net**

PERFORMANCE OF MFC MEMBERS

The group of MFC Members that was chosen for calculating the benchmarks includes 26 MFIs from Eastern Europe (19 MFIs) and Central Asia with the Caucasus (7 MFIs). These MFIs provide an annual financial report to the MFC; the majority of them also participate in the MicroBanking Bulletin.

Characteristics

MFIs in the MFC Members group are young - the average age is **4 years**, while the MFIs worldwide are on average 8 years old.

MFC Members run small operations – an average MFC Member has **10 offices and employs 53 staff**, about half the size of the other MFIs worldwide (averaging 19 offices, 120 employees).

MFC Members operate from a much smaller asset base. The average total assets of **$4.7 million** is far lower that the worldwide average of $7.9 million.

Outreach

The outreach of the MFC Members is narrower than that of MFIs worldwide – the average MFC Member serves **4,555 active borrowers**, while MFIs worldwide serve an average of 15,000 borrowers. Among borrowers of MFC Members, nearly **60%** are women.

MFC members target broad clientele with the average outstanding loan size of **$1,209** or **99.6%** GNP per capita. Such depth of outreach is shallow compared to the MFIs worldwide (54%).

The average gross loan portfolio of MFC Members **($3,8 million)** is lower than the worldwide figure ($5,3 million).

Financing structure

MFC Members have a very good asset structure with **81%** of assets in gross loan portfolios.

The capital/assets ratio of **58%** reveals that MFC Members rely predominantly on equity as a source of financing. By comparison, the capital/assets ratio of the MFIs worldwide is 43%.

Reasons for this may include difficulty accessing loans for NGOs, which prevents them from using debt as source of funds, particularly commercial loans. The commercial funding liabilities ratio of **10%** for MFC Members compared to 44% worldwide shows that market-priced loans are not commonplace in this region.

Financial Performance

MFC Members are on average operationally **self-sufficient (115%)** and close to reaching **financial self-sufficiency (98%)**, while the average MFI in the world is already operationally and financially self-sufficient (115%, 104%).

The average adjusted profitability of MFC Members is still negative **(adj. ROA -1.6%).**

Operating Income

MFC Members produce lower yields on portfolio (nominal yield **36%**, real yield **30%**) but owing to a better assets structure they manage to reach the financial revenue ratio on the comparable level to the leading MFIs worldwide (**27.6%** vs. 27.1%).

Operating Expense

The expense structure reveals that MFC Members have higher expenses in the categories of administration and personnel expense (**9.5%, 12%**).

Only a financial expense of **1.7%** is lower compared to 6.2% worldwide. This is a consequence of a low level of debt, particularly commercial debt (commercial funding liabilities ratio equals 16% compared to 44% for MFIs worldwide).

Efficiency

The operating expenses of MFC Members account for nearly the same percentage of the loan portfolio as for the MFIs worldwide (**30%** vs. 29%) indicating that the cost of maintaining the portfolio is similar. However, the cost of maintaining one borrower is twice as high (**$298** for MFC Members and 142 for MFIs worldwide), which is related to the average loan size.

Another measure of efficiency shows that MFC Members better reward their personnel than the average MFI worldwide. In a local economic context the average salary reaches **7.4** GNP per capita compared to 6.7 for MFIs worldwide.

Productivity

Productivity among MFC Members is lower than for MFIs worldwide. On average each loan officer serves **162** active borrowers compared to 284 worldwide. This is a result of the predominantly individual lending methodology. The personnel allocation ratio of **51%** shows that more staff is involved in direct client service compared to MFIs worldwide (48%).

Risk

MFC Members have a healthy loan portfolio with **PAR >30 days of 2.6%** (MFIs worldwide 2.8%) and PAR>90 days of 0.9% (MFIs worldwide 1.5%). The risk coverage ratio of **2.8** is well above the worldwide average of 1.3.

