“Yoksulluğun Olmadığı
Bir Türkiye'ye Doğru”
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Microfinance: Global Experience and Prospects for Turkey

The IFC and KfW with the support of the BDDK, are sponsoring a two-day conference and workshop that will provide an opportunity for Turkey's government leaders, industry practitioners, and members of the banking sector to learn about the global microfinance industry and to identify models replicable to Turkey. Through a series of dynamic panel discussions, participants will explore the current state of microfinance, the experiences of global leaders in microfinance and commercial banks who have invested in the sector. The workshop will also highlight appropriate legal and regulatory framework for successful development of microfinance. The event includes an intensive, interactive workshop featuring recent global case studies.

Microenterprises and small businesses account for a major share of private sector employment for low-income populations globally. Yet they face serious obstacles to viability and growth because they have limited access to essential financial services, such as credit, savings and payment services. The international speakers presenting at this event represent institutions and commercial banks that have successfully expanded financial services to these businesses and low-income people, by developing sound microfinance institutions and/or commercial microfinance operations.

Workshop Venue:
CONRAD HOTEL
BARBAROS BULVARI, YILDIZ CADDESI
8:30 am  
REGISTRATION

9:00 – 9:30 am  
Ballroom C

Welcoming Remarks: Mr. Khosrow Zamani - Director, Southern Europe & Central Asia, IFC

Opening Remarks:  
H.E. Kemal Unakitan – Minister of Finance  
Mr. Ali Babacan – Minister of State

9:45 – 10:15 am  
I: Microfinance Overview

Introduction: Mr.  
Vincent Rague - Manager, Southern Europe & Central Asia, IFC  
Prof. Dr. Aziz Akgul – President, Turkish Foundation for Waste Reduction, Deputy for Diyarbakir, Turkish Parliament. An Overview of the microfinance industry in Turkey and its significance to economic development.  
Ms. Elizabeth Littlefield – Director, CGAP  
Microfinance: A Global Overview

10:45 – 11:00 am  
Coffee Break – Ballroom Foyer

11:00 am – 1:00 pm  
II. The Microfinance Industry: Global Experience

How has the global microfinance sector evolved into an important dimension of financial markets globally?  
What are the key models and experiences in microfinance?  
What key lessons can Turkey draw from regional and global experiences?  
Moderator: Ms. Elizabeth Littlefield – Director, CGAP

Panel 1:  
Mr. H.I. Latifee – Managing Director, Grameen Trust  
Ms. Lucy Ito – Vice President, WOCCU  
Mr. Nabil Elshami – Executive Director, ABA Egypt

Panel 2:  
Mr. Aftab Ahmed – Manager, Global Micro & Small Business Finance Group, IFC  
Ms. Monica Brand – Senior Director of Market Research, ACCION International  
Mr. Rupert Scofield – Director, FINCA International

Each speaker will have 10 minutes on their topics. Q & A discussions will follow.

1:00 – 2:00 pm  
Lunch – Prego Restaurant
2:00 – 3:15 pm

III. Commercial Microfinance: Banks

What incentives does a commercial bank have to target the microfinance market? What has been Commerzbank’s experience investing in specialized microfinance banks in southern Europe? What is LFS’ experience in establishing a commercial microfinance bank in Azerbaijan? How does LFS’ propose to replicate this model in Turkey? What lessons can be drawn from other commercial banks’ experiences?

Moderator: Mr. Aftab Ahmed – Manager, Global Micro & Small Business Finance Group, IFC
Mr. Helmut Toellner – Senior Vice President, Commerzbank
Mr. Bernd Zattler – Managing Director, LFS Financial Systems
Mr. Neil Ramsden – Managing Director, Bannock Consulting, UK

Each speaker will have 10 minutes on their topics. Q & A discussions will follow commentaries. Commentator

Mr. Yavuz Canevi – Chairman of the Board, TEB

3:15 – 3:30 pm Coffee break – Ballroom Foyer

3:30 – 4:30 pm

IV. Regulatory Framework and Supervision of Microfinance

Why is the regulatory framework important for the development of a sustainable microfinance industry? Which institutions should be prudentially regulated and supervised? How have various countries approached the microfinance regulatory framework? How can supervisory bodies effectively oversee MFIs? What reforms in the regulatory framework/microfinance legislation would most effectively promote Turkey’s microfinance industry?

