



# MICROFINANCE CENTRE

for Central and Eastern Europe and the New Independent States

Spring  
2001

## Message from the Executive Director

Greetings Everyone!

Since the beginning of the economic transformation the region has seen substantial interest in microfinance among donors. Development banks, multilateral and bilateral donors and foundations have been typically involved in funding MFIs. As the industry is maturing, private commercial financial institutions are also expressing interest in microfinance, while more mature MFIs are looking at funding sources other than the donor community.

In other regions of the world, specialized wholesale financial intermediaries have been established to provide market-driven financing for the development of the microfinance sector. One example is ProFund based in San Jose (Costa Rica). ProFund operates in Latin America and Caribbean, and provides equity and quasi-equity financing to eligible institutions serving the microfinance sector (including high performing NGOs), so that they can expand and improve their operations on a sustainable and large-scale basis. It has been estimated that ProFund's investments indirectly benefit 300,000 micro and small entrepreneurs.

This year, MFC will undertake a study which will examine the appropriateness of establishing some form of wholesale regional financing mechanism in the ECA/NIS region. The study will include: (i) a regional mapping of MFIs in the ECA/NIS region; (ii) an assessment of the demand and supply of financing currently available for microfinance; (iii) experience and lessons learned from existing intermediaries; (iv) stocktaking of donor and investor support for establishment of a wholesale intermediary; and (v) options and recommendations regarding the establishment of a regional financing mechanism for ECA/NIS. MFI input into the study is critical to ensure it responds to organizational needs on the ground. Hence, MFIs throughout the region will be contacted during the study period (Sept 2001-June 2002) to provide information on their financing needs and views on establishment of such a mechanism.

Grzegorz Galusek  
Executive Director  
Microfinance Centre for Central  
and Eastern Europe and the NIS

## Russia: Microfinance in a Context of Economic and Demographic Trends

*What effect do industrial growth, tendencies in the labor market and the demographic situation have on microfinance development in Russia? What can microfinance programs in Russia anticipate in terms of number of clients – will it grow, decrease, or stabilize? The Banking on Russian Women Project would like to share some of the findings made in the course of a survey.*

It is hard for a Russian person to accept that Russia is a poor country, but the truth is that the average monthly salary in 2000 ranged from \$153 in Moscow, one of the “richest” regions, to as low as \$40 in Omsk. A decrease in the number of people living below the poverty line was reported in February 2001 to 26.9% of the population. This means that 31 million (!) people live below the subsistence level, defined as an average of \$46 per capita per month.

From the poverty alleviation perspective, the potential for microfinance development in Russia is huge.

It is generally accepted that Russia's economy has enormous potential for development, which was, to some extent, observed last year. Economic development brings about the creation of new jobs and growth of citizens' income and consumption. The Banking on Russian Women Project undertook a survey in one small Russian town in the Central Region of the country to see how these trends reflect on the micro-entrepreneurs there and will potentially reflect on a microfinance program.

( continued on page 5 ) ►

### In this issue:

Russia: Microfinance in a Context of Economic and Demographic Trends .....	1
New MFC Members .....	2
Microfinance Law and Regulation – a Regional Clearinghouse .....	2
Microfinance Client Profiles .....	3
Members' Corner .....	4
MFC Training Division – Results up to Date .....	6
MFC Training Courses .....	6
MFC 2001 Training Highlights .....	7
MFC Course Schedule for the second half of 2001 .....	7
Learning from Clients through Impact Assessment and Market Research .....	8



## MISSION

The Centre's mission is to support existing and future microfinance institutions in CEE and the NIS in their efforts to alleviate poverty, create employment, and privatize the economy through the development of microenterprises and self-employment.

## MFC SUPPORTERS

- The International Bank for Reconstruction and Development (IBRD) for the Consultative Group to Assist the Poorest (CGAP)
- The Charles Stewart Mott Foundation (USA)
- USAID (Eastern Europe Department)

## MFC BOARD OF DIRECTORS

Maria Nowak (Chair)  
Ken Vander Weele (Treasurer)  
Alla Serova (Secretary)  
Sarah Forster  
Angel Pesevski

## Special Thanks

The Microfinance Centre for CEE and the NIS wishes to thank:

Ruth Goodwin – Groen, *CGAP*

Bridge Octavio, *Consultant*

Leesa Wilson Shrader, *Consultant*

Dima Ponomarenko, *Consultant*

Olga Tomilova, *Banking on Russian Women*

for their great job in delivering the MFC training courses in the first quarter of 2001.

## New MFC Members

- **For the Future Foundation, Albania**, established in 1997, promotes free initiative mainly in the rural areas through establishing and supporting the community associations, microcredit and contemporary technical assistance for a viable economic and social development of the community.
- **Citizen Association MIKROFIN Banjaluka, Bosnia & Herzegovina**, established in 1997 provides appropriate financial services to economically active low income people to help them become economically independent.
- **Mercy Corps Kyrgyzstan**, established in 1995, assists in the development of public and private sectors through projects such as economic development, agriculture development, infrastructure repair and rehabilitation, large-scale engineering works, food distribution and food-for-work activities.
- **Economic Development Center, Romania**, established in 2001, its objective is to provide SMEs and small entrepreneurs with business information, support and financial services to facilitate development, investment, growth and success of businesses.

## Microfinance Law and Regulation – a Regional Clearinghouse

*Legal and regulatory issues of microfinance are attracting ever-increasing interest from practitioners, donors and policymakers worldwide. Not only are there a growing number of publications concerning the subject, but also many local initiatives aimed at investigating and improving the microfinance legal environment. The Microfinance Centre for C&EE and the NIS, as a regional network, resource centre, and co-ordinating body for microfinance practitioners in the region, is involved with a variety of programs aimed at understanding, classifying, analysing and information sharing on legal and regulatory issues in the countries of the region. One of the most significant of these initiatives is the creation of regional clearinghouse on microfinance law and regulation.*

### The idea of the Clearinghouse

As is commonly understood, clearinghouses are institutions that collect information resources in one place where persons interested in the topics covered can access them. This is exactly what it is planned for the MFC's Clearinghouse on Microfinance Law and regulation; it will assemble and make available documents and information on regional initiatives, working groups, conferences, and – most importantly – written materials that touch on legal and regulatory aspects of microfinance in the region.

