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

MICROFINANCE
in Central and Eastern Europe and the New Independent States

Is my social mission implemented? Social Performance Management Training

Why is social performance management important?

Most MFIs have an explicit ***social mission.*** They may seek to reduce poverty, to reach people excluded from financial services, to empower women or to promote community development. Thus, many questions can arise, i.e. on the level of effectiveness of implementing the social mission, its cost-effectiveness, focusing on social impacts versus financial support, etc.

Answers can be found through social performance ... ***Social performance*** is an effective translation of an institution's mission into practice. ***Social performance management*** (SPM) is a system an organization uses to track, understand and improve its social performance. It involves an institutionalization process of translating mission into practice, which includes setting social objectives, tracking social performance and using this information to improve practice.

SPM promises many benefits. First it can significantly improve the effectiveness of the organization in reducing financial exclusion and poverty. Effective SPM can enhance your institution's reputation, competitiveness and ability to develop products and services that bring real benefits to poor people. An increasing number of MFIs are now adopting a more client-centered approach, developing services that are responsive to client needs. SPM builds on this, providing an additional focus necessary to help you realize your social objectives. Experience of many organizations, which participated in experimental programs, shows that SPM is a good investment. The financial savings and improved performance that result from the use of SPM systems exceed the time and money needed to establish and maintain them. Savings arising from good SPM include higher client retention and faster growth.

Responding to practitioners' needs – MFC SPM Training

Considering evolving needs of practitioners toward SPM the Microfinance Centre (MFC) for Central and Eastern Europe and the New Independent States currently offers an ImpAct/MFC developed course **"Social Performance Management" (SPM).**

The course is directed at all microfinance institutions (MFI) eager to install systems supportive of their social mission fulfillment. The training introduces a process of social performance management that can be integrated into the regular operations of MFIs and network support organizations. The training participants are equipped with knowledge and skills in developing SPM systems including such issues as:

- Managing social performance as part of MFI performance management
- Establishing a deliberate strategy to achieve your social mission
- Defining your vision for your SPM system: how will your system be used and by whom?
- Designing your social performance information system
- Using and institutionalizing SPM
- Managing social performance
- Quality control and external reporting

The final decision on the adaptation and use of this model is to be made by you and your organization.

Since SPM concerns all aspects of the organizations, the training is directed at Executive Directors and potential SPM Institutional Champions. To secure efficient planning and implementation of the SPM process it is highly recommended that each institution delegates two staff members.

SPM works in the region!

The first training session was held on January 16-20, 2006 in Warsaw. There were 26 participants from 14 leading regional Microfinance Institutions and National Associations operating in Armenia, Azerbaijan, Croatia, Bosnia and Herzegovina, Georgia, Kosovo, Russia, Serbia and Montenegro[1].

The training first resulted in shortening its length to 3.5 days. Moreover, the training brought very measurable

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Book the dates for the MFC training courses in September:

- Strategic Marketing for MFIs (English Language), 12-15 September, 2006
- Operational Risk Management in MFIs. Internal Control and Audit (Russian Language), 26-29 September, 2006

If you want to learn more please visit the MFC web site: www.mfc.org.pl and contact Aldona Rutkowska at aldona@mfc.org.pl

[1] A list of participants in alphabetical order:
Microfinance institutions: Agency for Finance (Kosovo), Aregak (Armenia), AzerCredit (Azerbaijan), Credo (Georgia), Demos (Croatia), Finca (Armenia and Russia), KEP (Kosovo), MDF (Serbia), MikroPlus (Croatia), Prizma (Bosnia and Herzegovina), SEF (Armenia), Women for Women (Bosnia and Herzegovina)

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outputs for all the participants who currently are finalizing the concepts of SPM for their institutions. It was noticed that establishing directions for an MFI and aligning all the systems with this will probably result in higher cost-effectiveness as there is no need to do everything at the time. In addition, training participants realized that implementation of SPM is doable even for the small institutions as there is a possibility to build on what you already have in the institution.

Furthermore, the training participants promote the SPM concept locally. The concept was presented by the Association of Microfinance Institution of Kosovo (AMIK) to its member MFIs while Azerbaijan Micro-Finance Association (AMFA) made an SPM presentation at its membership meeting in March. At the FINCA Eurasia Meeting in April, FINCA participants of the Warsaw SPM training made a joint presentation to other country directors on what they learned at the workshop. The meeting gathered programs from seven different countries in the region

The training served as a basis for initiating the work of the Regional Social Performance Working Group to advance social performance management in the region. The members are planning to share their conclusions from the process of the finalization of SPM concepts at the upcoming meeting of SPM Working Group scheduled on June 6 in Budapest, Hungary. Due to their enthusiasm and commitment the Working Group promises a variety of experiences to be shared that will be further disseminated within the industry.