Moderator: Mr. Engin Akcakoca – BDDK
Mr. Klaus Glaubitt – Head, Financial Sector Division, KfW
Mr. Tim Lyman – Partner, Day, Berry & Howard LLP

Each speaker will have 10 minutes on their topics. Q & A discussions will follow.
4:30 – 5:45 pm

V. Effective Financing of Microfinance

What key lessons can be drawn from IFIs and donors’ experience in micro and small business finance? What investment and technical assistance models have proven effective, in light of Turkey’s present situation and future needs. The session will address the need for Turkey to create a diverse microfinance sector that includes NGOs, commercial banks and restructured/privatized state banks.

Moderator: Ms. Kiendel Burritt – Technical Management Advisor, UNCDF-SUM
Mr. Ira Lieberman – Sr. Economic Advisor, The Open Society Institute
Ms. Doris Koehn – Vice President, KfW

Each speaker will have 10 minutes on their topics. Q & A discussions will follow.

5.45 – 6.00 pm

Summary

Welcoming Remarks: Mr. Khosrow Zamani – Director, Southern Europe & Central Asia, IFC
Closing Remarks: Mr. Abdullatif Sener – Deputy Prime Minister

6.00 – 7.00 pm Cocktail

At the International Lounge, Conrad Hotel.
Who Should Attend: Policy Makers, Executive Directors, Finance Managers, Credit Managers, Operations Managers, Branch Managers and Board Members from, Microfinance NGOs, Credit Unions, Banks and other financial institutions. As well as networks and apex institutions, national government regulators, donors and consultants.

9:00 – 9:45 am M FLOOR – ROOM 30

VI. UNDP – Sector Assessment
Presentation: Microfinance in Turkey – A Sector Assessment
Ms. Kiendel Burritt – Technical Management Advisor, UNCDF-SUM

Commentator: Ms. Sengul Akcar – Director, KEDV, Foundation for the Support of Women’s Work

Turkey Case Study: Ms. Belgin Guzaltan – Director, MAYA, Enterprise for Microfinance

9:45 – 10:00 am Coffee break – M Floor Foyer

10:00 am – 1:00 pm

VII. MFC Workshop

Mr. Grzegorz Galusek – Executive Director, MFC Ms. Olga Tomilova – Director, Newly Independent States Region, MFC

Case Studies: Microfinance: Central/Eastern Europe & Central Asia How has microfinance evolved in the region? What role does it play in the region’s financial and economic sectors? What does it take to develop successful microfinance institutions and a vibrant microfinance sector?

1:00 – 3:00 pm Open Buffet Lunch – M Floor Foyer

VIII. Networking Sessions M FLOOR ROOMS 30–39

Participants will have an opportunity to meet briefly with representatives of each organization to learn more about each institution and explore partnership possibilities.

ABA CGAP IFC MFC
ACCI观赏 FINCA KnW OSI
BANNOCK GRAMEEN LFS UNDP
MAYA WOCCU

3:00 – 4:30 pm

Donor Coordination Meeting organized by UNDP (Donors only)
For more information, please contact
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Welcome Remarks at the Microfinance Conference
by
Mr. Khosrow Zamani
Director, Southern Europe and Central Asia Department
International Finance Corporation (IFC)
Istanbul, Turkey. October 2, 2003

Honorable Minister of Finance, Kemal Unakitan, distinguished guests, ladies and gentlemen. It is my great pleasure on behalf of IFC to welcome you to this conference and workshop and also to the beautiful and historically strategic city of Istanbul, which has always acted as a cultural and economic bridge between Europe and Asia.

Let me start by stating that the objective of this conference and workshop is to share experiences of microfinance industry leaders from around the world, and explore models applicable to Turkey. My hope is, therefore, that at all the sessions will provide a forum for dynamic discussions and free exchange of views.

Over the last two decades, microfinance has come of age, with the debate having shifted from the role of microcredits, to commercial sustainability, and transformation of microfinance institutions. Global experience has demonstrated that, in most developing countries, micro-enterprises and SMEs predominates in the economy, representing the backbone of the private sector. Evidence also shows that the sector brings immediate and tangible economics benefits by providing employment and raising incomes particularly for the poor, which makes the development of the sector a high priority to most governments. Yet, despite it obvious importance, the SME sector is often overlooked by policy makers, commercial banks and other financial institutions, resulting in a lack of access to appropriate financing. Micro-enterprises and the poor have virtually no access to critical financial services such as credit, savings and payment services. Therefore, by providing access to these services, microfinance plays an important role in poverty reduction. It also acts as a powerful
instrument for self-empowerment by providing the poor and vulnerable with the opportunity to gain employment, raise their household incomes and, thereby, become integrated in the mainstream economy.

