



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

# Microfinance

IN CENTRAL AND EASTERN EUROPE  
AND THE NEW INDEPENDENT STATES

## Staff Incentive Systems – the use of non financial incentives in the ECA region

*Clare Pearson, MFC Project Assistant / Student, European Microfinance Programme, Solvay Business School, Brussels*

### Introduction

The use of Staff Incentive Systems (SIS) across the region is widespread, as shown in a recent survey of MFIs in the region. The survey was carried out as part of research<sup>1</sup> for a dissertation in the European Microfinance Programme at Solvay Business School, Université Libre de Bruxelles (ULB).<sup>2</sup> Thanks to the response of participants the findings showed how SIS are used in a number of interesting ways across MFIs and across the region as a whole. When the word incentive is used, it is usual to think of monetary incentives – better performance against set objectives leading to more money. Indeed, monetary incentives are used widely amongst MFIs and MFIs have stated that staff respond well to this type of incentive. However, in addition to extra money as a motivational tool for staff, MFIs use a wide range of non financial incentives, showing that MFIs and their staff value the working environment as a whole.



Despite the social mission of the microfinance industry, it is well known that staff appreciate their general working environment and if it is a conducive one, then productivity can actually be enhanced. Staff will stay with a MFI when they know their employers appreciate them and their efforts are recognised. Incentives are a way of encouraging certain behaviour, with non financial incentives being one way of acknowledging this.

### Types of non financial incentives

Non financial incentives can be adopted in a variety of ways. MFIs may form partnerships with local asso-

## Book the dates for MFC Training Courses by the end of 2007!

- **Operational Risk Management in MFIs. Internal Control and Audits** (English Language) UPDATED, 9-12 October, 2007, Belgrade, Serbia
- **Financial Analysis for MFIs** (Russian Language) UPDATED, 23-26 October, 2007, Dushanbe, Tajikistan
- **New Product Development for MFIs** (English Language), 6-9 November, 2007, Dubrovnik, Croatia

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

ciations, such as sports clubs, to offer staff discounted membership. The incentives may be of direct beneficial use to the MFI: for example assistance with accountancy training or foreign language classes. In order to be effective, any incentive scheme must be carefully designed, administered and conform to the policies, ethical standards and culture of the MFI. The results of the survey showed that MFIs use four main types of non financial staff incentives: health related, training, public recognition and perks.

### NON FINANCIAL INCENTIVES

#### HEALTH

Sports club membership

Private health care

Insurance

#### TRAINING

Free English language classes

Subsidised postgraduate education

Subsidised accountancy classes

Participation in capacity building training programmes

[continued on page 2] →

### IN THIS ISSUE:

- 1 Staff Incentive Systems – the use of non financial incentives in the ECA region
- 1 Book the dates for the MFC Training Courses by the end of 2007
- 2 MFC Highlights
- 3 The MFC Innovation Award
- 4 The MFC Board – Changes in personnel
- 5 MFC Members Corner
- 6 Interview on Social Performance Management

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### OBITUARY

#### Csaba Kalman

CEO of Opportunity Microcredit Romania (OMRO) died in the early hours of Tuesday 21st August 2007, following complications after receiving cancer surgery in July.

Csaba had been involved with microfinance for 13 years and had always led the Opportunity Partner in Romania and attended many conferences and workshops held by the MFC over the past years.

Our thoughts are with the OMRO team as well as with all Csaba's family, but especially his wife and four children.

MFC team

➔ [continued from page 1]

<b>PUBLIC RECOGNITION</b>
Best employee award
Mentions in newsletters
Verbal and written acknowledgment from the senior managers made public
<b>PERKS</b>
Annual subscriptions to newspapers
Outdoor team building activities
Use of car for private use
Cell phone allowances
Employee loans at preferential rates
Uniform allowances

### Implementing non financial incentives

Each MFI is unique, as is the makeup of its staff, therefore it is essential to know what would motivate your staff. The list of potential non financial incentives should be drawn up so that staff are aware of what can be voted for. It is useless for staff to suggest the use of cars if the budget for buying cars does not exist within your organisation. The main point of non financial incentives are that staff perceive them as worthwhile, that is they add value to their employment and that they are relevant to the MFI.