Want to learn more?

MFC is currently looking for like-minded partners (national networks and MFIs) that want to assume leadership in their countries to spread the idea of social performance management. Those who are willing to learn more are cordially invited to the workshops on SPM that will organized during the coming MFC-EMN conference (May 8-9 in Budapest, Hungary). The workshop titled "Networks' Role in Promoting Social Performance" is aimed at MFI national networks while the other, "Applying Social Lens," is geared toward practitioners.

If you want to learn more, please contact Katarzyna Pawlak (kasia@mfc.org.pl) or Dorota Szubert (dorota@mfc.org.pl)

[2] National networks: Azerbaijan Micro-Finance Association (AMFA), The Association of Microfinance Institutions of Kosovo (AMIK)

Financial Education for Low-Income Households: Linking Needs to Products

by Michal Matul[1]

In transition settings of Eastern Europe and Central Asia (EE&CA), financial literacy levels of low-income households are low. This reflects the ingrained practices of communist times, when people were discouraged from managing their finances. Most low-income households still do not prepare long-term financial plans and rarely save in a regular way. In addition, the majority of the low-income population is still unbanked. Confronted with crises and lacking in financial reserves, these people are forced to borrow extensively from MFIs, other financial providers as well as family and friends to respond to life and emergency risks.

The findings below suggest why the inclusion of low-income households in the market economy remains difficult. For the more than 250 million low-income households in EE&CA, responses to crises are reactive. Borrowing, a first course of action, results in high rates of indebtedness and thus can make for a bumpy road out of poverty.

[1] Michal Matul is researcher at MFC (michal@mfc.org.pl).

In response to substantial needs, MFC plans to promote the financial education agenda in EE&CA (see more at www.mfc.org.pl/finedu). This focus is in line with MFC's mission to facilitate the development of socially oriented and sustainable microfinance. MFC plans to raise the financial literacy levels of low-income households by:

- raising awareness of local stakeholders through organizing workshops in EE&CA countries
- adapting and developing tools to enhance financial education in a unique transition context
- facilitating the development of diverse and cost-effective models to deliver financial education services
- training local stakeholders in delivering financial education
- supporting creation of local organizations specialized in enhancing financial education

Financial education is about teaching the knowledge, skills and attitudes required to adopt good money management practices for earning, spending, saving, borrowing and investing. It combines economic education with the promotion of entrepreneurial attitudes. Financial education creates an awareness of the benefits of financial planning and builds the capacity of the low-income households to gain control of their financial resources and better manage their scarce

[continued on page 3]

MFC HIGHLIGHTS

First delivery of the "Essentials of Microfinance in Financial Services in Rural Areas" training course

The training was developed by MFC in English and Russian. It was offered in March in Almaty. 27 participants from 21 regional MFIs attended.

Financial Education Conference in Warsaw, Poland

On January 31 MFC organized a successful conference in Warsaw, where the package "Plan Your Future" was presented and the future of financial education for low-income people in Poland was discussed. The conference brought together more than 80 participants. A strategic goal to extend basic financial education to 5 million Polish households by 2010 was set.

MFC took a strategic decision to make financial education one of its key activities. Big gaps exist in financial education among low-income people in transition countries, hampering the construction of inclusive financial sectors in Eastern Europe and Central Asia. MFC would like to act as a facilitator to disseminate new tools and practices to other transition countries.

Poverty Assessment Tools Practicality Test - The USAID research sponsored project

The **second visits** to partner institutions KLF (Kazakhstan) and Prizma (Bosnia and Herzegovina) were carried out in April and May 2006 by MFC consultants, while the first visits took place in February and March. The visits aimed at documentation of the process from the point of view of practicality.

The Krakow III Policy Forum on Law and Regulation Governing Microfinance

It was a unique event gathering high-level policy makers that took place in Warsaw, Poland, on April 6-8, 2006. The event was organized by MFC in partnership with USAID, CGAP and ICCO.