Recognizing the centrality of microfinance in balanced economic development, IFC has been a strong supporter and in the forefront of microfinance development worldwide. This is based on the conviction that microfinance plays a vital role in supporting the development of the financial sector. We also believe the development of the microfinance industry is critically important for Turkey, because it can contribute to socio-economic balance by reducing the large income disparities that currently exist between segments of the population. By some estimates, while the overall poverty rate is modest at 2.5%, those living below the poverty line is significant at 7.3% of the population. At the same time, 36% of the population is considered to be economically vulnerable, especially the rural poor. We at IFC, therefore, view Turkey as one of our priority countries for microfinance investment because of the apparent need and prospects for the success of microfinance in the country.

Drawing from our extensive experience of building financial institutions globally, I can safely tell you that support for micro-entrepreneurs goes beyond access to financial services for the poor. It also builds human capital and institutional capacity at many different levels: micro-enterprises, microfinance institutions, commercial banks and among policymakers. I can also tell you that it can be good business – it can be profitable and sustainable.

I am proud to say that my department, Southern Europe and Central Asia Department in the IFC, has been a staunch supporter of microfinance. IFC has so far invested directly in eleven microfinance banks in the region. These microfinance banks have set global standards in terms of developmental impact, sustainability and profitability, and serve as a model for many others. Certainly, a favorable legal and regulatory environment has been critical to the success of these microfinance. Equally important has been the close cooperation of strong, like-minded partners - bilateral and
multilateral institutions as such as KfW, and other financial institutions, such as Commerzbank, ACCION, FINCA and LFS. I am grateful that they have spared the time to participate in this event, to share their experiences.

I would also like to acknowledge the significant contributions that CGAP has made to the global microfinance industry. CGAP enables practitioners to learn from each other by serving as a training and resource center for every segment of the microfinance industry. We look forward to learning more from Ms. Littlefield, CGAP Director.

I am particularly glad to welcome representatives of Microfinance Institutions because they deserve most credit for making microfinance work on the ground. Three microfinance pioneers - Grameen at a global level, Maya and KEDV in Turkey, as well as ABA from Egypt have made great strides in grasping opportunities and facing challenges to developing effective financial services for this sector.

Other speakers microfinance leaders in this event, MFC, OSI, UNDP and WOCCU also bring with them vast experience. Participants representing the Government of Turkey, commercial banks and the microfinance sector bring their deep understanding of the country’s context. We can, therefore, look forward to a rich discussion today and tomorrow. They will be covering a broad spectrum of topics, which hopefully will answer many of your questions.

Let me conclude thanking our host, the Government of Turkey for making this event possible. The presence of such a high Government representation is clear evidence of the importance the country places of the development of the microfinance industry in Turkey. Over the past three years, IFC’s efforts to establish a commercial microfinance institution in Turkey have been delayed and, at times, been frustrated by the lack of the appropriate legal and regulatory framework. The government has now drafted a law that aims to stimulate the industry’s development. However, IFC and other institutions that have reviewed the draft law believe that the draft - if enacted in its current form - will not stimulate the development of a competitive and successful microfinance industry. For the law to achieve these objectives, it draft law would have to meet two critical measures.
First, it would need to be redrafted and modeled on international best practice, while taking into account Turkey's unique regulatory and socio-economic environment. For microfinance institutions to flourish, we think there is need to make provision for more flexibility on capital and ownership requirements. There is also need not to limit market and range of products offered by these institutions.

Second, the law will require political ownership of all regulatory bodies in Turkey, including the Ministry of Finance, Treasury, BDDK and other relevant Governmental entities. IFC, together with KfW, have offered to provide technical support to the government to revise and finalize the law. This offer is still available, should the government deem it necessary.

Finally, I wish to thank KfW for co-sponsoring this conference and BDDK for their support. Let me also not forget to thank our team of dedicated staff, without whose energy and hard work this conference would not have happened. Led by Vincent Rague, the of team includes Feryal Sayguner, Anne Lagomarcino, Zeynep Kudatgobilik, Tolga Sobaci, Makanda Kiko, Ayse Samli and other staff have put in long hours of work. I would also like to single out Professor Akgul, who at the last microfinance conference earlier this year, was challenged to show that he was not only supporting one microfinance model, threw his enormous energy in challenging us at IFC to organize this conference and bring other international practitioners to Istanbul to share their experiences.