	MFC Members	MBB MFIs worldwide
Characteristics		
age	**4**	8
total assets ($)	**4.655.656**	7.931.000
offices	**10**	19
personnel	**53**	120
Outreach		
active borrowers	**4.555**	15.553
women borrowers	**59.1%**	62.9%
gross loan portfolio ($)	**3.824.541**	5.347.516
avg. outstanding loan size	**1.209**	532
avg. outstanding loan size/GNP per capita	**99.6%**	54.3%
Financing structure		
capital/assets	**57.9%**	42.7%
commercial funding liabilities ratio	**10%**	44.1%
debt/equity	**1.2**	1.9
gross loan portfolio/assets	**80.8%**	70.9%
Financial Performance		
adj.ROA	**-1.6%**	0.1%
adj.ROE	**-2.4%**	2.3%
OSS	**115%**	115%
FSS	**98%**	104%
Operating Income		
adj. fin revenue/ assets	**27.6%**	27.1%
profit margin	**-9.6%**	0.3%
yield on gross portfolio	**35.9%**	39.8%
yield on gross portfolio (real)	**30.3%**	33.6%
Operating Expense		
adj.total expense/assets	**29.9%**	27.7%
adj.financial expense/assets	**1.7%**	6.2%
LL provision expense/assets	**2.0%**	1.8%
adj. personnel expense/assets	**12%**	10.5%
adj. admin expense/assets	**9.5%**	8.4%
adj.oper. expense/assets	**22.1%**	19.1%
Efficiency		
adj.oper. expense/loan portfolio	**30.2%**	29.4%
adj.personnel expense/loan portfolio	**16.2%**	16.1%
avg.salary/GNP per capita	**7.4**	6.7
adj.cost per borrower	**298**	142
Productivity		
borrowers/staff	**82**	121
borrowers/loan officer	**162**	284
personnel allocation ratio	**51%**	48%
Risk		
PAR>30 days	**2.6%**	2.8%
PAR>90 days	**0.9%**	1.5%
risk coverage ratio	**2.8**	1.3

SUB-REGIONAL OUTLOOK

Several differences among the MFC Members operating in Eastern Europe and Asia (Central Asia and Caucasus) can be observed.

An average Asian MFI is a larger institution than its European counterpart employing nearly 2 times more personnel **(85 vs.43)** and serving nearly twice as many clients **(6,819 vs. 3,855).**

Average gross loan portfolio of Asian MFC Members is significantly smaller **($ 2 million)** compared to **$4.4 million** for E. European MFC Members.

The average loan size is in case of Asian MFC Members quite low in dollar terms (**US$550**), but given the local economic conditions, it represents **93% of GNP per capita**. Such depth of outreach is even more shallow than that of Eastern European Members **(86%).**

Asian MFIs target predominantly female entrepreneurs – **74%** of their clients are women, compared to **54%** among European MFC Members.

Asian MFC Members exhibit better financial performance. An average Asian MFC Member is **financially self-sufficient (106%)** and receives positive **adjusted return on assets (1.8%),** while an average European MFC Member has not yet reached profitability **(adj. ROA -3.1%).**

Asian MFIs achieve such profitability through high revenues on assets **(33%)** that are sufficient to cover their high total expenses **(32%).** Revenues of Eastern European MFC Members, by comparison, equal **24%** of total assets and the total expenses constitute **29%** of the total assets.

Eastern European MFC Members are very efficient with a ratio of operating expenses to loan portfolio of only **26%**, while operational expenses of Asian Members exceed **43%** of the loan portfolio. The efficiency of Eastern European MFC Members compares favourably with the indicator for MFIs worldwide (29%).

The other measure of efficiency shows that the cost of maintaining one client (cost per borrower) is much lower at Asian MFC Members ($169) than at E. European ones ($311).

Eastern European MFIs are more productive and have a better personnel allocation ratio. One loan officer serves **165 borrowers**, compared to **148** in Asian MFIs. Loan officers constitute **51%** of the total staff in Eastern Europe, while in Asia only **44%**.

In both sub-regions PAR>30 days is low (E. Europe **2.4%**, Asia **2.7%**). Eastern European MFC Members provision for loan losses in a more conservative manner and have the risk coverage ratio of **3.5** compared to **0.9** for Asian MFC Members.

