



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

MICROFINANCE

in Central and Eastern Europe and the New Independent States

Professor Muhammad Yunus has been awarded the Nobel Peace Prize!

The Norwegian Nobel Committee awarded Yunus and Grameen Bank "for their efforts to create economic and social development from below." Grameen Bank, which means 'rural bank' in Bengali, was created in 1976 in Bangladesh and has focused on offering credit to poor women and has since spread to some 100 countries worldwide. The microfinance sector in ECA congratulates Professor Yunus. We feel encouraged by this recognition and expect that the requirements towards the further development of microfinance services will continue to grow.

2005 Update on Microfinance Development in ECA

Justyna Pytkowska, MFC Researcher

Sector Growth

At the end of 2005 the total volume of microfinance lending reached \$8 billion serving 3.5 million borrowers.

	2005 Gross Loan Portfolio US\$	2005 Active Borrowers
credit unions	4,323,251,546	2,000,531
microfinance banks	2,038,139,329	619,948
downscaling banks	980,827,165	187,064
NGOs/NBFIs	707,462,935	650,915
	8,049,680,975	3,458,458

The biggest share of the market continues to be managed by credit unions but the largest expansion is observed among banks. In nominal terms microfinance banks increased their portfolio by \$600 million and 200,000 borrowers. But downscaling banks were the ones that expanded most dynamically by nearly doubling their portfolio and well exceeding all other institutional types in borrower growth rates.

The fastest growing microfinance banks were the newest ones, which at the same time deepened the outreach by expanding into the market of lower-end clients.

NGOs/NBFIs have observed a slowing trend for several years with a portfolio growth rate dropping to 35 percent and the growth in borrowers to 25 percent. The fastest growers were the newest MFIs mostly in Central Asia and the Caucasus. At the same time the quickest growing MFIs had increased their average loan size, which shows that their expansion was directed towards the segment of larger entrepreneurs - quite the opposite trend to that of young microfinance banks.

Save the dates for MFC training course:

■ **New Product Development for MFIs** (Russian Language),

Bishkek, Kyrgyzstan, 28 November-1 December, 2006

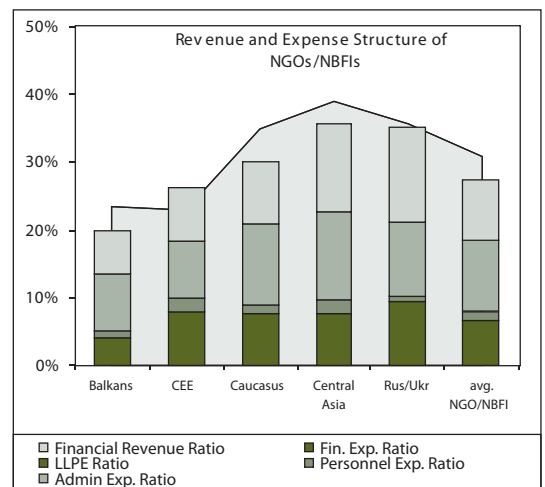
If you would like to learn more please visit MFC's website:

www.mfc.org.pl and contact Aldona Rutkowska at aldona@mfc.org.pl

However, the vast majority of institutions of all types continued the previous year's trend of deepening the outreach. This downscaling trend was most evident among microfinance banks and NGOs/NBFIs where more than two-thirds of them deepened their outreach and the degree of change was much more significant than in the previous year. This was observed in particular in CEE where the depth of outreach is least seen among NGOs/NBFIs and where the competition from mainstream commercial banks is becoming more intense.

NGO/NBFI Performance

Among NGOs/NBFIs further improvements in financial performance were seen. Almost 90 percent of MFIs were operationally self-sustainable but only 60 percent had a positive return on assets after adjustments.



[continued on page 2] ➔

Microfinance Centre for Central and Eastern Europe and the New Independent States
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
web site: www.mfc.org.pl

MFC strategic partners and supporters:



➔ [continued from page 1]

Unprofitable MFIs were in particular seen in high-inflation countries where MFIs do not generate enough revenue to account for the erosion of capital and bear the market costs of funding. However, those that were successful in achieving a positive AROA were MFIs that provided small loans to urban women through group lending methodology and were able to generate higher portfolio yields compared to their counterparts serving other client groups.