( continued on page 8 ) ►

## MFC ADDRESS AND TELEPHONE NUMBERS:

### Microfinance Centre for CEE and the NIS

ul. Koszykowa 60/62 m. 52  
00-673 Warsaw, Poland  
tel: (48-22) 622 34 65  
fax: (48-22) 622 34 85

e-mail: [microfinance@mfc.org.pl](mailto:microfinance@mfc.org.pl)  
<http://www.mfc.org.pl>

Grzegorz Galusek, *Executive Director* ..... [grzegorz@mfc.org.pl](mailto:grzegorz@mfc.org.pl)  
Tomasz Flanek, *Law and Regulation Programme Director* ..... [tomasz@mfc.org.pl](mailto:tomasz@mfc.org.pl)  
Maciej Jaroszczyk, *Chief Accountant* ..... [maciej@mfc.org.pl](mailto:maciej@mfc.org.pl)  
Hala Kosiura, *Training Programme Director* ..... [hala@mfc.org.pl](mailto:hala@mfc.org.pl)  
Alicja Krzeszewska, *Regional Coordinator* ..... [alicja@mfc.org.pl](mailto:alicja@mfc.org.pl)  
Kasia Pawlak, *Impact Coordinator* ..... [kasia@mfc.org.pl](mailto:kasia@mfc.org.pl)  
Justyna Pytkowska, *Training Coordinator* ..... [justyna@mfc.org.pl](mailto:justyna@mfc.org.pl)



## Microfinance Client Profiles

### ■ Fundusz Mikro, Poland

**Mr. Krzysztof Borzadek** is the owner of a small pastry production workshop in a town near Warsaw. This is a family business with a long tradition; today his father helps him, as did his grandfather when his father developed the business. The pastry is baked during the night and is delivered to shops in the district early in the morning. Mr. Borzadek has been cooperating with Fundusz Mikro for almost two years now. The previous loans helped to modernize and buy new equipment. The workshop, which was built by his father, demands renovation and thus the need for more capital investment. Today Mr. Borzadek is able to satisfy these needs by taking out our micro venture capital type of loan.



*(Mr. Borzadek's specialty is a fruit roll)*

**Ms. Katarzyna Kozłowska-Kwiecińska** was unemployed for a couple of years. In 1997 with a little money from family and friends, she decided to buy a workshop specializing in the production of floats for fishing. Together with her husband she dedicated a lot of time and effort in learning the specifics of fishing (the location of their business is in a town in the Lake District). Yet they needed capital for investment and came to Fundusz Mikro. For over three years now, they have been investing money provided by FM (at present they are repaying their 5th loan). Today, "Scorpion" produces 2000 models of floats, which are sold all around the country. Recently they have opened a shop for fishermen, and they plan to develop a whole network of such shops. They also plan to build their own workshop and probably at micro venture capital loan would help them in this.



*(Mr & Mrs Kwieciński in their shop)*

### ■ The Integra Foundation, Slovakia

**Jozef Šajben** began raising rabbits in 1992. The business really took off during the European ban on British beef, however, and the resulting demand for red meat alternatives. He received a loan from Integra to expand operations and quickly moved to set up the Association of Rabbit Growers of Slovakia, which currently has 28 members. He has personally helped 14 other farmers to get into the rabbit growing business with know-how and equipment, and acts as a marketing and export agent for their products. He is active in lobbying for the industry, helping secure fair prices for all members of the association.

### ■ Mikrofond Integra, Slovakia

**Viera Moková** (31) and her husband inherited an old house and started to keep bees as a hobby. She began to make beeswax candles. This took all of her free time because she did not know much in the beginning and there was no literature available in Slovak language. So she had to teach herself, step-by-step. Today the Moks produce a wide range of natural beeswax candles, which they sell very well. They would like to expand their business to include honey and other bee products. An Integra loan helped them to equip a workshop and market their products.

### ■ FORA, Russia

**Sergey Zhuriy** is a builder in Rostov-on-Don, Russia. He began as worker's assistant and learnt many specialties. In early 1990s, the building industry was in crisis, and Sergey was often out of work. Construction work in Russia is seasonal. Once after a lucky summer season during which Sergey had earned some money, he decided to go into retail trade in winter and went to Poland and Hungary to purchase goods. He sold them with profit and decided to set up his own business.

When bringing goods from abroad became less profitable, Sergey started selling spare parts at the car market. When he learned about the FORA program, he formed a group of three members, whom he had known for many years. After receiving a loan, he was able to realize his old dream and opened a summer cafe "Little Lady" in children's park.

Now Sergey has reclaimed his professional skills as constructor and together with his partner is building a permanent (winter) cafe, where they will serve good vintage wines and Caucasian food. He dreams about his own production.

**Valeria and Alexander Kuprovskie** run a family business in Taganrog, Russia. Both hold university degrees and spent most of their lives working for a research institute. They started their business with one sewing machine and manufactured all their products at home. They found a great market niche – assembling and retail trade of sheets, blankets, towels, table clothes, napkins, aprons. Alexander bought the fabric, and Valeria did all the sewing. Now the family is on their third loan cycle, with a loan of 30,000 rubles (US\$1,070). They don't work at home anymore because they can now afford to rent space. They get their fabric from a big factory in Moscow.

**( continued on page 10 )▶**

## Members' Corner

### ■ Inicjatywa Mikro, Poland

Inicjatywa Mikro is celebrating an anniversary; it has been in operation for 5 years, serving the self-employed and unbankable microbusinesses in Southern Poland. The goal of Inicjatywa Mikro is to support enterprise development and job creation. Loans range from 250 USD to 7300 USD, with the maximum term of 24 months. Most of the loans are individual, though group loans are also available.

#### Basic statistics as of January 31, 2001:

Number of Loans Disbursed	2136
Number of Active Borrowers	635
Average Loan Amount	\$2200
Average Loan Term	13 months
Loan Purpose:	
• working capital	52%
• investment	48%
Type of Business:	
• trade	48%
• services	37%
• production	8%
• mixed profile	7%
Borrowers:	
• women	41%
• men	59%
Operational Self-Sufficiency	138%

Many of the borrowers have been growing with Inicjatywa Mikro over these 5 years. Some of them started as the self-employed and now provide jobs to a few other people, offering a wide range of products or services. A few have already reached the banking level, such as the owners of a vegetable farm whose first loan went for building a deep water well a few years ago. Now it is a modern, computerised farm, providing the market with quality produce. Inicjatywa Mikro is happy about their success.