The next speaker need little introduction to most of you (Minister's BIO attached).

THANK YOU and I wish you a successful conference.
I respectfully greet all the participants whom I believe will contribute in overcoming the poverty that is considered as one of the most essential problems of our country.

Before beginning with an overview on the microfinance industry in Turkey, we have to make a brief presentation regarding poverty in our country. The general appearance we shall present will also reveal the necessity to improve the microfinance sector for fighting poverty in our country.

Literature defines the "poor" as those who cannot not get enough nourishment to sustain their lives under more adequate conditions, do not have shelter for protection, cannot get clean drinking and utility water, cannot benefit from the minimum health services and cannot have access to basic educational.

The State Planning Organization defines a daily amount of 3500 calories as adequate level of nourishment. People who can not get the food that will provide 70% of this amount of calories have been described as "extreme" poor people.

The current situation in our country can be summarised as below:

In the beginning of 2002, 2.4% of the Turkish population (app. 2 million people) was categorized as "extreme" poor and had incomes less than a dollar a day. 18% of the population (app. 12 million people) had daily incomes less than two dollars, a threshold that has been accepted as the "international poverty limit".
About 10 million people that make up 15% of Turkey’s population cannot even make nourishment expenditure of one dollar per day. The percentage of people who cannot spend one dollar for the nourishment per day is 10% in the cities (app. 7 million people) and 21% in the countryside (app. 23 million people).

If we take the threshold of 15 dollars spent for basic need per day as the poverty criterion, we can clearly see that nearly 34% of the population (app. 23 million people) is considered poor. Under these circumstances almost one third of Turkey is poor.

The low income levels combined with a skewed distribution and high employment continues to a negative effect on broad masses. Social inequity and poverty have reached their highest levels in the society.

Within this framework, there are millions of entrepreneurs who are willing to do businesses that could reduce poverty in our country. They need capital and they should be given opportunities.

Such opportunities can be delivered by the microcredit and microfinance institutions.

In the 1980s, microfinance emerged upon the rise of critiques regarding whether subsidized credits extended to poor farmers truly reached their objectives. However, the subsidized and target-oriented credit programs resulted in accumulated credit losses and as a result "microfinance" fact was introduced as a part of market-based solutions.

The banking system that aims at the effective utilisation of the savings collected in Turkey generally extends loans guaranteed by collaterals. At low income levels, many countries have applied subvention policies for supporting the groups with no assets for collaterals. These groups were excluded from the potential client masses by the banks.
Microfinance can be briefly defined as the offering financial services to people who cannot make use of banking system's crediting or whom the financial institutions can not render any services to.

The most important objective in microfinance is the implementation of continuous and steady financing policies and programs that enable people low with incomes to have access to credits. The people who can be in the field of interest of the Microfinance mostly live in the countryside or in the places where the town-dwellers call 'suburbs'. The target masses in the Microfinance are usually self-employed women, men or micro-enterprises with low incomes. According to data gathered by the World Bank, it is estimated that there are more than five hundred million people that are economically active and yet have very low incomes. Any formal or informal organisation offering financial services to people with low incomes is considered a microfinance institution.

Microfinance is not only one of the tools used to increase people's income levels, but also a system that contributes to the deepening of the financial markets by including the number of people having access to the financial system.

It is believed that the number of banking clients will go up with the increase in income levels due to successful implementation of microfinance.

Microfinance institutions can provide people and institutions at low income levels with financial services such as savings, credits, insurance and payments as well as social services such as group formation, security, and financial training.

The microfinance facilities that have been active in the Middle and Eastern Europe due to the spread of the approach in the microfinance such as Bangladesh (Grameen Bank), Latin America (ACCIION), Endonesia (Bank Rakyat), Bolivia (PRODEM/BancoSol) by means of the existing applications in many countries all over the world have gained more signifiance with the formal financial institutions founded
in the countries such as Romania, Bulgaria, Albania, Moldovia and Yugoslavia by the participation of the institutions like IFC, Europe’s Development and Investment Bank, KfW and Commerzbank.

Taking into consideration all the points summarised above, despite its relatively well developed financial system, due to its skewed income distribution characteristics, Turkey needs to first aim to establish the legal framework in order to launch microfinance in order to foster economic development.