The other factors influencing AROA had an impact on revenue and expense levels, including the country's financial sector development, type of clients served, and staff productivity.

Both portfolio yields and expenses were higher among MFIs in countries of low financial sector development and high inflation. Serving small loans to female entrepreneurs drove personnel

expenses up but at the same time revenues earned on low-end clients were also higher making it possible for the MFI to be operationally self-sufficient. Better personnel productivity led to reductions of administrative expenses.

During the year, two-thirds of NGOs/NBFIs decreased portfolio yields, which was possible in most cases through the decrease of operating expenses. Even though in half the cases MFIs lowered interest rates by more than their cost reduction permitted and as a consequence operational self-sufficiency deteriorated, it still stayed above 100 percent and AROA remained positive. Decreasing portfolio yields allowed those MFIs to offer more competitive products and attract more clients.

The full text of the "2005 Update on Microfinance Sector Development in ECA" will be published in MFC Spotlight Note #17.

Creating equal opportunities for returnees

Selma Jahic, Marketing Director, Partner Microcredit Organization, Bosnia and Herzegovina

Mercy Corps and Partner Microcredit Organization has applied a methodology that brings together as many healthy and viable economic development stakeholders as possible, and firmly links grassroots producers – in our case the minority returnees, with the healthy market. This is the framework that in Bosnia was directly established by USAID LAMP Programme, which began in early 2003. The LAMP framework has helped us enormously to articulate our experience and the lessons we have learned through our previous work. The three projects in question were developed directly in response to the USAID LAMP Project, following its principles and methodology. All three economic-development projects, created by Mercy Corps Bosnia and Partner MCO, are funded by the Dutch Government through the Royal Netherlands Embassy in Sarajevo (find more at <http://www.netherlandsembassy.ba/>).

This methodology combines the promotion of agricultural sectors, those being most profitable in the context of the target region,

access of minority returnees to productive resources **through a mutually conditional grant & microfinance assistance**, building linkages between the producers and the market, providing technical assistance in sharing agricultural best practices, business management and technical training to the producers, and assisting economic-development stakeholders to advocate agricultural policy reforms at the local and national level.

The central element that led these two institutions to develop such a methodology is a minority returnee and their family, called «beneficiary» in Mercy Corps' vocabulary, and «client» in vocabulary of Partner MCO.

For Partner MCO the key question was: **How to create a favorable starting position for the minority returnees, potential microcredit clients, equal to that enjoyed by the domicile population not affected by the war, and which represents the vast majority of microcredit clients.** Partner sees a future in B&H where financial services are available to all those who have an entrepreneurial spirit and the willingness to work. Partner's role is to help clients start and expand small businesses, to assist in creating jobs, and to serve as an agent of change contributing to the country's healthy transition to a market

MFC HIGHLIGHTS

Microfinance Market Mapping

MFC launched two comprehensive **demand studies in 2006:**

- The market for microinsurance in Azerbaijan funded by KfW and Microinsurance Centre – results expected by mid-November;
- Microfinance market mapping in Poland funded by the European Investment Fund – results expected by mid-October.

EU project "From Exclusion to Inclusion Through Microfinance: Learning From East to West and West to East"

In September 2006, the Microfinance Centre (MFC) and project partners the European Microfinance Network (EMN) and the UK based Community Development Finance Association (cdfa) received approval from the European Commission to extend the project for another year. The working groups addressing: the Social and Financial Exclusion Map (WG1), Key Constraints, Challenges and Policy Recommendations (WG2), Benchmarks and Performance Measurement (WG3), and Innovative Approaches and Products in Combating Financial Exclusion (WG4), finalized the draft reports of their work in the first year of the project. In the project's second phase the partner institutions will focus on finalization and publication of the

guides as well as on dissemination and technical assistance.

The joint meeting of all the project working groups will be held on 14-15 December in Sofia, Bulgaria and will focus on inter group exchange.