The Forum brought together 34 carefully selected policy makers and top-ranking public officials from 9 NIS countries - Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan as well as a small number of donor representatives and experts involved in microfinance and financial sector policy work. The event gathered 17 speakers and commentators from 8 countries. The Forum

[continued from page 2]

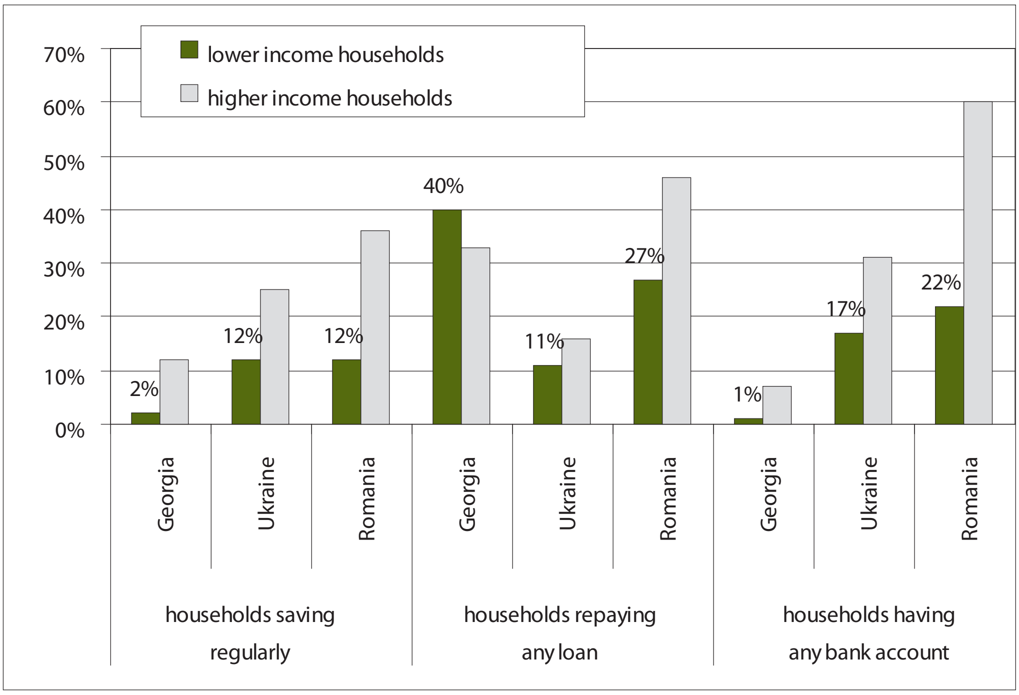
capital. In this way financial education enables people to combine information and resources to enhance their economic security and more effectively use financial services.

The social and economic benefits of financial education are gaining recognition within the microfinance sector. Earlier this year, Microfinance Opportunities and Freedom from Hunger released the first-ever financial education package targeted at microfinance clients and other low-income households. The package is the result of a three-year action-research project which was undertaken with six partners worldwide. Funded by Citigroup Foundation, the package includes an implementation guide, and ToT and trainers manuals for five generic modules on budgeting, saving, debt-management, banking services, and financial negotiations.

Within this global project MFC has developed a financial education curriculum for transition contexts – "Plan Your Future." Developed and pilot tested in Poland, the "Plan Your Future" package contains materials for trainers to run financial education workshops. A central objective of the curriculum is to change people's negative attitudes toward long-term financial planning and saving as well as broaden savings options. To date, the response to "Plan for the Future" has been very positive and it is currently being implemented on a large scale by a Consortium of diverse institutions (from non-governmental and banking sectors). The Consortium (www.edufin.org.pl), under the direction of MFC, seeks to increase financial literacy of 5 million low-income households in Poland by 2015.

Financial education in EE&CA is timely. There is an increasing recognition that encouraging low-income people to become proactive is vital if these households are to emerge and stay out of poverty. Furthermore, by exposing people to new knowledge, skills and attitudes about effective management of financial resources, financial education increases the likelihood that low-income populations will adopt new and existing financial products and services. The gains for microfinance institutions are considerable. Better informed clients make for better consumers of financial services, which in turn improve bottom lines of financial institutions.

Saving, borrowing and using bank accounts in selected countries of Eastern Europe



Source: *Representative national surveys (n=1000) conducted by MFC for Microinsurance Centre and KfW. Lower income households are those living below 200% of the national poverty line in each country. Households saving regularly are those who declare the fact of regular savings. Regarding debt the question is about repaying any (formal or informal) loan. Bank accounts refer to all types of bank accounts (current, term, etc.).*

included plenary presentations, seminars as well as receptions to welcome the partcipants and facilitate networking. The discussions during the Krakow III Policy Forum were organized around the following four issues of significant importance to the development of the microfinance sector in the region and globally:

- policy reform measures that have the **potential to increase significantly the provision of financial services** to lower-income populations and to microenterprises - the issue contained two topics: branchless banking and credit bureaus
- measures that might inadvertently **constrain access to financial services** for these clients, including measures aimed at combating **money laundering** and the financing of terrorism and interest rate caps
- financial cooperatives – the potential risks of over-regulation and of under-regulation, and strategies to strike a sensible balance between them
- issues to consider regarding **government-sponsored guaranteed funds** established to support microfinance

Round Table with Tajik Government Officials

After an introductory meeting last year, the Ministry of Labor and Social Protection of Tajikistan approached the Central Asia Microfinance Center (CAC) office in January with a request to advise them on microfinance best practices and the best practices of the government's involvement in microfinance

In response, a four-hour round table discussion for Tajik government officials was scheduled to address the following objectives:

- discourage the government from participating in direct lending;
- make the government understand that microcredit may not be suitable for all categories of the poor (i.e. that the unemployed may not be able to repay);
- educate them on the role of the government in MF and familiarize them with the main CGAP messages on regulation and supervision.