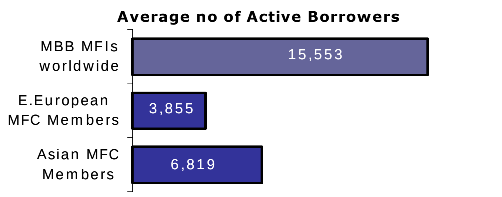
Participating MFC Members

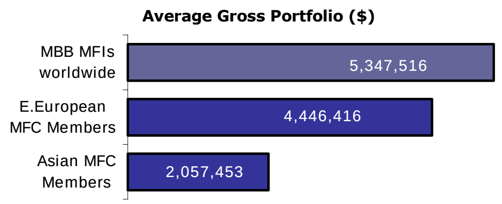
<u>Eastern Europe</u>

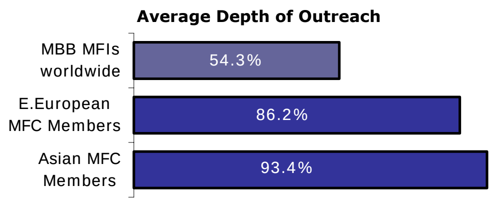
Agency for Finance in Kosovo
AgroInvest, Serbia and Montenegro
Alter Modus, Serbia and Montenegro
Besa Foundation, Albania
DEMOS, Croatia
EKI, Bosnia and Herzegovina
Fundusz Mikro, Poland
KEP, Kosovo
MI-BOSPO, Bosnia and Herzegovina
Mikra, Bosnia and Herzegovina
Mikrofin, Bosnia and Herzegovina
Nachala, Bulgaria
NOA, Croatia
Partner, Bosnia and Herzegovina
Prizma, Bosnia and Herzegovina
PSHM, Albania
RWMN, Russia
Sunrise, Bosnia and Herzegovina
Women for Women, Bosnia and Herzegovina

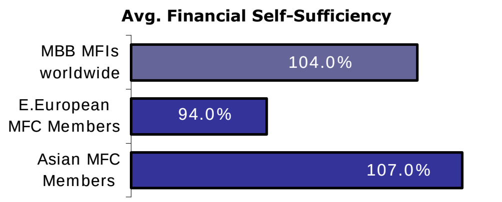
<u>Central Asia and Caucasus</u>

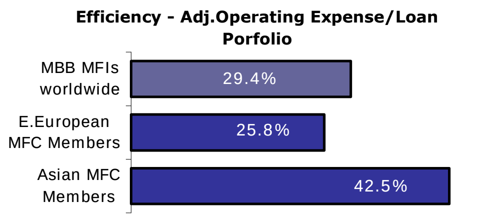
Asian Credit Fund, Kazakhstan
Bai Tushum, Kyrgyzstan
Constanta Foundation, Georgia
Kamurj, Armenia
KCLF, Kazakhstan
UMCOR/AREGAK Armenia
XAC Bank Mongolia

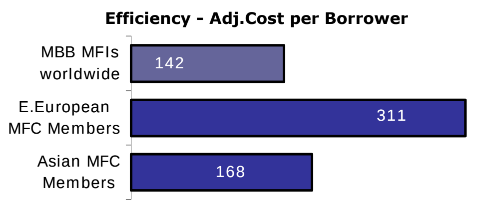


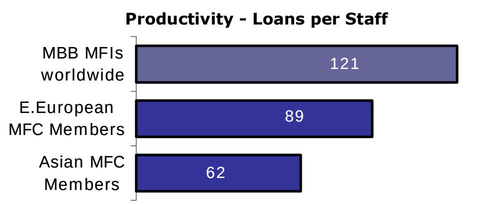












NATIONAL OUTLOOK - BOSNIAN MFIs

Based on the information from eight Bosnian microcredit organizations (**BOSPO, EKI, Mikra, Mikrofin, Partner, Prizma, Sunrise, Women for Women**) a profile of a Bosnian MFIs was created. These institutions can be classified as young institutions that serve broad clientele according to classification criteria of the MicroBanking Bulletin.

The average Bosnian MFI is 5 years old. It has a network of 13 offices with 50 employees serving **5,758 active borrowers**.
The MFI manages gross loan portfolio of nearly **US$6 million.** It is similar in size to the average MFI in Eastern Europe and Central Asia (ECA) which serves 6,000 borrowers through the network of 13 offices.

The **depth of outreach of 76%** is much higher compared to the MFIs worldwide (54%), but it is still lower than ECA average of 80%. In dollar terms the average outstanding loan size is **$937**.

Bosnian MFIs are, on average, **financially self-sufficient (119%)** and profitable with the **adj. ROA of 4%** and **adj. ROE of 13%.**
This is a very good result compared to the other ECA MFIs (ROA 1.1%, ROE 2.3%).

It is achieved by good control over expenses rather than by higher yields. In a competitive Bosnian environment the MFIs receive, on average, real portfolio yield of **29%**, which is much lower than anywhere else in ECA (36%) or worldwide (34%).
Considerably low portfolio yields affect the adj. operational revenue ratio which reaches 26% (vs. 30% for ECA).

Lower revenues are compensated by low level of expenses (**adjusted total expense ratio 23%** vs. 29% for ECA) in all categories of expenses. Particularly low is adj. financial expense ratio (**1.6%**) compared to MFIs worldwide (6.2%). This is a result of low level of commercially priced liabilities.