MFC presented its new course on 'Essentials of Rural and Agricultural Microfinance'

at the Boulder Microfinance Training Program in Turin, Italy, 17-21 July. The course was developed with the support of IFAD and reviewed by the MFC's working group and a U.S. banker with extensive rural finance experience. Participants of the course learned about best practices, developed a framework for efficient service delivery in rural areas and applied these ideas through a case study review. The Case Study was based on MFC's research.

Advancing Social Performance Management (SPM) in Central and Eastern Europe and the New Independent States

SPM is a project that assists MFIs in developing their SPM systems and strategies for better mission fulfillment that deliberately maximizes social returns while promoting self-sufficiency of MFIs. The project features three components:

1. Social Performance Management Training that has introduced 26 MFIs from 14 MFIs operating in nine countries to the SPM approach using adult-learning techniques, participatory exercises and experience of SPM in different MFIs around the world.

economy. By providing financial services to economically active people who have difficult or no access to commercial sources of funding, for starting and improving business, Partner improves their quality of life and enables clients to become part of the market economy. Following Partner's mission that clearly stipulates support for low-income people, primarily minority returnees, the decision to join in the project was natural to the continuation of a partnership with Mercy Corps and the way to fulfill the mission. The population that is served under three joint projects fits into Partner's target group. Having experience and good working practice in micro crediting for almost 10 years, Partner is aware of all the difficulties facing minority returnees. Although minority returnees are still returning to their pre-war residences, in order to make the return process sustainable it is very important to fulfill the necessary pre-conditions. This activity requires significant help and support of state authorities, which is often not the case. Minority returnees are left on their own. They are willing to start with small-scale businesses but often are afraid of potential risks and problems they may face. Initially, there is the market insecurity, disloyal competition, and lack of good and secure placement of their products. Traditional financial institutions such as banks consider this group of people high risk and they are not ready to boost different restrictions in crediting to enable access to funds. Partner is also aware of the fact that minority returnees are not in a position to provide sound collateral for their loans so these three projects were in a way a good opportunity to mitigate the potential risk in providing loans to minority returnees, as they go through a very detailed and thorough filtering process in order to become eligible for this type of support package (grant + loan).

The proposed methodology provides a win-win solution to all stakeholders: to the beneficiaries /clients, to Mercy Corps and Partner. For both organizations it provides solutions for improving effectiveness of their general programming and individual projects. For minority returnees it provides an assistance package that comprises various aspects of required assistance. It also represents an important shift from humanitarian aid towards successful participation in a competitive economic-development sphere. To a great extent this methodology was developed following the voices, comments and advice from the field, from minority returnee communities, and local agricultural

2. The Regional Social Performance Working Group that aims to support and stimulate regional learning by installing and effectively using SPM through the creation of a wide discussion platform and provision of a different level of technical assistance. The group was initiated in January 2006 with SPM training course. It meets semi-annually to discuss lessons learned from the SPM installation in pioneering MFIs (the last meeting took place in June 2006; the next is planned for January 2007). Some of the group members receive direct technical assistance in the form of training, workshops or distance mentoring. The lessons learned from the experience are documented and shared with other MFIs in the industry.
3. Action Research with a focus on developing new managerial tools. The pilot tests of the Balanced Scorecard for strategic management and social audit tools are currently under way and will be finalized by the end of 2006.

To read more about Social Performance Management go to:
http://www.mfc.org.pl/index_new.html

Central Asia Microfinance Center (CAC) conducts a funding survey

In September, the Central Asia office started a funding survey in Central Asia, based on a successful CGAP initiative held in other regions of the world. We hope that the results of this survey will help microfinance donors and other stakeholders gain a more comprehensive picture of donor efforts

cooperatives operating in the region. They all felt that provision of pure humanitarian assistance to those able to work should end.

What are the results expected by Partner MCO and Mercy Corps?

To bring target households to the economic level of an average microcredit client, able to participate in competitive market environment, to shift their mindset from passive waiting for an unconditional humanitarian assistance towards business orientation and awareness that they need to compete to get their share.