One of Inicjatywa Mikro's recent projects is to offer loans for women starting their business. This project is possible thanks to support from the Levi Strauss Foundation. Nearly 50 loans have already been disbursed to help women, mostly self-employed, to start on their own as beauticians, hairdressers, small traders, providers of medical or insurance services, small restaurant owners. Inicjatywa Mikro hopes to continue this project as unemployment among women in Poland is growing more acute.

*inimikro@bci.pl*

■ **DEMOS, Savings and Loan Cooperative, Croatia** is now lending in Croatia! Created by the ICMC (International Catholic Migration Commission), DEMOS, headquartered in Karlovac, a war-affected area, is the most recent of 3 MFIs operating in this country. Registered officially and given its license on 4 July, it started disbursing loans as of mid-July 2001.

As of late February 2001, DEMOS had 265 active clients, with an average loan cycle for first loans of 1,500 DM and of 2,300 DM for second loans that represented 56 individuals at the time. DEMOS uses solidarity group lending and 45% of its groups are ethnically mixed. Sixty-

four percent of DEMOS' clients are women.

DEMOS has already organized two assembly meetings. During the last one, which took place late January, members were given the opportunity to organize stands and present/sell their products. DEMOS also organizes business seminars in municipalities and villages based on demand. Its first seminar took place on 9 March 2001.

Come and visit us at: DEMOS  
Banija 2/A, 47 000 Karlovac, Croatia.  
Tel: 385-47-648-380 or 385-47-648-353

*Caroline Tsilikounas and Biserka Kljaić:  
demos-skz@inet.hr*

■ **Association for Entrepreneurship and Development "Credo", Ukraine** was established with the support of the UNDP/UNOPS Crimea Integration and Development Program to become a sustainable and viable institution able to provide private entrepreneurs with access to financial services.

Credo started its activities on 30 June 2000 with a mission to contribute to the improvement of the social and economic situation in Crimea through provision of financial services for entrepreneurial activities and job creation. The first loans were disbursed at the end of August 2000.

Credo operates in four regions: Simferopol, Sudak, Bakchisaray and Belogorsk.

Credo provides guarantees for business loans for micro and small private enterprises or private entrepreneurs in Crimea, operating in one of the four regions mentioned above, that wish to expand their business.

Loan Term: 12 months with up to 3 months' grace period

Loan Amount: up to \$5000, with interest rates paid for the outstanding balance of the loan under favorable collateral terms.

Staff of Credo Association consists of 5 persons: 2 of them are loan officers.

#### Credo history and results as of the 1 March 2001

Number of active clients	28
Total US\$ disbursement	76 348
Total US\$ active portfolio	53 107
Average loan amount (\$US)	2 064
Average loan term (months)	7,4
Number of loans disbursed to date:	37
• Trade	20
• Production	5
• Agriculture	4
• Services	8
Gender groups:	
• Men	23
• Women	14
Maintained jobs	38
Created jobs	42

*Alim Azisovich Sheykhislyamov, Manager  
alim@crimea.un.kiev.ua*

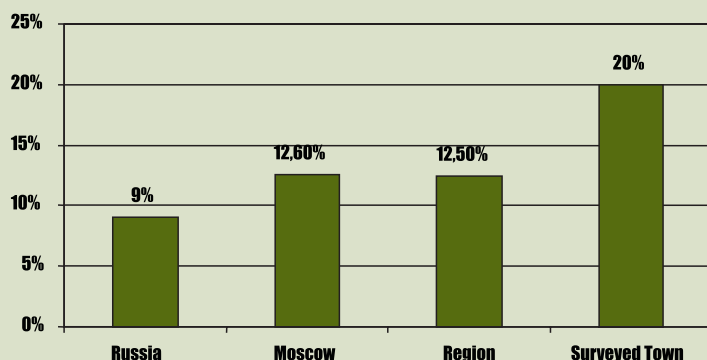
( continued on page 10 )▶

# Russia: Microfinance in a Context of Economic and Demographic Trends

( continued from page 1 )

The rate of industrial development in the selected regional center was found to be higher than the average for Russia as a whole, Moscow, and the Central Region:

**Fig. 1. Industrial growth rates in 2000 compared to 1999.**



### Industrial growth reflects on the growth of average salaries:

	Russia	Moscow	Region	Surveyed Town
Salary growth rate in 2000 compared to 1999, %	39.90	43.30	47.70	53.50
Average salary, rubles	2,572	3,743	2,571	1,997

Again, the growth rate is higher in the surveyed regional center, although in absolute numbers the indicator is extremely low and so is the standard of living.

From the standpoint of development dynamics, the potential clearly exists for a microfinance program to invest in micro-enterprise, to help people generate additional income and increase their consumption.

As mentioned above, industrial growth leads to the creation of new jobs. Would microentrepreneurs take on these jobs? In other words, would industrial growth mean a loss of clients for a microfinance program? In the course of our survey (our sample included every fifth micro-entrepreneur in the town) we asked the following question: Would you stay in business if you were offered a job providing you with the same amount of income that you are making now as an entrepreneur? 56.60% responded that they would accept a job offer. This would suggest that they are 'forced' entrepreneurs and are very likely to leave street markets. Only 31.5% of respondents stated that they would stay in business.

On the other hand, is it actually realistic to assume that entrepreneurs can get these jobs?

Our survey showed that the average term entrepreneurs have been in business is 5.3 years. It would be hard to take on a new job after five years of street vending as previously obtained qualifications may have been lost.

Women over 40 tend to have fewer job opportunities in the labor market in Russia. Among our respondents 80% were women and 60% of respondents were over 40. It can be concluded then that a microfinance organization providing loans to women micro-entrepreneurs over 40 would continue to have clients for years, even if new jobs are created due to economic growth.

In addition, the following demographic data are worth taking into consideration: mortality rate in the surveyed town was found to be two times higher than the birth rate. In 1999 for every death there were only 0.45 births (these figures correspond to those for the whole country). The decrease in population was partly compensated for by migration; for every death there were 0.16 migrants to the town, with most newcomers originating from economically depressed regions. These figures indicate that a decrease of the number of microentrepreneurs can be anticipated.

The above trends are relevant for long-term plans of a microfinance program. Economic growth is likely to decrease the number of microentrepreneurs; the current demographic situation, due to numerous political and economic reasons, will most probably have the same effect. Still, large groups of economically active, low-income (in many cases disadvantaged) people will continue to exist. It is this group, which microfinance organizations will continue to serve.