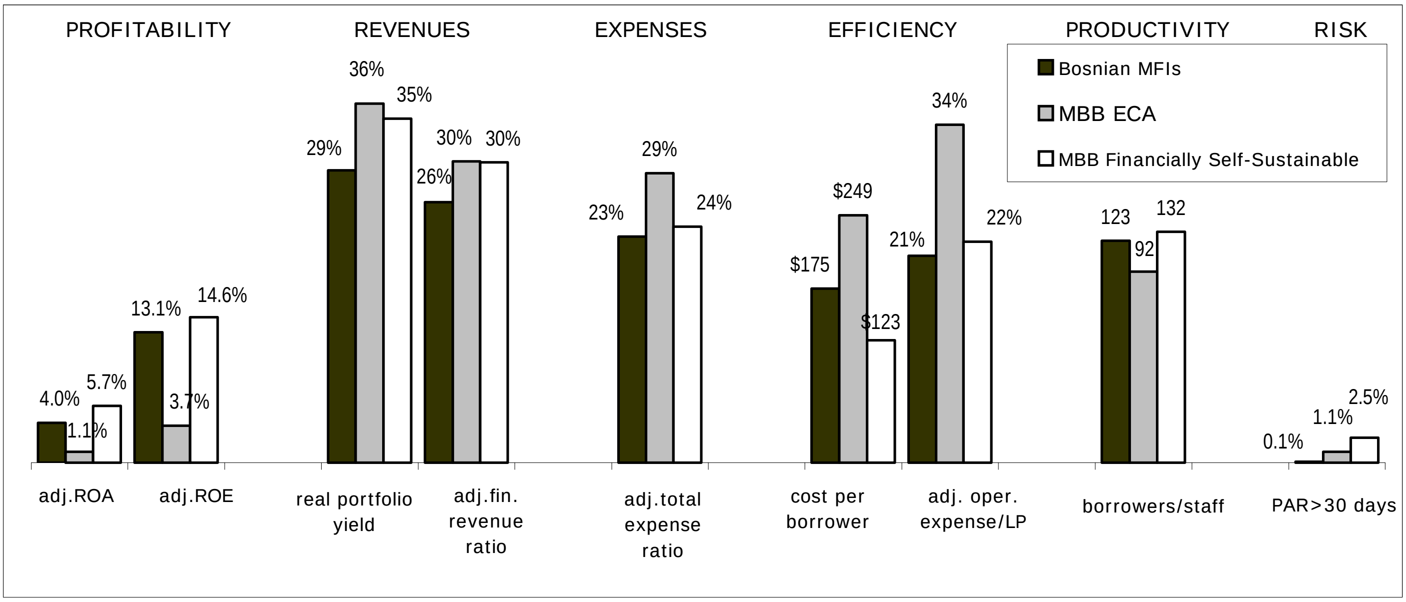
Bosnian MFIs are very efficient with adj. operating expense to loan portfolio of **21%** (34% ECA). The adj. personnel expense/LP is also low (**12.6%** vs. 29% worldwide)) despite good staff remuneration (avg.salary/GNP per capita of 9) compared to MFIs worldwide (6.7).
The efficiency of operations brings the **cost per borrower** down to **US$175** (US$249 for average MFI in ECA).

Additionally, the average Bosnian MFI is **more productive** than other MFIs in ECA (**123 borrowers per staff** person vs. 92) and has a better personnel allocation ratio of **55% loan officers to total personnel** (ECA 51%).

Bosnian MFIs have a good asset utilization ratio with **87.5%** of the assets engaged in loan portfolio.
The majority of assets is financed from borrowed funds (**capital/assets ratio 38%**), predominantly on concessional terms. Commercially priced liabilities constitute only **11%** of the loan portfolio.

With exceptionally good portfolio quality (**PAR> 30days 0.1%**) Bosnian MFIs have a very conservative approach towards provisioning for loan losses. Their risk coverage ratio of **4.3** is much higher than worldwide (1.3)

Figure 1: Performance indicators of Bosnian MFIs compared to other MFIs in Eastern Europe and Asia and worldwide



The full text of the "Performance of MFC Members" is available from *www.mfc.org.pl/Publications*. If you wish to learn more how to participate please contact Justyna Pytkowska *justyna@mfc.org.pl*.

Data for MFC Members were analyzed by the MFC team with the use of MicroBanking Bulletin tools and methodology. Comparative figures for MBB MFIs worldwide, MBB ECA and MBB Financially-Self-Sustainable were drawn from the latest MicroBanking Bulletin issue 9 "Focus on Savings" that is available at *www.mixmbb.org*.