While participating in this programme, the economic development stakeholders build a wide variety of formal and informal, bilateral and project-wide partnerships, whose effects impact economic environment far beyond the arena of the three projects in question. At the same time, the members of the project management team, sharing values of good partnership, that all together help to cope with all the challenges emerging on the way:

- Equality;
- Transparency;
- Constructive brainstorming on every single challenge, with no taboos, no restricted issues;
- Compromising and consensus;
- Mutual trust, respect for everyone's values and vision;
- Full understanding of everyone's individual positions and differences;
- Genuine and unconditional investment of the best individual organization's values to the Team;
- Reconciliation, by each partner, between their individual business interests;
- and wide interests of these projects;
- Tolerance and understanding of everyone's weaknesses keeping in mind the context in which every partner has been operating and expanding their own capacities;
- Prioritizing, emphasizing and promoting everyone's strengths, values and forces of positive change brought to the Team;
- Sharing individual goals, a mission and vision for common good of the Team and its projects.

in the Central Asia region, which would allow them to identify potential gaps in sector development and to make more informed decisions. The aggregated results of this survey will be circulated among donors and other stakeholders in the region.

Financial Education Program

MFC is expanding its activities to promote financial education in Eastern Europe. Russia: MFC and Microfinance Opportunities (MFO) will build the capacity of selected partners to deliver financial education to low-income households (November 2006-May 2007). Bosnia: MFC will extend the capacities of local NGOs and MCOs under UNDP *Srebrenica Regional Recovery Programme* with the goal of delivering financial-education workshops to the poor and to women (October 2006-July 2007).

MFC Trainers accredited by ILO to deliver training course "Making Microfinance Work: Managing for Improved Performance"

MFC accredited trainers conduct a course for middle-level management of MFIs in CEE and NIS region on behalf of the ILO. This is new 10-day course that aims to provide managers with a broader understanding of the various functions that contribute to successful MFI performance and to supply them with a portfolio of tools that can assist them in strengthening their institutions' performance.

WOMEN IN MICROFINANCE IN C&EE AND THE NIS



Gender and Microfinance in Azerbaijan

Jhale Hajiyeva, Executive Director, AMFA

In July 2005 the Azerbaijan Microfinance Association (AMFA) began implementing the Gender Responsive Microfinance project funded by the Asian Development Bank (ADB). The primary objective of this year-long project was to increase the level of institutional gender awareness and participation of women in microfinance institutions as field staff. The expected outcomes have been the adoption of institutional policies to encourage recruitment, retention, promotion of women field officers, and increase the percentage of women field staff. In total, 14 organizations participated in the project, among which 11 are microfinance Institutions, two are banks and one a Credit Union.

The project includes such activities as meetings with women clients and credit officers in the regions, assessment of institutional gender policies, identification of required skills and qualifications for credit officers, development and adoption of gender strategies by MFIs, recruitment and training of female credit officers, Training of Trainers (ToT) on gender and microfinance and monitoring of effectiveness of recruited credit officers' work.

The main results achieved so far:

- Development of an Institutional Gender Policy assessment;
- Identification of skills for successful loan officers;
- Creation of positions for credit officers;
- Recruitment of 19 female employees;
- Training provided on Gender Sensitivity and Crediting to female credit officers;
- Training conducted to MFIs' HR staff on Gender and Microfinance.

In the coming months, AMFA will concentrate on monitoring the work and efficiency of newly recruited mobilizers/credit officers, making assessment of mobilizers' work effectiveness in the regions and organizing a press conference on project achievements.

Any additional information can be provided by AMFA staff: amfa@amfa.az ■

Micro Credit – The Way to Financial and Social Independence. A Client Story

Gulnara was born in 1971 in the village of Shikhmahmud in the Nakhchivan Autonomous Republic of Azerbaijan (NAR). Gulnara lost her father while still in school and she became the only person in the family to look for an income and sustain the family of four children and her mother. Gulnara's mother convinced a tailor living in the same village to take Gulnara on as an assistant for a small wage.

"I was very happy to be given this chance. I had a lot of interest in developing and becoming the breadwinner for the family. I decided to learn everything in a very short time," Gulnara noted.