As a result of the meeting, the participants agreed to set up a working group on the development of the optimal mechanism for MF development in the country; attendees agreed that they should look at various mechanisms, not only at direct provision of credit.

How Microfinance Institutions Can Better Serve Women —The Case of Bosnia

Inez Murray

While many microfinance institutions (MFIs) market to women, finding in-depth research that examines the differences between female and male clients, what products and how best to serve them, is still difficult to come by. MI-BOSPO, the fourth largest MFI in Bosnia and Herzegovina, recently conducted a research study in collaboration with Women's World Banking, to help the organization better understand and serve its clientele.

Women (current and potential MI-BOSPO borrowers) and men (spouses of current borrowers) were interviewed through qualitative research techniques: in-depth individual interviews and focus groups. Samples were drawn from three different regions where MI-BOSPO has branches—Tuzla and Gradačac in the Federation and Bijeljina in Republika Serbska.

Key Findings

The research found that life for women microentrepreneurs in Bosnia is challenging. Women's traditional roles as homemaker and mother means they have less time available to spend in their businesses, and husbands are reluctant to take on housework. Women generally have responsibility for managing the household budget, putting them under pressure to make ends meet, and the diversion of their business profits into household expenses means less capital available for investment.

Most of the women interviewees were new to running their own businesses, though many had jobs before the war. The research concluded that they would therefore benefit greatly from mentoring and business counseling.

Women with growth-oriented, successful businesses felt that they were "equal to men" and "equally strong." They also cited that having a business helped them gain respect in their communities and helped them learn to value their contribution to their households. This is important given that Bosnian women have a tendency to identify themselves first as housewives and only second as business women. They also tend to undervalue their contribution to the household (particularly in rural areas). One of MI-BOSPO's credit officers spoke of her role in helping rural women value their income-earning work:

> *"When we go to rural areas to do a promotion, women often reply, why would we take a credit when we are not doing anything and when we ask her if she has a cow and sells the cream, she doesn't think that is anything, that is not a job. And that is the difference between them and women in urban areas. In urban areas, when women earn it, they know that they have earned it … I try to persuade them that what they do is a real business, of making money, why don't they buy one more cow and they will make more money. Usually they call me after a few months, take a loan and tell me that a station has been opened in my village to buy the milk and now they want to buy another cow. In a way, we awaken their conscience that it is money, that it is a business." (MI-BOSPO Credit Officer)*

The study also showed that both women and men felt that bringing home money equaled decision-making power. Husbands said they knew that their wives liked to have their own money, and women reported getting into business not only because their households needed the money but also because they value financial independence.

> *"Lots of women are taking loans just to have something on their own, to be independent."(Female Borrower—Solidarity Group)*

Opportunities for MFIs

Based on the findings of the study, it could be recommended that MFIs develop marketing strategies to highlight women's contributions and to help them be proud of their work and accomplishments. This would attract increasing numbers of customers and build loyalty among existing clients. These strategies could be augmented by, for example, setting up a women-in-business mentoring program and forming strategic alliances with providers of business development services.

Since in Bosnia it is women who are mainly responsible for saving (just as in other parts of the world), offering savings products that cater to goals that women care about, e.g. educating their children, building or repairing their houses (critical in this post-conflict situation) would work well. MI-BOSPO's products must be designed to suit women's priorities, such as security, convenience and privacy. An MFI offering savings would have to work hard to overcome the credit culture that has emerged in Bosnia in recent years. But promoting savings makes lots of sense for Bosnia and for helping Bosnian women build a future for their families.

Based on this research and similar research Women's World Banking has conducted in other parts of the world, it is clear that MFIs would gain a lot by studying their clients' needs based on gender. Women and men live different realities, which ultimately translate to different product offerings and different marketing opportunities for service providers. As shown earlier, women feel empowered by earning their own income, which provides a basis to truly differentiate their business strategy and guide them in becoming "the provider of choice for women."