Running a pilot test for your non financial incentives is a way of detecting any pitfalls before rolling it out across the whole organisation. All staff should be aware of the incentives on offer to them and it is worth considering how you advise staff of their perks. It is also important to obtain regular feedback from staff and review the incentives you offer regularly. The majority of survey respondents advised that they review their incentive scheme annually. In this way you know that staff still consider the perks as an incentive and have not grown bored with the perks on offer.

For cost conscious MFIs non financial incentives need not be of high monetary value as relatively small sounding gestures can have significant impact. An easy way of recognising good performance and one widely used within the region, is the public acknowledgement of staff; publish their names in internal newsletters, present certificates or introduce an employee of the month award. Not only does this motivate staff receiving the recognition but it can also have a considerable knock on effect of motivating other staff to achieve the same results as their colleagues.

Staff like non financial incentives because:

- they can enhance the general quality of working life
- add value to their employment contract
- reward their efforts

The majority of survey respondents stated that their MFIs had grown in staff numbers during the last year. Non financial incentives are a good way of both tempting new staff to your MFI, as well as retaining staff. Indeed the main advantage quoted by respondents was that SIS actively reduced staff turnover.

### Conclusion

Non financial incentives are not always trouble free, so it is best to decide and debate what works best for your organisation within your budget constraints. However, non financial incentives are a relatively cost effective way in which to provide an enhancing working environment which encourages your staff to give their best. The core strength of any MFI is the staff it employs, for success staff need to be trained and kept motivated which can take time. Using non financial incentives is a relatively simple way of getting staff on board and limiting staff turnover.

<sup>1</sup> Methodological note: a questionnaire with 7 multiple choice questions and 3 questions with free text area for answers was sent to all MFC members in February 2007, with 35 institutions responding. MFIs from across the region were received, with a large number from the Balkans. More in depth questions were sent to a random 5 institutions. Face to face contact was made during the MFC SIS training course in April 2007.

<sup>2</sup> Further information on the programme can be found at: [www.europeanmicrofinanceprogram.org](http://www.europeanmicrofinanceprogram.org)

## MFC HIGHLIGHTS

### 10th MFC Conference of the Microfinance Institutions: "10 years of Bridging the Market Gap", 31 May – 2 June 2007, Sofia, Bulgaria

- 477 participants from 38 countries attended the 2007 MFC conference, including policy makers from different spheres.
- 22 investors exhibited at the Investors' Fair.
- The conference gave speakers and participants an opportunity to reflect on microfinance sector development in Eastern Europe and Central Asia, leverage on past successes and come up with actionable plans for the coming years.
- 16 practical workshops focused on both strengthening the business aspect of microfinance institutions, as well as on tools allowing practitioners to better fulfill their mission objectives.
- As the ECA region is the second largest recipient of commercial or quasi-commercial funding, after Latin America, the Conference provided an opportunity to explore the issues of investor participation in ownership and governance as well as establish new relations and/or make new deals.
- All plenary sessions and some workshops were translated into Russian and Bosnian/Serbian/Croatian.

### MFC's capacity building program

- **Fundamentals of Transformation: What is it? Why Transform? Steps in the Transformation Process (30 May, Sofia).** This training course

introduces participants to the fundamentals of the transformation process including the decision to transform, understanding the strategic, operational, legal and governance implications of transformation and planning and managing the process. The training was facilitated by two trainers from ACCION International (Deborah Drake and Todd Farrington) as well as a guest speaker from MEDA (Bill Harrington). The full training course in both English and Russian languages is expected to be delivered through the MFC in 2007-08.

- **Risk Management Framework (3-6 July, Sarajevo), developed by Perfect Point Partners (PPP).** It focuses on creating a risk management culture in financial institutions. The course is aimed at managers and board members of MFIs as well as staff dealing with various risks.
- **Financial Risk Management in MFIs (25-27 July, Warsaw), developed by Citigroup in partnership with Women's World Banking (WWB).** The programme is designed for senior decision makers, including general managers, finance managers, operations head and internal audit head of MFIs.