But the opportunity did not last long as the tailor moved his operations. The tailor offered to take Gulnara to one of her relatives in the city who managed a tailoring shop. Gulnara's family had to agree as their options were running out. Gulnara received an opportunity to attend the tailoring school in Nakhchivan city. In a short time, Gulnara became one of the better tailors in the city, made a good income, supported her brothers and sisters in their efforts to attend school, and paid for her mother's medical expenses.

"I was very grateful for the good income, but I was unsatisfied because I was still not able to realize my dream of becoming the owner of my own business," she says. *"I could not make adequate income because I did not have my own money to invest in buying materials."*

In December 2004, Gulnara heard about the loan program offered by the International Organization for Migration (IOM). She immediately applied and received her first loan in January 2005. With this loan Gulnara visited Baku to purchase materials, which she could then sell to her clients.

"IOM credit brought me good luck," Gulnara said. The company where she worked was up for privatization and Gulnara used her loan to buy into the business. She became the new owner.

Today, Gulnara plans to pay off her current loan and take out another to purchase new equipment to improve her quality and turnaround time. At that point she hopes to hire some employees.

"From my own experience, I understood that IOM micro credit is open to everybody and provides not only financial but also social independence," Gulnara says. ■

IOM has been operating in NAR since November 1998 upon the agreement of IOM, UNDP and the Government of NAR. Initially, IOM began implementing the Community Development and Micro Credit (CDMC) project. The CDMC project consists of four components: Rural, Urban, Capacity Building and the Drinking Water Project (DWP). IOM has had great success in all areas; especially DWP, which has grown into a separate programme and participated in the renovation of ancient water systems while remaining active in communities. To date, more than 7,000 loans have been distributed in urban and rural areas of NAR.



MFC MEMBERS CORNER

MI-BOSPO celebrates 10th anniversary

MI-BOSPO, the oldest microcredit organization in Bosnia and Herzegovina, celebrated its 10-year anniversary on April 15, 2006. As part of the celebration, MI-BOSPO launched a new brand highlighting the organization's commitment to funding entrepreneurial women's efforts and successes.

MI-BOSPO's work over the past 10 years was formally recognized in June 2006 when it was awarded a Golden BAM for support provided to female entrepreneurship. It was the first time that any microcredit organization was even nominated for this award.



MI-BOSPO currently serves 18,000 active clients in NE of Bosnia and Herzegovina with an outstanding portfolio of 16.5 million EURO. MI-BOSPO will face new challenges in 2007 as it transforms from a non-profit into a for-profit institution. Through the changes, however, MI-BOSPO will remain focused on serving entrepreneurial women with the services they need to succeed.

Microcredit Organization EKI develops new products

EKI, Bosnia and Herzegovina is developing new products and services that will help it remain a leader in the competitive Bosnian market. As a result EKI introduced educational activities for its agricultural clients. In its first phase it will distribute educational leaflets to each client who obtains an agriculture loan. Next they will conduct a focus group discussion to gauge their reactions and potential methods for improving the project. EKI also introduced a new loan product (revolving loan) for its SME clients. EKI is pilot testing the loan in two branches and beginning Oct 1 expects to have it rolled out in all other branches.

“Benchmark Study of Azerbaijan’s microfinance sector” conducted by AMFA from October 2005 to September 2006

Through this study, the Azerbaijan Micro-finance Association (AMFA) has increased its number of MFI profiles in the MIX Market from two to nine. In addition, four MFIs were rated by the Microfinanza Rating Agency-Italy (accredited by CGAP) and were upgraded from four “diamonds” to five, demonstrating the improved financial transparency of MFIs in Azerbaijan. The primary impact of the Benchmark project is to enable access to commercial investments. In this respect, special attention should be drawn to the fact that on September 26, 2006 the EBRD had signed its first loan contract with a local non-bank credit organization, CredAgro, for \$1 million. The loan is provided under the Non-bank Microfinance Institutions Framework for Early Transition Countries launched in 2005. The EBRD loan is set to facilitate access to finance for micro-companies and entrepreneurs, especially those in rural areas. This will also allow CredAgro to expand its loan portfolio, product range and regional network.