A full version of the research upon which this article was based will be available soon from Women's World Banking: www.swwb.org

NEWS

Investing in the Majority

SEEP ANNUAL CONFERENCE
Save the Date! October 23rd-27th, 2006 Washington DC
www.seepnetwork.org

The SEEP Network Annual Conference highlights best practices and cutting-edge, sector-related practices of SEEP members and other practitioners through a weeklong process of training events and a series of 20 workshops. The Conference is the premier opportunity for microfinance and microenterprise development practitioners to share lessons learned and engage in new learning on innovative practices and the most current issues in the field.

CGAP announces winners of the Pro-Poor Innovation Challenge Round VIII

We are pleased to announce the winners of CGAP's Pro Poor Innovation Challenge (PPIC) VIII. Five winners, Crédit-Epargne-Formation (Madagascar); Institution de Microfinance HOPE (Democratic Republic of Congo); Trickle Up Program with Bandhan (India); Union des Clubs d'Epargne et Crédit (Chad); and XacBank (Mongolia) were selected from an applicant pool of over 250 microfinance institutions from around the world. Each of the winners receives $50,000 to use for technical assistance and other expenses related to specific innovations designed to increase financial access for the very poor.

For more information on the PPIC program and this year's winners, please visit the website: http://www.cgap.org/projects/PPIC/ppic.html.

2004 Overview of the Microfinance Industry in Eastern Europe and Central Asia

The microfinance sector in ECA continues to grow at a 60-percent annual rate reaching, at the end of 2004, 3 million borrowers with a loan portfolio topping $4 billion.

Among four types of institutions providing microfinance services, credit unions prevail, which are mostly active in Central and Eastern Europe, Russia and Ukraine where they serve 2 million borrowers. Other institutional types have a smaller outreach of less than 1 million borrowers, as they serve narrower segments of population – microentrepreneurs, SMEs and farmers – while credit unions provide chiefly consumer loans to salaried workers. However, about 4 percent of credit union activities are performed by institutions specifically serving microenterprises, many of them in rural areas.

NGOs, non-bank financial institutions, and microfinance banks have a majority of borrowers in the Balkans and Central Asia, while downscaling commercial banks concentrate their activities in Central Asia and Russia.

While credit unions and NGO/NBFIs are predominantly engaged in providing small loans up to $5,000, downscaling and microfinance banks offer loans ranging from a few hundred dollars to more than $50,000 with less than half of their loan portfolio in amounts less than $10,000. This drives their level of outreach to over 200% of GNP per capita. Downscaling banks, in particular, do not yet reach very few downmarket clients as their depth in the segment of smallest loans exceeds 70 percent of GNP per capita. NGO/NBFIs in the same segment provide loans averaging 28 percent GNP per capita.

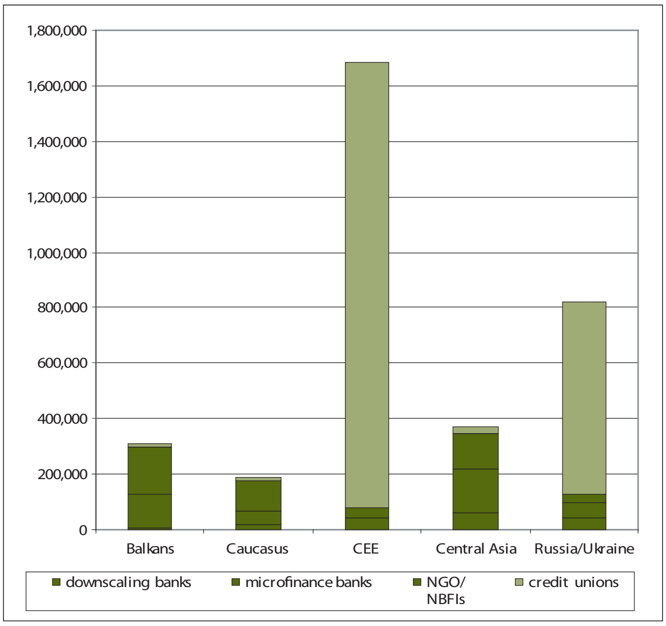
Throughout the year, all institutional types except for credit unions expanded their outreach by decreasing the average loan balance, which enabled them to reach lower-end clients. This meant a reversal in the upward trend from recent years when MFIs tended to provide larger loans each year.

Most ECA microfinance borrowers live in urban areas, especially those in Central and Eastern Europe and who are clients of credit unions. In other sub-regions urban and rural distribution of borrowers is more balanced but in Central Asia, with a bigger share of rural population, the number of rural borrowers exceeds the urban share.

Both microfinance banks and NGO/NBFIs have about half their borrowers in rural areas and over 60 percent of these clients are using loans for agribusiness. The rest of rural borrowers use general business loans either because they run non-agricultural enterprises or have to use business loans for general purposes in the absence of specialized loans for agricultural production.