NEW PUBLICATIONS ON MICROFINANCE IN CEE AND THE NIS

THE STATE OF MICROFINANCE IN CENTRAL AND EASTERN EUROPE AND THE NEW INDEPENDENT STATES

S. Forster, S. Greene, J. Pytkowska - MFC/CGAP, May 2003

This report presents the first in-depth, empirical study of the microfinance industry in Central and Eastern Europe and the New Independent States (CEE and NIS). The region consists of 28 countries, divided into five subregions (the Balkans; the Caucasus; Central and Eastern Europe; Central Asia; and Russia, Ukraine, and Belarus), with a total population of 417 million people. These countries are not only geographically contiguous, but they all are in the midst of the transition from a state-controlled to a market-oriented economy. Indeed, the region consists of an unprecedented concentration of countries in this transition.

The study achieved the following goals, with some data limitations:

- The creation of the first empirically based, comprehensive picture of the region's microfinance industry;
- A comparison of the performance of the four dominant organisational microfinance models – credit unions, nongovernmental organisations (NGOs); "downscaled" commercial banks, and "greenfield" microfinance banks;
- An analysis of the main barriers to the growth and development of microfinance; and
- A plan of action for increasing the scale, poverty outreach, financial viability, and social impact of the region's microfinance institutions (MFIs).

Its findings are based on a survey conducted in 2001 that gathered data for the period ending September 31, 2001. Additional data for the period ending December 31, 2002 is also reported for a subset of the original survey respondents.

The study is based on the premise that microfinance includes the provision of all financial services, including credit, savings and insurance. It provides data on both credit and savings provision. Other microfinance services, such as insurance, are not included only because they are not yet developed, to a significant extent, within the region.

The study also subscribes to a broad view of the clientele of microfinance. It sees the goal of microfinance as the provision of financial services to all those who lack access to mainstream financial services. This includes the poor but also the better-off owners of micro and small enterprises.

The full text of the Study Report is available from the MFC web site *www.mfc.org.pl/Publications*

DIRECTORY OF FUNDERS

Microfinance Centre for CEE and NIS, May 2003

This publication is the annex to "The State of Microfinance". It contains investment profiles of 23 donors and investors active in microfinance in Central and Eastern Europe and the New Independent States.

The full text is available from the MFC web site *www.mfc.org.pl/Publications*

SUSTAINABLE EXPANSION STRATEGIES. CASE STUDIES OF 18 REGIONAL LEADERS IN MICROFINANCE.

Leesa. Wilson Shrader, Microfinance Centre for CEE and NIS, June 2003

This paper is intended to serve as a best-practice information resource for the region and beyond in how to manage a high-growth MFI sustainably, particularly in relatively early stages of development.
The following topics were addressed in the cases: Business planning, capturing commercial sources of funds, client orientation and product mix, constant innovation, cost control for expansion, effective expansion strategy, governance, human resource management, incentive systems and productivity enhancement, managing risk and internal control, MIS and its effective use, organizational structure, organizational transformation, standardization and effective procedures.

The full text of the report is available from the MFC web site *www.mfc.org.pl/Publications*

IMPROVING COST-EFFECTIVENESS OF EXPLORATORY PRACTITIONER-LED RESEARCH

Kasia Pawlak, Michal Matul, Microfinance Centre for CEE and NIS, July 2003

The brief adds to the materials of the MicroSave Africa Market Research for Microfinance Toolkit and will be potentially incorporated into VCD series "Learning from Clients" developed jointly by MicroSave Africa and Microfinance Opportunities for global dissemination.

The brief can be downloaded from *www.mfc.org.pl/Publications*

Publications section on the MFC web page

The MFC has recently refurbished the Publications section on the web site. It has been divided into three sub-sections: *Publications in English*, *Publications in Bosnian/Serb/Croatian* and *Publications in Russian*.

The following items can be found in **Russian**:

- *Definitions of Selected Financial Terms, Ratios and Adjustments for Microfinance*, 2002
- *Exodus: Why Customers Leave* – Kim Wilson, The MicroBanking Bulletin, issue No. 6, April 2001
- *Designing BDS Interventions as if Markets Mattered* - Michael Field, Rob Hitchins, and Marshall Bear, November 2000
- *Efficiency in Microfinance Institutions* – Todd Farrington, The MicroBanking Bulletin, Issue No. 4, February 2000
- *Principles of Financially Viable Lending To Poor Entrepreneurs*, Microenterprise Development Brief No. 3, 1995

The following items can be found in **Bosnian/Serb/Croatian**:

- *Definitions of Selected Financial Terms, Ratios and Adjustments for Microfinance*, 2002