*Irina Ignatieva, Project Coordinator,  
Banking on Russian Women  
Irina\_Ignatieva@ksg.harvard.edu*

**The Banking on Russian Women Project** is a two-year initiative of the Women and Public Policy Program, Kennedy School of Government, Harvard University, started at the end of 1999 to conduct a feasibility study of the potential for setting up a sustainable microfinance institution to serve low-income Russian women, enhancing their economic security and stability.



## MFC Training Courses



### ■ How to Start and Plan a Microfinance Program

This is the most basic seven days course with the following topics: operational environment and impact, loan analysis and loan processing, major lending methodologies, operational efficiency and introduction to financial planning, organizational chart and growth.

### ■ Fundamentals of Accounting for Managers in Microfinance

This is highly specific four days accounting course based on IAS. The main points are: accounting principles as they relate to microfinance; chart of accounts for an MFI; specifics of accounting for interest and donor funds in MFIs; recording and summary transactions; creating the balance sheet, the income statement, and the cash flows for MFIs.

### ■ Financial Analysis for Microfinance Institutions

This four days intensive training module is specially designed for the senior management staff. The objective is to help participants to understand the financial position of their MFIs and to improve their institutions' sustainability. The participants will learn: primary financial statements and different issues related to them; portfolio quality measurement; loan loss reserves, loan loss provisions and write-offs; adjustments; profitability and efficiency; financial sustainability. The additional, fifth day (voluntary participation) is dedicated to the practice analysis of participants' own microfinance institutions with the assistance of the trainers.

### ■ Delinquency Management and Setting Sustainable Interest Rates

This four days intensive training course deals with the most important planning and management issues faced by MFIs. The course covers following specific topics: causes and costs of delinquency; calculating portfolio quality ratios, provisions, reserves, write-offs; managing a delinquency crisis; setting sustainable interest rates; effective interest rates; cost of credit from the borrower's perspective.

### ■ Business Planning and Financial Modeling for MFIs

This is the most advanced seven days course, which is designed for the mature MFIs and based on the CGAP-developed

( continued on page 11 ) ►

## MFC Training Division – RESULTS up to date

*This year in June it will be 3 years since the first training course organized by the Microfinance Centre for Central and Eastern Europe and the NIS. A lot of change and development has been taking place at the MFC since then. Fruitful cooperation with CGAP resulted in adding CGAP-developed courses from the "Skills for Microfinance Managers" series to the course portfolio. The process of innovation was also going on internally, supported by the donors – USAID and Charles Stewart Mott Foundation.*

Most attention was placed on understanding the needs of practitioners in the region and making the course delivery most efficient, maintaining the sustainability focus. This means bringing the courses closer to the market, doing more work in the local languages, investing a lot of time and resources into developing the local trainers who further disseminate the lessons learnt in their home institutions. In 2001 two trainings of trainers conducted in preparation to the new "Fundamentals of Accounting" and "Training for Loan Officers" courses brought the number of CGAP-certified trainers to 15.

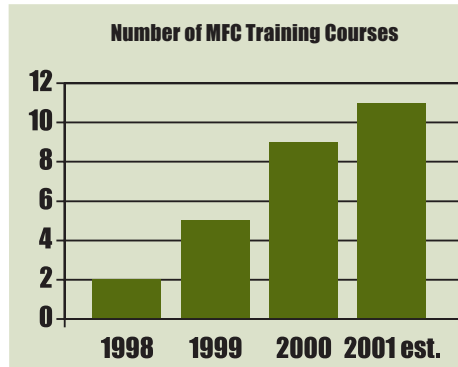
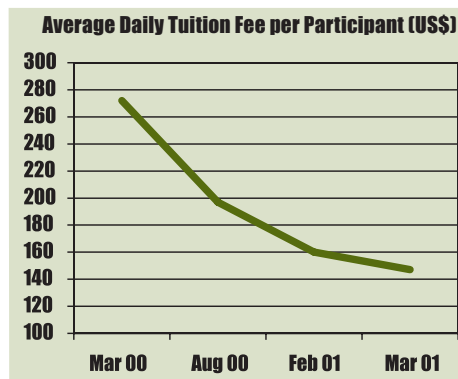
We try to practice what we preach, and therefore our services are market-priced and sensitive to the demand. With more cost-efficient operations the MFC managed to reduce the cost of tuition to the client, maintaining a super-high standard of quality in trainers, materials, contents and methods. The client satisfaction reflected on the evaluation forms is now average of 4.7 on the 1 to 5 scale, with the trainers consistently getting higher "grades".

Since July 98, the MFC has delivered 20 training courses, both open-enrollment and in-house trainings. We keep a strong focus on the market needs and increase the number of deliveries each year. The plan for 2001 is to conduct 11 training course, but this number is likely to be higher with the in-house training/consulting events.

Two more CGAP-developed training courses will be coming up this year – "Information Systems for Microfinance" and revised "Planning with Microfin". These courses will be addressing the crucial issues in MFI management – how to grow, how to satisfy organization's information needs on different user levels, how to develop new products that will satisfy clients needs, what expansion strategy to undertake, how to identify the funding needs that and institution will have 5 years from now, and how to finance the growth in portfolio.

In the beginning, the most popular course was "How to Start and Plan a Microfinance Program" – where we have done 7 editions, but now the focus significantly shifts to the more technically complex subjects. The courses so far have been delivered in English language (7 courses), Russian (12) and Bosnian/Serbo/Croatian (1) and were organized in various countries.

Some interesting statistics from the chart below reflect the industry trends in the region. It shows that even with all legal constraints in the MFI development, the microfinance continues to grow even in such challenging



( continued on page 10 ) ►



## MFC 2001 Training Highlights

### January

- MFC conducted the "Training of Trainers" for its new training module "Fundamentals of Accounting for Managers in Microfinance" scheduled for February. The CGAP training module taught during the Microfinance Training programme at the Economics Institute in Boulder, Colorado had been adapted for the region of Central and Eastern Europe and the NIS.

### February

- Before the first delivery of the "Training for Loan Officers" in Kosovo the team of trainers met in Sarajevo for a practice course.

- The first regional delivery of the training module "Fundamentals of Accounting for Managers in Microfinance" in English took place in Krakow, Poland. In total 26 microfinance managers from 16 countries participated.