From the three methodologies used in microfinance (solidarity group loans, individual loans and village banking) individual lending is the most popular methodology in ECA. It is used by downscaling banks and the majority of microfinance banks and NGO/NBFIs. Some microfinance banks that transformed from NGOs are also using solidarity group lending. Group loans are in particular used by clients of NGO/NBFIs, especially low-end clients that run smaller businesses and lack collateral to guarantee a loan.

Total Number of Active Borrowers (as of end 2004)



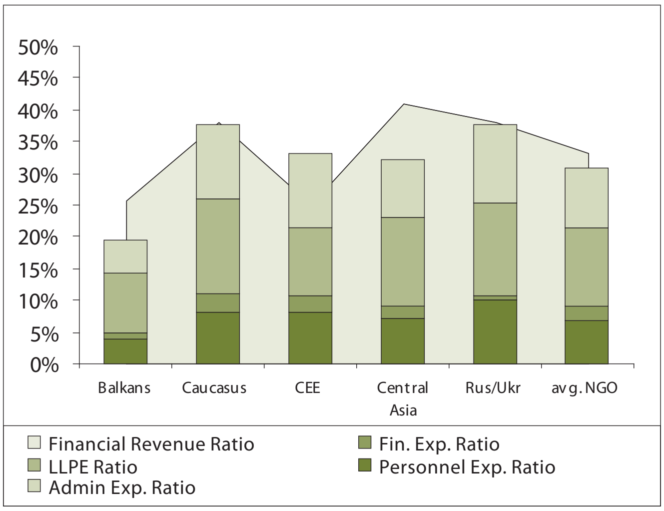
Most business loans are served through group methodology while agricultural clients are more often taking individual loans.

While microfinance banks offer a range of banking products (deposits, money transfers, debit cards) that help in attracting more clients and cross-selling the services, few NGO/NBFIs offer non-lending products. These are mostly an insurance and business development services provided in partnership with non-microfinance institutions.

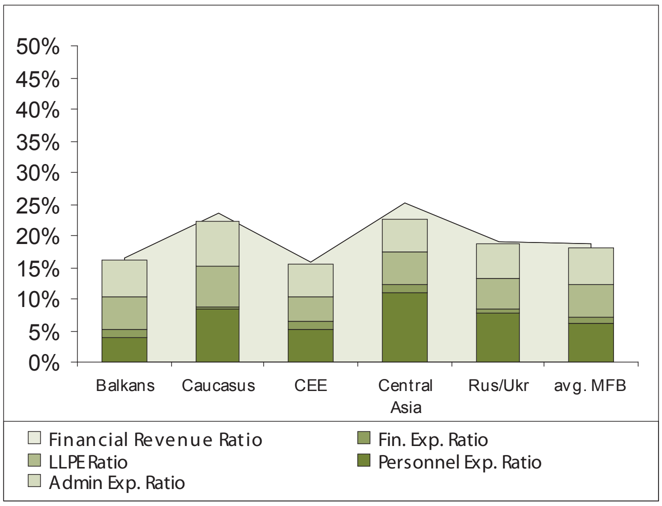
In 2004 NGO/NBFIs were on average more profitable than microfinance banks, which operated on a very thin profit margin. The most profitable NGO/NBFIs operated in the Balkans and in Central Asia.

Among NGO/NBFIs, institutions with a bigger outreach were more profitable. No correlation was found between depth of outreach and profitability as those institutions that in particular served low-income clientele were just as profitable as their counterparts serving higher-end clients. This indicates that there is no trade-off between social and financial goals. Even though providing small loans is more costly, the revenues from such activities were higher. Having limited access to sources of finance, low-income entrepreneurs are willing to pay higher interest on loans from MFIs. This in turn allows the MFIs to cover their costs. More productive MFIs were more profitable as they were able to serve more clients without additional investments in infrastructure.

Revenue and Expense Structure of NGO/NBFIs



Revenue and Expense Structure of Microfinance Banks



On average, portofolio yields of NGO/NBFIs were higher than those of microfinance banks because of smaller scale of operations, the more difficult market segment served and higher risk of providing uncollateralized loans. Due to increasing competition and the need to offer more attractive products as well as the increasing professionalism and efficiency of many MFIs, significant decreases in portfolio yields were observed in 2004 among the majority of NGO/NBFIs and many microfinance banks.

For credit unions and microfinance banks the chief sources of funding remain client savings, while NGO/NBFIs mostly rely on donor grants for funding capital. Gradually, NGO/NBFIs move towards the use of borrowings, both from concessional and commercial sources. The highest use of borrowings was observed in Central and Eastern Europe and in the Balkans.