The MFC in strategic partnership with the Perfect Point Partners (PPP), is also planning to offer a two day training course on Product Costing that will complement the New Product Development course in Dubrovnik, on 6-9 November 2007. The **Product Costing to Improve Efficiency** workshop was held during the MFC Conference in Sofia and was facilitated by Christian Ruehmer and Mauricio Moron Benitez (Perfect Point Partners, USA).

### The MFC Financial Education Program

- **Financial Education Conference, 20 June, Sarajevo, Bosnia and Herzegovina.** A key note speech was delivered by Shaun Mundy from

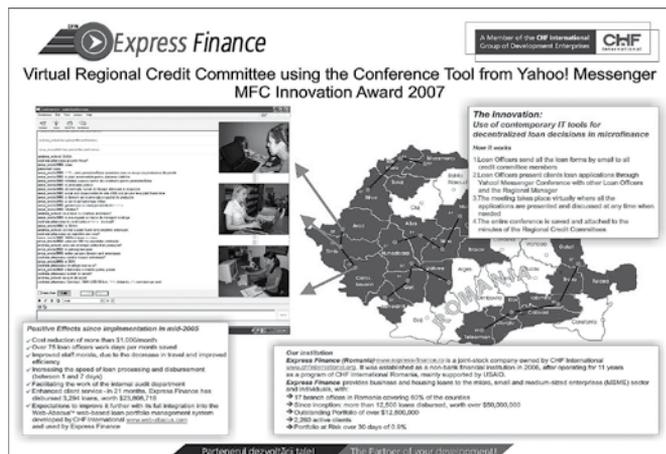
## The MFC Innovation Award

Agata Szostek, Consultant, MFC

I hope that all of our readers who participated in the 10<sup>th</sup> MFC conference in Sofia had the chance to visit the MFC Innovation Award Exhibition.

The colourful posters were from 6 institutions from around our region who presented their innovations. The exhibition represented just a small fragment of what is happening in the industry but, nevertheless we hope that the solutions presented were inspiring for you, and that next year you will have the chance to share your own innovations with the wider community!

As not everyone had the opportunity to attend the Awards Ceremony at the conference, I would like to briefly present the main idea behind launching the MFC Innovation Award. The MFC would like MFIs to recognise that they serve a unique market, and that they should be more innovative in developing marketing approaches, products, services and cost-effective delivery mechanisms. The MFC in its networking capacity decided to promote the most effective solutions which MFIs operating in our region have applied. As a result the Innovation Award contest



was announced in the spring of 2007 and all institutions from our region were invited to submit their applications.

Nineteen institutions submitted their applications for the first MFC Innovation Award. The Award Committee had a very hard job in selecting the most interesting among the submissions, and in many cases the Committee had to make tough choices.

At the first selection stage, the Committee drew up with the following list of award nominees:

1. Foundation Horizonti, Macedonia
2. Express Finance, Romania
3. Integra Foundation, Slovakia
4. Aregak Universal Credit Organization, Armenia
5. Normicro LLC, Azerbaijan
6. SABR, Uzbekistan

This choice was based on the justification of; why the solution was an innovation, the significance of the innovation for the target clients, as well as the institution and the potential/ease of replicating the innovation by other institutions within our region. The above mentioned nominees presented their innovative solutions at the MFC Innovation Award Exhibition at the Sofia conference.

At the final vote it was decided that 2 winning innovations should be selected. One of the two winners was the innovative approach of using the group methodology for reaching the most excluded, in this case the Roma population, introduced by **Foundation Horizonti** from Macedonia. The loan product on its own was not enough to ensure sufficient outreach in the Roma community. **Horizonti's** innovation was putting into practice their approach to provide continuous access to Roma women clients and ensure good client's loyalty. **Horizonti's** approaches to serving Roma clients are innovative because they are specifically designed and developed for this target group. The combination of these approaches and group loan product proves to be a "winning combination" for reaching out to the Roma population. At present 37% of **Horizonti** clients are Roma.

[continued on page 4] ➔

the UK Financial Services Authority. The conference attracted more than 20 participants from relevant Ministries, Central Banks, donor agencies, financial institutions, microcredit organizations and non-governmental organizations.