### March

- "Financial Analysis for MFIs" was given in Russian in Bishkek, Kyrgyzstan. It was the first open-enrolment course organized in Central Asia. The idea of bringing the courses further into the field was met with the enthusiasm by the practitioners having problems with travelling to Central or Eastern Europe. Twenty microfinance practitioners from 7 countries of the Caucasus and Central Asia took part in the course.



- The first delivery of the "Training for Loan Officers" took place in the second half of March in Pristina, Kosovo. The training was conducted in English with the simultaneous translation into Albanian. 22 loan officers from 9 organizations operating in Kosovo participated in the course.

### April

- The second edition of the Loan Officer training course was conducted for the Kazakhstan Community Loan Fund. KCLF is an MFI that currently operates in two cities – Taldykorgan and Shimkent and is thinking about further expansion on the national level. The specific goal of the course was to build up skills of the loan officers regarding the introduction of a new lending product for the clients who are graduating from the group into individual lending. The course was highly evaluated by the participants. As one of the course participants said: "Of all the training courses that I attended this was the best one, and most importantly, the most useful. We did not just get the information of the analytical character, but something that can be directly used in my the daily work".

## MFC Course Schedule for the second half of 2001

### June 11-15

#### ■ Financial Management for MFIs

Training course – Russian language  
Tbilisi, Georgia

### September

#### ■ Financial Analysis for MFIs

Training course – English language  
Dubrovnik, Croatia

### September

#### ■ Learning from Clients through Market Research and Impact Assessment: a Useful Guide for Better Institutional Management

Training course – English language  
Warsaw, Poland

### September

#### ■ Delinquency Management & Interest Rate Setting

Training course – Russian language  
Bishkek, Kyrgyzstan

### October

#### ■ Delinquency Management & Interest Rate Setting

Training course – Russian language  
Tbilisi, Georgia

### October

#### ■ Business Planning and Financial Modelling for MFIs

Training course – English language  
Warsaw, Poland

### November

#### ■ Training for Loan Officers

Training course – English language



## Microfinance Law and Regulation – a Regional Clearinghouse

( continued from page 2 )

Of course, creating the Clearinghouse will be a long-term process, during which the systems and procedures for data collection, storage and distribution will develop and change as necessary. We are pioneers in the region, but hope to establish contacts with institutions attempting to provide similar services in other countries or regions. We hope their experience will allow us to achieve our goals for the Clearinghouse faster and limit the costs of development.

### The need for the Clearinghouse

The need for such a Clearinghouse on Microfinance Law and Regulation stems from a number of factors – growing microfinance activity in this part of the world, a great need for these kinds of services, the still unreformed (or only partial reformed) state of relevant law and regulation, the survival of interpretative practices that hark back to the old regime, and insufficient sharing of “best practices” experience for post-communist countries – to name only a few. These factors combine to create a great ground swell of local initiatives in countries throughout the region aimed at understanding and reforming the legal and regulatory environment to facilitate microfinance activity.

If these initiatives are to be effective (and not counterproductive), people involved in them must have a strong “back-up” from others’ experience and from experts having a strong foundation in the technical issues involved (which microfinance practitioners sometimes lack). This will be a main objective of MFC’s Clearinghouse on Microfinance Law and regulation – to support these initiatives – and the people behind them – with information and documents from similar initiatives implemented in other countries and the work product of experts who can help them develop their ideas.

### Data range and classification

At this initial, formative stage we anticipate that the Clearinghouse will ultimately consist of three main components:

- The “Library Database” – a database of written “secondary source” materials on provisions of law and regulations applicable to microfinance in each country served by MFC and the region as a whole (as well as similar materials developed for other regions or for international application). We may decide also to include in the Library Database selected “primary source” documents in translation (that is,

( continued on page 9 ) ▶

## Learning from Clients through Impact Assessment and Market Research

*Why is the demand for our loans dropping? How can we increase it? Why do some clients not pay on time? How to make them pay? Are our clients interested in voluntary savings? How to obtain this information? Why don't they like mandatory training? How to modify the training so that the clients are satisfied with it?*

What are our clients like? Do we reach our target clientele? How do our products and services influence our clients’ lives?

These are questions that directors and managers struggle to answer all the time. They try to find methods that provide information on these issues. The problem is which method or tool to choose, taking into account the broad informational needs of an MFI and its scarce resources. There is a lot of substantive literature and training available on the tools themselves, but the things that concern decision makers the most are which methods to choose if any, and how to plan and budget the implementation process. Given the available resources and institutional needs, how do they choose the optimal solution and implement it in their organisations?

The new MFC training course entitled “**Learning from Clients through Impact Assessment and Market Research: a Useful Guide for Better Institutional Management**” has been developed with the aim of helping MFI decision makers learn from their clients to enhance the social and financial performance of their MFIs. To achieve this goal, the MFC training does not mainly focus on the IA/MR tools themselves. It concentrates on different approaches to client assessment and their cost-benefit analysis for the institution. However, some tools are presented to participants in detail. That way, the participants should be able to go back to their institutions knowing WHICH approach is the best for their institution. In addition, preliminary information about HOW to implement the selected approach is provided.

This four day intensive training module starts with introducing the definitions of impact assessment and market research. The participants get to know why it is important to learn from clients and what are the institutional implications of this knowledge. After going through the possible findings applications, the participants get more familiar with the different assessment methods by introducing one tool for each of three main approaches. Afterwards, an in-depth review of different approaches is provided, with the main focus on the advantages and disadvantages, costs and benefits as well as applicability. The course finishes with a complex role playing exercise that consolidates and applies the material learned in the course. The participants having appraised their institutional needs and resources and revised the available approaches and tools, choose the optimal IA/MR solution for their institutions.

The pilot course of the training module on impact assessment and market research will be administered in September 2001. The training draws from the IA/MR methodology developed by the AIMS project, MicroSave-Africa and many field case studies from all over the world. It combines interactive methodologies, regional case studies and group work. In addition, it is planned that the course curriculum will be updated based on the outcome of the ImpAct project sponsored by the Ford Foundation.

The training has been developed by both practitioners and consultants and in particular by: Sasha Muench (Mercy Corps International), Caroline Tsilikounas (International Catholic Migration Committee), Michal Matul (PlaNet Finance), Katarzyna Pawlak (MFC).