Most MFIs expect that in the future microfinance industry will integrate with the mainstream financial sector. This opinion is especially shared in the Balkans, where MFIs have evolved into strong financial institutions. Only 16 percent of MFI respondents expect the industry to move toward increased social performance, integration of finance with other socially oriented services including a wider range of non-financial services and extending outreach to the excluded groups.

MFIs perceive the best strategy to market their products is to differentiate themselves from their competitors, in terms of customer service, product quality and product range.

Innovation is perceived as the most important success factor for most MFIs. Additionally, developed infrastructure that provides good access to services increases the chances for success.

The full text of '*2004 Microfinance Sector Development in Eastern Europe and Central Asia*', *J. Pytkowska, E. Bankowska, Microfinance Centre for CEE and NIS (MFC)*, 2006, in English and Russian is available at www.mfc.org.pl/publications or upon request at justyna@mfc.org.pl.

The annual stock-taking exercise by the Microfinance Centre found that practitioners perceived three key barriers to creating more inclusive financial markets:

- Concerns about growing competition
- The lack of adequate financing for microfinance
- A policy environment that too often hobbles rather than enables microfinance

I would like to suggest that while each of these is a potential barrier, it is also an opportunity for effective dialogue and action:

- I will argue that competition is really only beginning in most markets and is, on balance, a good thing for the MFIs and certainly for their clients.
- I will suggest that the industry appears on the cusp of financing its growth through more commercial sources.
- and I will encourage all of us to embrace a broader vision of enabling environment and to redouble our efforts to create the conditions for healthy competition.

Product innovation, process re-engineering, a focus on increasing efficiency, broad applications of new technology, and creation of new strategic alliances will all be essential if we are to achieve this vision of financial democracy.

Kate McKee, Director, Office of Microenterprise Development, USAID

NEW MFC MEMBERS

The total number of the MFC members increased to 107!

Micro Loan Organization "GENDER va Tarakiyett" LLC

Established in Tajikistan in 2005, "Gender" aims to implement the following:

- Contribute to poverty reduction, expand economic rights and opportunities of the economically active population to financial services through credit;
- Improve the living standards, through the generation of income in the private sector and market relations;
- Create an environment where the population can access information and knowledge on social-economic and legal issues;
- Develop and strengthen the institutional capacity of society to achieve the organization's goals.

Frontiers LLC – A Micro Lending Company

Frontiers was established in 2003 in Kyrgyzstan. Its mission is to support the development of sustainable and transparent financial institutions that create jobs and improve the general welfare of communities.

Micro Credit Company, "Elet-Capital"

Elet-Capital was established in Kyrgyzstan in 2005. The organization's main purpose is to offer credit in cases of urgency and recurrence, according to its policy, at the expense of own funds or funds of any other donors, including consumer crediting subjects of small-scale and medium businesses. The strategy of Elet-Capital is to direct the creation of credit institutions with a wide range of credit services all over the country and developed branch systems.

"Armenian Ecumenical Church Loan Fund" Foundation

The ECLOF was founded in 2002 as a Christian supporting organization, aimed at promoting human development through fair loans. The foundation's objectives are to provide fair loans to:

- activities that will enable poor and excluded groups to improve their socio-economic conditions and strengthen self-reliance
- institutions that will contribute to the creation of employment for poor communities
- groups that do not have access to the financial services of other financial institutions, because they are deemed "unworthy" clients
- needy churches and church-related institutions aimed at carrying out social projects

Partnership in Academics and Development – PAD Microfinance

The organization was established in Uzbekistan in 2002. PAD's mission is to increase economic growth and rural development in Uzbekistan by providing access to micro-lending opportunities to people working in small businesses, trade professions, and in agricultural production, cattle raising, processing and storage.

BZMF – Beselidhja / Zavet Micro Finance

The organization has operated in Kosovo since 2000. Beselidhja/Zavet exists to sow the seeds of ethnic reconciliation by providing meaningful grassroots economic development and bringing together members of different ethnic groups in mutually beneficial business transactions.

Union of Legal Entities, "The Association of Microfinance Institutions"

The Association of MFI was created to coordinate association member interaction in development of microfinance organizations carrying out their activities on the territory of the Kyrgyz Republic, to solve issues related to increasing access to credit resources for legal entities and individuals in the Kyrgyz Republic, to implement joint projects, and to represent, promote and protect the interests of association members.

The association's mission is to promote economic development and welfare of the communities served by microfinance organizations through capacity building and providing quality services to MFIs.

Micro credit organization "Zaman" LLP

Zaman is a limited liability partnership operating in Kazakhstan for the past two years. The purpose of the organization is to help novices and guide entrepreneurs by providing access to financial resources through microcredit.