- **More Training of Trainers in Russia.** A successful pilot project implemented by the MFC, RMC and Microfinance Opportunities triggered Citibank in Russia to sponsor five more training of trainers (ToT) in different regions in Russia. The ToTs will be delivered by RMC during the remainder of this year.
- **A New Project in Ukraine.** A pilot project is taking place from July-December 2007 and will be implemented in conjunction with the All-Ukrainian Association of Credit Unions. Its goal is to raise awareness, increase engagement and build skills of the most promising stakeholders in Ukraine. For those interested in becoming a partner and participating in the ToT please contact Margarita Lalayan at [margarita@mfc.org.pl](mailto:margarita@mfc.org.pl).
- **Innovation for Social Change in Poland.** The Levi Strauss Foundation awarded MFC a grant to initiate work on a partnership delivery model in 2007/08. The model enables high quality financial education to be provided to a large number of vulnerable households. The MFC will design and test the model in Poland.

### New Publications

- **From Mission to Action Management Series for Microfinance Institutions**  
The MFC has recently released publications



(Strategic Management Toolkit) on how to manage MFIs strategy towards their double bottom line, as well as how to conduct the social audit with a self assessment Quality Audit tool. These publications are available in electronic version at the MFC web site. The tools were developed and tested in 10 MFIs worldwide: Armenia, Bosnia and Herzegovina, Kosovo, Guatemala, Peru, the Philippines, Serbia and Montenegro.



- **The Practice of Corporate Governance in Shareholder-Owned Microfinance Institutions available in Russian**

The MFC translated this publication into Russian, which was funded by the United States Agency for International Development (USAID) through the Association of Micro Finance Organizations of Tajikistan (AMFOT).

### Women Advancing Microfinance (WAM)

WAM for Central and Eastern Europe and the New Independent States Chapter has new website at [www.wam-international.org](http://www.wam-international.org). The website has pictures from the previous member meetings including the summary of the recent meeting held on May 31 in Sofia, Bulgaria. It includes presentations by Jasmina Glisovic-Mézières (CGAP) on choosing the proper channels of communication and Justyna Pytkowska (MFC) on empowering women through sustainable microfinance.

➔ [continued from page 3]

The second winning innovation, by **Express Finance** from Romania, was the innovative way of applying readily available technology in order to improve efficiency and productivity in serving target clients. **Express Finance** began using Yahoo! Messenger with its conference component to conduct the **Virtual Regional Credit Committees**. Instead of meeting in person at particular places and times, Loan Officers presented client loan applications from their own computers in a Yahoo Messenger Conference with other Loan Officers and the Regional Manager. The meeting takes place virtually where all the applications are presented and discussed, and then decisions on the loan applications are taken. The advantages for the institution and client are as following:

- reduced costs (postage, travel);
- time saving (Loan Officers have thus been able to devote more time to serving clients and making loans);
- improved speed of loan processing and disbursement (better client service);
- improved risk control (the saved and filed minutes from the credit committees are facilitating the work of the internal audit department).



Below are summaries of the other 4 shortlisted nominees:

1. Fair Trade Market Access for clients of the **Integra** MED program for women at risk. **Integra** launched the "Ten Senses" Fair Trade company, which is a commercial response to market access needs of clients. Ten Senses provides product consulting, retail and wholesale channels, and access to a fair trade brand for client products. The main innovation is that the **Integra** market access programme assists the client with the looking at the market.
2. One client, one vote with his or her opinion being considered. It is one of **AREGAK's** main principles which has significantly contributed to the organization's success. **AREGAK** has a Board of Customers, which is a structure that gives the opportunity to closely communicate with clients as well as involve them in the process of further development of products, services and approaches.
3. **Normicro** have established Advisory Councils comprising of best performing clients, the main role of the Advisory Council is to serve as the bridge between the Management of **Normicro** and the borrowers. The advisory council played a significant role in building cooperation based on mutual trust, support, respect and transparency. It has contributed towards a high retention rate within the company and attracting new clients.
4. **"SABR"** for the implementation of a multi-component project aimed at improving the lives of women from poor families and reducing cases of domestic violence and the violation of women rights through educational and awareness programs delivery. The combination of financial and social activities is directed at finding solutions to the main problems, which involve the alleviation of poverty in rural areas and the eradication of violence against the most vulnerable layers of the society: women and children.