*Kasia Pawlak, Impact Coordinator, MFC,  
kasia@mfc.org.pl*





# Microfinance Law and Regulation – a Regional Clearinghouse

( continued from page 8 )

translations of law and regulation themselves), with clear, appropriate disclaimers, advising users not to rely on these documents because it will not be feasible for MFC to assure that they are complete, current and properly translated.

- The “Initiatives Database” – a database on initiatives undertaken in those countries, such as legal and regulatory environment mapping projects, reform initiatives focused on particular topics relevant to microfinance, reform-related lobbying campaigns and significant seminars and similar gatherings addressing legal and regulatory issues relevant to microfinance.
- The “Experts Database” – a database containing information about experts dealing with microfinance in countries in the region, such as lawyers, accountants, lobbyist, consulting firms and a wide array of public officials.

Among components listed, initial efforts will be focused on the Library Database, which will obviously be the biggest in volume and the most challenging to design and to support. It will be organised more or less the same way as a library; it will include both a hardcopy and computer index database under which all materials will be catalogued. Ultimately, the Clearinghouse would like to make available as many documents as possible in electronic form, so that users will be able to access the information they need from wherever they are.

MFC is working now to develop appropriate means of classifying and indexing the documents and information to be included in the three Databases. This task will be the most complicated in the case of the Library Database. The effectiveness of the classification and indexing systems will have a crucial impact on the practical functioning and usefulness of the Library Database, as the type of data stored may vary widely, for example, from information on a single law or regulation in a particular country in the region to complex cross-sectional and cross-country studies. Our aim will be as simple and “user-friendly” an approach as possible, given the variety of materials we expect to be included in the collection.

## Approach to gathering and distributing Clearinghouse data

We plan several project stages both in terms of data collection and granting data access to various users. As was said, the Clearinghouse is envisioned as a long-term project. It is hoped that its capacities will gradually grow over time from a very basic “off-line” library of hardcopy materials ultimately to a multimedia database with instant Internet access. A few assumptions have to be made from the very beginning:

- Data collection will depend on voluntary contributions from the microfinance community. Clearly, only people who WANT to share documents and information with MFC will send us their materials.
- We anticipate asking those who share documents and information with the Clearinghouse to agree also to provide updates, as it will be difficult for MFC to track the changes itself.
- MFC does not anticipate being in a position to exercise any meaningful form of quality control over the materials offered for inclusion in any of the three Clearinghouse Databases. For this reason, we expect to offer users of documents in the Clearinghouse to provide their own comments, which will be kept with the documents in question and made available to future users.
- Although we anticipate making the indices to the three Clearinghouse Databases available online as soon as possible, access to most Clearinghouse documents will initially be limited to persons in a position to visit MFC’s offices in Warsaw. This will change as we are able to establish Internet access to electronic versions of items in the Clearinghouse collection.

## Offering documents and information for inclusion in the Clearinghouse Databases

Documents and information for inclusion in any of the Clearinghouse’s three planned Databases may be forwarded directly to MFC’s

Microfinance Law and Regulation Program Director [tomasz@mfc.org.pl; Tel: (+48 22) 622 34 65; Fax: (+48 22) 622 34 85]. Simple cover forms to assist the Law and Regulation Program Director to categorize and index offered materials properly are in development. In the meantime, please be sure to let us know how to contact you if we have questions about materials offered for the Clearinghouse.

## Conclusion

The success of the Clearinghouse will depend less on MFC than on other people’s enthusiasm for the idea and their willingness to co-operate in developing it. If we do not receive from practitioners relevant documents and information, the Clearinghouse will never gain the attention and position it deserves. We are confident, however, that MFC, together with the region’s microfinance practitioners and international experts on microfinance law and regulation, will be able to develop the Clearinghouse quickly into a valuable regional information resource.

*Tomasz Flanek,  
Microfinance Law and Regulation  
Program Director, MFC  
tomasz@mfc.org.pl*

## NIS Policy Forum on Microfinance Law and Regulation

The first NIS Policy Forum on Microfinance Law and Regulation, sponsored by the United States Agency for International Development (USAID) – Office of Microenterprise Development and Europe and Eurasia Bureau, together with the Microfinance Centre for CEE and the NIS, The Day, Berry & Howard Foundation’s Microfinance Law Collaborative and the Open Society Institute (OSI), will be held in Krakow, Poland on June 20-23, 2001

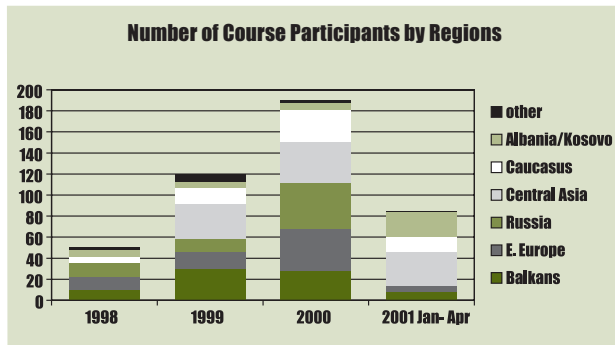
This “by invitation only” event will bring together national delegations of top-ranking public officials and other policy makers, as well as a small number of sophisticated microfinance practitioners from seven NIS countries (Armenia, Georgia, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan). The national delegations will work with technical specialists in financial sector law and regulation and representatives of key donor and multilateral institutions to formulate a concrete agenda for legal and regulatory reform in each of the targeted countries.



## MFC Training Division – RESULTS up to date

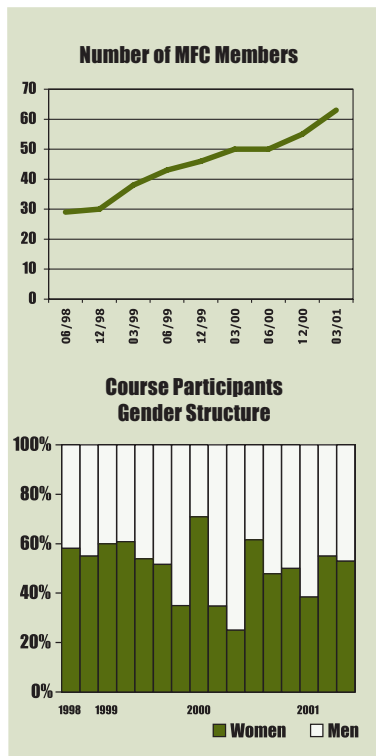
( continued from page 6 )

areas as Caucasus and Central Asia, which is reflected by the increased number of participants from these regions.