This first of its kind benchmark study in Azerbaijan is envisioned to be conducted for three consecutive years in order to analyze trends and to develop a set of national microfinance standards.

AMFOK’s training course on Business Plan for MFIs

- October 2-3, 2006, in Almaty, the Association of Microfinance Organizations of Kazakhstan (AMFOK) organized the training session “Drawing up a Business Plan for an MFI”. 17 representatives of MFIs, of which 15 were AMFOK members, took part in the session.

The intensive two-day training familiarized MFI representatives with the main goals and key elements of a business plan, its structure, degree of details as well as the content of every section of a business plan. MFI's marketing strategies, financial and operation plans, and break-even point calculation methods were also presented in the course of the training. The participants had a chance to share their experience in drawing up a business plan. ■

UNDP B&H Rural Finance Awards 2006

UNDP B&H has distributed three Rural Finance Awards a total value of \$447,000 to the following microcredit organizations: PARTNER, PRIZMA and Zene za Zene. In line with CGAP and the Blue Book on inclusive financial systems, these grants aim to boost the institutional efforts of these institutions in developing cutting edge rural finance practices.

“Microfinance and the Added Value of Multiculturality in Business Creation” - Oslo, Norway, 9-10 November 2006

The conference organized by the European Microfinance Network with its Norwegian member NCN will contribute to raising awareness of how to better utilize the resources inherent in cultural diversity. In particular, it aims to promote microfinance, business support services and policies that optimize the potential of immigrants in business creation. It will bring together microfinance practitioners, small business support services and decision makers. Registration and details of the programme are available at: www.european-microfinance.org

5th Annual Conference “Microfinance in Russia: Elements of Success. Prior Experience for Future Growth” will be held in Moscow, Russia, on 29 November-1 December, 2006

The conference will be organized by the Russian Microfinance Center and the National Partnership of Microfinance Market Stakeholders (NAMMS). More information about the conference is available through at <http://rmcenter.ru/conf2006/>.

EBRD lends \$10.2 million to expand MIKROFIN's microcredit activities

MIKROFIN, B&H received a \$10.2 million convertible loan from the EBRD. The funds are being used to expand MIKROFIN's lending activities and to help structure the group into a shareholding company. The EBRD has the right to an equity stake in MIKROFIN if it exercises the loan convertibility feature in the future.

Grameen Foundation received \$1.5 million from the Bill and Melinda Gates Foundation

The unrestricted, three-year grant to support strategic plan initiatives is GF's third-largest grant in support of a five-year plan that was launched in 2004. For more information go to: www.gfusa.org/newsroom/news/~story=168

ACCION Places First Loan Guarantees in Eastern Europe and Central Asia

ACCION International extended loan guarantees through its Global Bridge Fund to Fundusz Mikro in Poland and Constanta Foundation in the Republic of Georgia. This is the first time that ACCION has provided guarantees to MFIs outside Latin America. For the full press release go to: www.accion.org/media_press_releases_detail.asp_Q_NEWS_E_275

The Global Microcredit Summit will be held November 12-15, 2006 in Halifax, Nova Scotia, Canada

Scheduled to attending the summit are Queen Sofia of Spain, the President of Honduras, the Vice President of the Philippines, the Vice President of Uruguay, HRH Prince Talal Bin Abdulaziz of Saudi Arabia, the First Lady of Panama, and more than 2,000 microfinance leaders from around the world

EBRD President signs first investment in Mongolia with XacBank

Two banks signed a loan agreement providing XacBank with \$5 million in new financing. EBRD's Resident Office was opened in Ulaanbaatar, Mongolia.

“Mind the Gap: Bankable approaches to increase access to finance”, Amsterdam, Netherlands, 2 November 2006

This conference is organized by the Netherlands Financial Sector Development Exchange (NFX). Main questions of the conference:

- How can private sector approaches make a wider range of financial products available to a larger group of people?
- What are some successful business cases, and what lessons have been learned?
- What is the role of donor organizations in this process?

Participation is free. Registration is open until 27 October. You can register at: http://www.nfx.nl/other/_/content/bulk/conference-website/Registration.html