In this context, in additional to the traditional banking activities there has been a strong need for microfinance institutions that could provide microcredit and microfinance services.

There are various applications existing under different institutional structures that are not considered in the classification of microfinance applications in Turkey. Such structures can be classified as formal- semi-formal and informal.

In the classification of formal structure, they offer financial services to be within the framework of microfinance under the name of "specialization" and "cooperative" credits given by Halk Bankası in order to support the people having low incomes as well as the tradesmen and craftsmen who can be considered as microenterprises. Such services are, for instance, Cooperative Export Credit, Credit for Supporting the Employment, Renewal of the Commercial Cars, Credits for Women Enterprises and Young Enterprises, Credits for Product Development, Credits for the Participation in the Fairs and Exhibitions.

In this way, Halk Bankası extended credit 20,000 people totaling 2.7 trillion Turkish Liras in 2002. Four million people making up 80% of the depositors of savings in Halk Bankası have bank accounts with an amount lower than 1 billion Turkish Liras. Provided that the inflation level becomes stable, it is believed that such an amount is quite a high potential for Halk Bankası.
Ziraat Bankası is another institution that has a potential in terms of reaching farmers and home owners with low incomes. Nearly 1.5 million people out of the existing portfolio of Ziraat Bankası with a total amount of 2 million people are farmers/agricultural cooperative members. The bank normally encounters repayment problems with the loans it extends. According to year 2002 data, the bank in question gave a total amount of 6 trillion Turkish Liras to the microenterprises who have been active in the fields of milk cattle dealing, seafood dealing, beekeeping, silkworm dealing. The credit institutions authorised by the Treasury Undersecretariat, can be considered as formal service providers as well. 45 credit institutions authorised in 2002 realized an overall amount of transaction for 50.6 trillion Turkish Liras.

Some organisational structures such as cooperatives of Craftsmen and Tradesmen, small scaled farmers' cooperatives, aid funds formed by some trade chambers are also considered semi-formal. In accordance with the data of the year 2002, there are 59,236 cooperatives and 7,734,718 partners of cooperatives in our country. In accordance with the contracts within the frame work of Cooperatives Act numbered 1163, cooperatives for fresh fruit and vegetable marketing, small scaled industrial sites, motor carriers, mass office buildings, mass construction cooperatives, cooperatives for tourism development, production and marketing can also be considered providers of microfinancial services. No reliable information on the quantity of the financial services offered by the cooperatives has been compiled.

The informal sector in Turkey has been defined as enterprises considered "uninstitutional" paying or non-paying taxes on the basis of basic rules, being active in the non-agricultural fields with an employment from one to nine persons. We can also mention other informal microfinance servers such as friends, family members, neighbors due to the socio-cultural reasons such as traditions and strong family ties and solidarity and "usurers" the number of who can not be estimated.
Apart from these, we can also talk about the Non-Profit Organisations that has a very small scale in terms of their functions. The activities of these two Non-Profit Organisations are limited with 200 people and it can be seen that they have reached a small amount of 55 billion Turkish Liras so far.

As a result of studies performed by State's Statistics Institute, it has been found out that 84% of the employees never make use of credits by any means. The people who make use of credits rely mostly on their relatives and friends, banks, cooperatives and finally other sources as loan sources.

Such financial services in Turkey have been offered partially by formal institutions and informal servers.

Briefly, such activities in Turkey are not of a microfinance facility and partial credits have a partial "subvention" characteristic and are in a status to meet the existing financial requirements rather than to provide an employment field that can enable the people having low incomes to obtain continuous incomes.

There are really serious problems with these activities which have been performed especially by the statebanks. Often times these activities end up not serving their main primary objective and end up being booked as duty losses, exemptions, renunciation of interests, re-instalments upon arbitration.

It is evident that all such facilities have not substituted and cannot substitute for microfinance in terms of size and breadth.

As I mentioned in the beginning of my speech, the existence of the poor population that has a low income level in the countryside and in the suburbs of the cities is a proper channel and a big potential for the microfinance facilities.

Assuming a family size of four persons, we can estimate that at least 5 million people live with low incomes and in the countryside and in the suburbs of the cities. If we assume that 40 % of this population could be served with
the microfinance industry, 2 million people potentially can benefit from microfinance.

Based on a microfinance credit size of 500 to 1000 dollars, it is possible to say that there is microfinance market for about 2.5 to 3.5 billion dollars in Turkey.