To date the MFC trained over 400 microfinance practitioners from nearly 200 institutions.

As many as 35% of organizations repeatedly sent their employees to the MFC courses. This indicator, which is carefully tracked by our training team represents an important demonstration of the MFC Impact. We wanted to specifically thank our repeat clients who sent their staff members to more than 3 courses at MFC – Partner, BiH, AgroInvest Montenegro, Constanta Foundation, Georgia, DRC Yugoslavia, ICMC Demos, Croatia, IRC Azerbaijan, KCLF, Kazakhstan, Kamurj Armenia, Microcredit Montenegro, Project Enterprise, BiH, Mercy Corps Kyrgyzstan, CMC, Ukraine. The repeated participation of these institutions was most often driven by the visible impact of the training courses on the performance of an MFI.



Over 30% of all participants came from the MFC Member organizations, and as the total MFC membership grows, the number of the membership participants in the training programs is increasing accordingly. It shows that membership status carries increasing value to the MFIs.

Many MFIs show men/women composition in their programs, as this is an important indicator of the social impact. At the MFC we are proud that among the top microfinance managers, who attend MFC courses, more than half (52%) were women.

Hala Kosiura, MFC Training Programme Director  
hala@mfc.org.pl

## Members' Corner

( continued from page 4 )

### FUNDUSZ MIKRO – CAPITAL INVESTOR

In the last MFC bulletin, Fundusz Mikro has introduced the topic of a new loan product. Today it presents more details about the **micro venture capital** loan, which has recently been introduced for their mature clients.

Fundusz Mikro considers establishing a strong relationship with the client to be an integral part of their business offer. This can be illustrated by the new loan "product".

FM has proposed a loan to their customers, the interest of which would be below the commercial level and which would be granted for a specified period (E.g., 1 year). Repayment of this loan would be in a lump sum at the end of that period and during the loan period the customer would pay only the monthly interest. At the end of the specified loan period, FM could extend the loan for another period, where the customer pays a sum that brings the interest paid so far, up to the commercial level. If the customer does not decide to extend, but repays the loan, FM considers the transaction completed. However, the customer would not then have the opportunity to secure new loans. The intention is to present it as an emulation of a capital investment in the customer's firm.

The equivalent of the risk borne by the investor is the interest on the loan below the commercial level. When the customer decides to repay the loan, the investor takes a loss. In the case of a successful investment – an extension of the loan – the equalizing payment bringing the paid percentage up to the commercial level will be the equivalent of profit sharing with the investor. The decision of Fundusz Mikro not to extend a loan would be the equivalent of withdrawal from the investment – the sale of one's shares with no further interest in the customer's firm.

### The loan guarantee – honorable guarantors

Another aspect of the new business offer is the way of guaranteeing the loan. The kinds of micro loan guarantees used until now involved the joint responsibility of the members of the loan group or bank guarantees of a kind: collateral, mortgage etc. In the case of capital investment, the only "security" is the commercial reputation of the owner of the firm in which the investment is made. In order to bring the loan guarantee closer to the requirements of relations between partners in business, FM decided to make it possible to replace at least that part of the loan security which is based on a guarantee with a guarantee based on the commercial reputation of the customer. For this purpose, Fundusz Mikro instituted so-called honorable guarantors.

### New adjustments to the regular product

Looking closely at the customer's needs and tailoring the loan amount to suit the business has also provoked some options in the regular loans. It is possible today to plan grace periods (only the interest payments) between regular installments (interest + principal). This demands a very good knowledge of the client's business, but that is not an issue at Fundusz Mikro where good relationships with the clients and the knowledge of their business are the priority.

Agata Szostek, International Relations and Operations Director  
agata@funduszmikro.com.pl



## Microfinance Client Profiles

( continued from page 3 )

The Kuprovskies' expanding business has created three new jobs for the community. In addition, three of their four daughters are involved in the business, combining their employment with study. Like most Russians, the Kuprovskies are very careful people. FORA, our partner organization in Russia, was the first lender they felt they could trust. Now Valeria and Alexander plan to expand their business, buy new sewing equipment, and increase the assortment of products.

### ■ CHF Romania

**VAAD (Romanian for "Future for Teenagers in Difficulty")** is a non-profit association in Racastie, Hunedoara, which processes wood into timber. Nothing extraordinary here, one might assume, as there are numerous similar initiatives. Nevertheless, none of them employs young people coming from state run children's homes. Unemployment in the region is high, so there is enough of a labor force from which to choose, while these teenagers have practically no work experience of any kind, and no real life experience.



VAAD came to CHF in 1999 for a business loan, after having been repeatedly rejected by Romanian commercial banks as unreliable ("who could possibly work with former institutionalized children..."). "We found at CHF a flexible and open organization at a point when we had almost lost hope – it was a great chance for us", says Tiberiu Stan, the general director.

The figures tell the story: from \$4000 per month in turnover and 8 full-time employees before signing the loan contract with CHF, (first loan October 1999, supplemented in November 2000) to \$22,000 per month in turnover and 69 full-time employees currently.

What makes VAAD an outstanding example of business for the community, though, is not simply the actual increase in turnover or personnel. One has to consider the circumstances in which this business evolves. Hunedoara is a county where the unemployment reaches more than a third of the active population, which makes it even harder, if not impossible, for the young people leaving the public institutions at the age of 18 to find jobs.

VAAD offers them more than a job. They are provided with a home and work qualifications that make them eligible for future jobs. According to Tiberiu Stan, "It is an additional challenge to work with these teenagers, especially because we are governed by the same rules of the free-market economy and we have to survive on our own".

So, why do they do it? Well, the Stans have a child of their own and they want to raise him in a better Romania.

## MFC Training Courses

( continued from page 6 )



financial planning model "Microfin". It focuses on: market driven approach to strategic planning; mission and vision of MFIs; market analysis with the client focus; making outreach projections; planning loan and saving products -interest rates, terms and sizes; planning for portfolio, interest and fee income, for loan officer case loads; projecting financial statements; conducting sensitivity analysis.