**Horizonti microfinance**

"Innovative approaches for providing sustainable financial services to Roma in Macedonia" - Foundation Horizonti

**ABOUT HORIZONTI**  
Horizonti is one of the leading Microfinance Institutions in Macedonia, which started its operation in January 2000 as a microfinance project of Catholic Relief Services - CRS. Horizonti was transformed in to a local MFI, on 31.05.2005.

**Mission Statement**  
"To extend financial opportunities to micro-entrepreneurs in Macedonia so that they can maintain and develop their businesses, create new jobs, and improve their livelihoods."

**Target Group**  
Women micro-entrepreneur, resident of the R. of Macedonia, with an existing income generating activity, often a home-based family business such as retail, services, production, and agriculture.

**Key statistics:**

Number of active clients:	2,917
Loan Portfolio USD:	2,352,840
Operational sustainability:	112%

**INNOVATION**  
Horizonti innovative approaches in reaching the Roma key success factors:

- ◊ The group lending methodology
- ◊ Operations are located in the Roma community
- ◊ Recruit staff without prejudice to work in Roma environment
- ◊ Hire staff from Roma community

**IMPACT**

- ◊ Horizonti is the first institution in Macedonia that has provided access to finance to Roma entrepreneurs
- ◊ The number of Roma households served with loans represent 35% of the total Roma population in the country
- ◊ Roma loyal clients are awarded with additional loan opportunities such as access to individual loans

Number of loans disbursed to Roma:	Amount of loans disbursed to Roma:
9,135	USD 6,808,940

### The MFC Board - Changes in personnel

During the MFC Membership meeting that took place on 1 June 2007 in Sofia, Bulgaria, two representatives from the MFC member organizations were elected to the MFC Board:

**Zhanna Zhakupova** (Chair of the Management Board, Asian Credit Fund, Kazakhstan) and **Ganhuyag Hutagt** (Chief Executive Officer, XacBank, Mongolia).

They replaced two board members, Caroline Tsilikounas and Marina Yoveva, whose term on the Board came to an end this year. We are very pleased to welcome Zhanna and Gan to the MFC Board and we wish them well in their new and challenging positions.

In addition to the above mentioned new Board members, Gert van Maanen from Netherlands has been elected by the board members as the Chair of the MFC Board.

#### MFC strategic partners and supporters:



If you would like to share information on the microfinance in C&EE and the NIS or you would like to subscribe for this Newsletter, please contact Agnieszka Talma: [agnieszkatalma@mfc.org.pl](mailto:agnieszkatalma@mfc.org.pl)

## MFC MEMBERS CORNER

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### **Award for The Best manager of the Year 2007 for Senad Sinanović, Executive Director of partner Microcredit Organization, Bosnia & Herzegovina**

This year over 2000 managers from 22 countries were nominated for this award. "The award represents a reward for all Partner's employees and is awarded in the year Partner celebrates its 10th anniversary of being a successful MFI. This is also the recognition of Partner which is in the process of transformation into another legal form and a special hall-mark on Partner Microcredit Organization's performance during the past 10 years. The greatest resources an institution can have are its human resources and it is exactly these resources which are the key for Partner's success", said Senad Sinanović.

### **5 year anniversary of Albanian Saving and Credit Union, 15 years of rural credit activity**

An anniversary ceremony which brought together a wide array of microfinance stakeholders from Albania and other countries was held in January 2007. The creation of the ASC Union in 2002, was the finalization of efforts on behalf of all actors and protagonists, including already established Savings & Credit Associations, who needed: a stronger voice within a more representative body that will govern, manage and control their activity. During 15 years, the institution has consolidated its identity through an increasing combination of financial and social performance, combining business with democracy and of staff professionalism with 650 elected members in rural areas.

### **Savings House "MOZNOSTI", Macedonia**

In April the Bitola and Gostivar branches celebrated one year of successfully providing microfinance services. Through both branches MOZNOSTI services are available to all citizens in the region of Bitola and Gostivar: loans for micro and small businesses, individual agriculture producers, population loans (housing, consumer and student) as well as favorable savings products. Since their creation last year, the branch in Gostivar has disbursed 348 loans and opened 309 savings accounts. The branch in Bitola has disbursed 255 loans and opened 256 savings accounts.