NEWS

Micro Development Fund Best Practices

This article will present how the best practices in microfinance are transfered into the practice of the MFI Micro Development Fund (MDF). The MFC trainings attended by the MDF staff, along with the available CGAP tools helped MDF to incorporate the gained knowledge from the trainings into its practical use.

During the past five years, the MDF has successfully accomplished its implementation partnerships with all of its micro credit program donors. Excellent micro credit performances, appraised by the donors, resulted in **hand over contracts** by which the Revolving Loan Fund was passed on from all donors to MDF's owners. After the donor hand over, the MDF was given more freedom in targeting clients (not only refugees and IDPs). In order to learn about real market needs, MDF conducted **Market Research.** Taking into consideration some of the research's recommendations, MDF considered redesigning the loan products in order to meet clients' needs better.

MDF's goal is to serve large number of clients by providing high-quality financial services throughout Serbia. To do this effectively long term, MDF wanted to be sure that the operations are done in the most cost effective way. With a planned expansion in mind, MDF reviewed its cost structure by applying the CGAP **ABC costing tool** for its loan product.

The product cost structure was a practical tool to review current product costs as well as to ensure stronger control over other costs without compromising the quality of service. Furthermore, this exercise helped MDF to better understand the costing and pricing principles prior to differentiating and launching new products on the market.

Also, the ABC costing tool helps MDF to improve its efficiency in delivering financial services. After considering the market research results, an extensive ABC costing and a financial analysis, the MDF **differentiated its existing products** as well as **introduced new** loan products for implementation this year. Naturally, the introduction of new products compelled MDF to design its **Strategic Marketing** (SM). Its Strategic Marketing was to offer and communicate different market led products through appropriate cost-effective systems with the aim of strengthening the institution while staying focused on client needs.

In 2005, MDF designed the main framework for the SM: corporative brand, product strategy and delivery strategy. Market segmentation, positioning and pricing were worked out through an internal working group. After staff training, the final strategy was ready for delivery in 2006.

Resuming its mission, MDF reviewed its financial and social goals along with its follow-up systems. Inspired by the latest Social Performance Management training organized by the MFC, the MDF designed its **Social Performance Management** in order to introduce a system to measure and track its social goals - cost effectively. Combining financial and social indicators will help MDF to balance "trade off" successfully and offer efficient credit services long term.

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Kazakhstan Loan Fund to become Microfinance Bank

The Kazakhstan Loan Fund is slated to become a microfinance bank. As such its aim is to grow and expand its range of services to the general population.

The Fund's transformation is based on the need to establish an organization with a transparent shareholder structure that will allow it to attract additional financing and diversify its services. At present, Kazakhstan legislation does not allow microfinance organizations to accept deposits and carry out currency operations. Restrictions like these make it difficult to compete effectively with the banking sector, which has regular access to client deposits and the proper facilities to obtain cheap debt financing.

As international practice has demonstrated, transformation into the microfinance sector is a long-term and complicated process that takes 3-5 years. One of the challenges facing KLF is an equity requirement of at least 2 billion tenge (about $15 million.). Therefore, a determinant factor in the transformation process is the build-up of a "step system," which implies a series of necessary actions including the opening of a subsidiary.

As a result, it has been determined that KLF's transformation process would take three years. By 2008 KLF is expected to receive permission from the Central Bank of the Republic of Kazakhstan to register as a commercial bank, as well as a license to carry out banking operations that include deposits, opening and maintenance of settlement accounts, remittance operations, issuance and maintenance of debit cards and other services.

CAMFA's concluding fourth annual regional conference was held in Bishkek,

Kyrgyzstan on May 24-25, 2006

The Central Asia Micro Finance Alliance (CAMFA) was joined in hosting this event by the Association of Micro Finance Institutions of Kyrgyzstan (AMFIK). The conference, entitled "Achieving maximum outreach and sustainability", was held in Russian with simultaneous translation into English.

The conference's objective was to provide practitioners throughout the region with an opportunity to learn about global trends and challenges in microfinance, commercialization, social impact, savings services, and client desertion. The conference was also an opportunity to meet with raters, donors and investors, and discuss on-going challenges to the sector.

"Building an Inclusive Financial Sector in Azerbaijan"

3-rd Azerbaijan Micro-finance Conference was held in Baku, Azerbaijan on 26-27th May 2006

Azerbaijan Micro-finance Association (AMFA) took the lead role in coordination and management of the event to promote and further develop non-bank financial institutions (including micro-credit, specialized lenders, credit unions and leasing companies) in Azerbaijan. One of the highlights was the presentation of Azerbaijan's first ever benchmarking report by AMFA.