### ■ Training course for Loan Officers **NEW!**

The trade off between outreach and sustainability, maximizing efficiency and cutting costs are the industry 'buzzwords' that everyone is talking about in the world of the reduced donor funding and prospects of commercialization. Issues of efficiency and portfolio quality are of ongoing concern to any microfinance manager. And the question of streamlining the methodology is very often an issue of getting the buy of the program staff, and loan officers in particular. We all know that loan officer skills and motivation are directly related to the overall success of the institution. When the MFC asked a number of MFI managers about what they consider a key to maintaining healthy loan portfolio the top answer was that the two most important variables were an appropriate loan product along with the quality pre-loan process. The most critical part of the delinquency management is fast and effective client screening, and also competent and thorough loan analysis by the loan officers.

In response to this demand, the MFC undertook an effort of developing a new course that would address the needs of the regional MFIs related to the qualifications and skills of the loan officers. The course can be customized to the needs of the MFIs, depending on what stage of development they currently are, the specific issues that an MFI wants to address, and also the methodology and product, that is used in the institutions.

This year, the MFC has already conducted two editions of this course and is booked up for a few more that will be done by the end of 2001. For more information about ordering this course from the MFC, please, contact Hala Kosiura, training programs director at [hala@mfc.org.pl](mailto:hala@mfc.org.pl)



## AFFILIATED MEMBER ORGANIZATIONS (62 members as of April 10, 2001)

<b>ALBANIA</b>	BESA Foundation ..... fku@ngo.org.al For the Future Foundation ..... fff@albaniaonline.net Partneri Shqiptar ne Mikrokredi (PSHM) ..... pshm@icc.al.eu.org Rural Finance Fund ..... ffrural@albaniaonline.net
<b>ARMENIA</b>	Microenterprise Development Fund Kamurj ..... vgagik@arminco.com Shen NGO ..... shen@acc.am Small Enterprise Fund International (SEF International) ..... wvarm@arminco.com United Methodist Committee on Relief UMCOR/AREGAK ..... yesiam@umcor.am
<b>AUSTRIA</b>	Opportunity International – Eastern Europe ..... 100746.3540@compuserve.com
<b>AZERBAIJAN</b>	International Rescue Committee – Azerbaijan ..... office@irchq.baku.az
<b>BELARUS</b>	UNDP SME and Microcredit Project ..... kharetsk@un.minsk.by
<b>BOSNIA &amp; HERZEGOVINA</b>	Catholic Relief Services – Bosnia Program ..... crs@crsbh.ba Citizen Association MIKROFIN Banjaluka ..... mfbf@inecco.net International Rescue Committee BiH ..... peter.bofin@irc-bosna.org Local Initiatives Department ..... m.ribic@bih.net.ba LOKmicro Mikrokreditna Organizacija Sarajevo ..... lokino@bih.net.ba Microcredit Organization “MI-BOSPO” Tuzla ..... bospo@bih.net.ba Microcredit Organization “Mikro AMK” ..... mikro-amk@tel.net.ba MKO BosVITA ..... bv@delta.com.ba PARTNER Mikrokreditna Organizacija ..... partner@delta.com.ba Project Enterprise BiH ..... sean@projectenterprise.ba Women for Women International ..... zene@bih.net.ba World Vision International BiH ..... sadina_bina@wvi.org
<b>BULGARIA</b>	Catholic Relief Services – Bulgaria ..... crsbg@crs-bg.org Nachala Cooperative ..... p.arnaoudov@ich-bg.com
<b>CROATIA</b>	Catholic Relief Services, USCC, Croatia Program ..... trave2@zg.tel.hr ICMC-DEMOS Saving and Loan Cooperative ..... tsilikounas.caroline@ka.tel.hr NOA Stedno Kreditna Zadruga ..... noa@os.tel.hr
<b>FRANCE</b>	ADIE – Association pour le Droit à l’Initiative Économique ..... adie@adie.org FIDES – Finances pour le Development Economique et Social ..... fides@agropolis.fr
<b>GEORGIA</b>	Constanta Foundation ..... constanta@caucasus.net
<b>KYRGYZSTAN</b>	Mercy Corps Kyrgyzstan ..... mcioffice@mcikyr.bishkek.su
<b>MACEDONIA</b>	Horizonti CRS – Microfinance ..... horizonti@catholicrelief.org.mk Humanitarian Association MOZNOSTI ..... moznosti@mt.net.mk
<b>MOLDOVA</b>	Moldovan Microfinance Alliance ..... mma@mma.dnt.md
<b>POLAND</b>	Foundation for Development of Polish Agriculture (FDPA) ..... fdpa@fdpa.org.pl Fundusz Mikro ..... fm@funduszmikro.com.pl Inicjatywa Mikro ..... inimikro@bci.pl Rural Development Foundation ..... fww@fww.org.pl
<b>ROMANIA</b>	Asociatia IZVOR ..... fizvor@netsoft.ro Cooperative Housing Foundation (CHF) Romania ..... JFripp@chf.dnttm.ro Economic Development Center ..... info@cde.ro Foundation for Local Development Buzau ..... cdpt@softnet.ro Romanian – American Enterprise Fund ..... Bill.Wingate@raef.ro
<b>RUSSIA</b>	Center for Citizen Initiatives ..... rise@neva.spb.ru FORA Fund for Support of Small Entrepreneurship ..... opport@kis.ru The Russian Women’s Microfinance Network ..... rwmn@com2com.ru
<b>SLOVAKIA</b>	Regional Advisory and Information Center, Presov ..... rpica@rpicpo.sk Regional Advisory and Information Center, Povazska Bystrica ..... rpicpb@psgntpx.sk The Integra Foundation ..... integra@integra.sk VOCA Slovakia ..... janam@isternet.sk
<b>UKRAINE</b>	Association for Entrepreneurship and Development CREDO ..... registry@crimea.un.kiev.ua Counterpart Meta Center ..... volodymyr@meta.lviv.ua
<b>USA</b>	Women’s World Banking ..... agincherman@swwb.org
<b>UZBEKISTAN</b>	NUFUZ TA’LIM ..... ntal@tkt.uz
<b>YUGOSLAVIA</b>	AGROINVEST Fondacija ..... Kyhl_Amosson@wvi.org Alter Modus ..... altermod@cg.yu JEN – Japan Emergency NGOs ..... jenbg@eunet.yu Kosovo Enterprise Program (KEP) ..... icmcmkd3@unet.com.mk Mercy Corps International – Agency for Finance in Kosovo ..... yshulhan@mercycorps-kosovo.org Micro Business Fund ..... ircbg@interescom.org.yu Microcredit Montenegro ..... mem@cg.yu