### **NEW MFC MEMBERS:**

**ACDI/VOCA Kyrgyzstan** was registered in Kyrgyzstan in July 2000. Its mission is to promote economic opportunities for cooperatives, enterprises and communities through the innovative application of sound business practice.

**AgroInvest, Azerbaijan** has been operating since 2000. AgroInvest's mission is to understand the needs of the members of the Credit Union and to strive to meet these needs as leading national microfinance organization

**KosInvest, World Vision Kosovo MFI** was established in October 2001. Its vision is "For better life in rural areas". KosInvest mission is to improve life conditions and reduce poverty in rural families through providing high quality financial services. The main microfinance services provided by KosInvest are: business loans through village associations and household loans through village associations. The number of active borrowers is 1,100 with 62% being women.

**Opportunity Transformation Investments, Inc (OTI), USA** serves as the investment vehicle of Opportunity International and holds equity in Opportunity banks around the world. Its mission is to originate and manage investments in microfinance banks and other commercial MFIs for Opportunity International. OTI is a subsidiary of Opportunity International. Opportunity Transformation Investments was created in 2001 to manage loans and equity investments correctly and efficiently. Opportunity Microfinance Investments, Ltd. (OMIL) was created in 2003. In 2004, OTI and OMIL were lending over \$2.2 million to 11 Opportunity Partners and had equity worth \$22.2 million invested in 9 Partners.

# Financial Services Training Resource Centre (FSTRC) interviews Agata Szostek and Walter Tounitsky, the MFC Consultants, on Social Performance and Strategic Management for Microfinance



Agata Szostek



Walter Tounitsky

**FSTRC: Social Performance – is this not the reason for the existence of MFIs?**

**Agata:** In general yes, the microfinance industry should recognize that their performance should not be managed solely on the organizations financial achievements, but also on the fulfillment of its social goals defined by their mission.

**Walter:** Yes, the MFIs with a social mission seek to serve the socially and/or financially excluded in order to meet their needs and improve their lives. They need to have sound financial results in order to serve their clients in the long-term, but concentrating only on financial results is not what the microfinance industry should be about. We need to keep focus on the double bottom line.

They also aim to operate in an ethical and responsible way in relation to staff, clients, communities and environment within which they work.

**Agata:** Having said that, we must realize that due to recent trends in microfinance – fast growth, change, drive towards commercialization and achieving good financial results, as well as stiff competition, the achieving of the mission is becoming more challenging.

There are many MFIs in the field, that have forgotten whom exactly (target client), how (appropriate financial services) and for what purpose (improvement of their client's lives) they have been created.

The role of SPM starts here: SPM is the internal process by which an organization defines its social goals and objectives, makes decisions in line with its social objectives and thereby improves its social performance.

**FSTRC: How does strategic planning and management tie –in with SPM?**

**Walter:** By virtue of the financial results focus pursued by many MFIs and mentioned by Agata, both strategy development and its operationalization are predominantly one-sided. We need to bring back the social part of MFIs missions to life through a strategic planning process that incorporates very clear and specific goals and objectives in social area thus harmonizing the financial and the social performance. Having done this, the day-to-day management decisions of MFIs and the design and quality of their management systems will have to be aligned with social as well as financial goals.

Integrating Social Performance Management into everyday operations is a way of ensuring that the social mission is being realized. In order to do that in an effective way, MFIs need to reinforce their strategic management practices. More systematic planning and management of strategy will enhance their success.

**FSTRC: I understand that you have been working with a new toolkit on Strategic Management (From Mission to Action Management Series for Microfinance Institutions, MFC), which facilitates this process?**

**Agata:** Yes, we have been field-testing and implementing the MFC-developed toolkit on Strategic Management, which offers a set of tools empowering management to achieve a balance between social and financial performance. Its participatory approach to strategic planning and management is based on the Balanced Scorecard – a set of tools that provide a menu of comprehensive, practical methods for staff at different levels to translate the organization's mission into daily operations. It makes a mission-driven strategy an ongoing process in which the organizational team responds to internal, external and environmental changes to make progress in one commonly agreed direction.