I believe that successful application of can also been achieve in our country. Therefore I would like to give you a brief information on the microcredit application in Turkey.

The first step in fighting poverty has been taken with the instructions of our Prime Minister. First, within this framework, Prof. Dr. Mohammad Yunus, the architect of such a microcredit project and Grameen Bank was contacted. Also we have utilized research done in Bangladesh where this project has been successfully executed. Moreover, authorities from Grameen has visited our country and conducted research and investigated the feasibility of the project.

Furthermore, this matter was discussed during the International Conference "Dimishing the Poverty by means of Microcredits" held in Istanbul between 9-10 June 2003 and participated by Prof. Mohammad Yunus, the architect of this project, and some experts from the countries such as the U.S.A., England, Bangladesh, Maleasia, Vietnam, Kosova, Nepal, the Philippines and Turkey.

The application of microcredits in our country has been launched under "Turkey Grameen Microcredit Project" in Diyarbakır on 11 June 2003 with the cooperation of Turkey's Foundation of Prodigality Prevention, Mayor of Diyarbakır and Grameen Trust. Within the framework of the application, research is still being conducted in Diyarbakır by a project director, two foreigner experts as a field administrator and 6 Turkish experts.

As a result of the reasearch conducted, the first cheque for the first microcredit application in Turkey was given by the Prime Minister Recep Tayyip Erdoğan in Diyarbakır on 18 July 2003.
During the subject project research of which has continued, 65 women who are considered very poor have been given a total amount of credit for 31,600,000,000 Turkish in the two branches founded in Diyarbakır up to now.

It has been targeted to extend microcredits to 4,400 women in total during the three years of this project.

For the project, Diyarbakır has been chosen as a pilot area. In recent days, applications will be launched in cities such as Siirt, Mardin, Trabzon, Istanbul, Izmir and Ankara and then be widespread all over Turkey.

For the microcredit project, a fund for about USD 110,000 has been set up. Finally, a source of USD 300,000 has been transferred to this fund by the Open Non-Profit Institution.

It seems quite evident that microcredit and microfinance institutions are needed in the finance sector as an important tool for fighting poverty in Turkey.

Some processes needed to establish microfinancing institutions have been underway. The formation of the legal infrastructures has been set as the first goal to be achieved in the first stage. Ideas have been exchanged with the public and civil institutions, universities, experts on the matter from both home and abroad and a new microfinance law has been drafted by the BDDK. The draft law was finally evaluated by BDDK, Ministry of Finance, State’s Planning Organization, Treasury Undersecretariat, General Directorate of Law and Decrees, Grand Assembly’s Branch Directorate of Law and Decrees, so public institutions such as Ziraat Bankası Vakıfbank and representatives of financial sector as well as representatives from IFC and KfW on 25 – 26 August 2003.

The Microfinance Draft Law prepared by the BDDK is now at the office of the Prime Minister. The subject law will be included in the agenda after the
Grand Assembly meetings begin, and it will be the first of its kind in Turkey once it is legislated. In the meantime, I would like to take this opportunity to thank all the people who have their kind contributions on the arrangement of the draft law.

There is an outstanding potential regarding the microcredit and microfinance in Turkey. The evaluation of such a potential has gained a significant importance. I believe that microcredit and microfinance institutions will have a significant contribution on our economy.

I also wish to thank you all the people who have contributed to the arrangement of this conference.

With all my regards
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Ziraat Bankası

Union of Agricultural Cooperatives
Financial Systems for the Poor

CGAP

Elizabeth Littlefield, CEO

September 2003

Istanbul
Virtuous Cycle of Microfinance

Permanence

Impact on poverty

Large Scale

Evolution of Microfinance

From Subsidized Credit
Failures to Sustainability

Donor-dependent microenterprise
credit programs

1980's

1970's

Sustainability becomes key

1990's

Diverse models integrated into the financial system
Microfinance Proves "Myths" Wrong

<table>
<thead>
<tr>
<th>Myth</th>
<th>Fact</th>
</tr>
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<tbody>
<tr>
<td>&quot;Poor people don't repay loans&quot;</td>
<td>Early 80's – Many MFIs have better repayment than banks</td>
</tr>
<tr>
<td>&quot;The poor can't pay the full cost of microfinance&quot;</td>
<td>Early 90's – a few MFIs began covering all their costs</td>
</tr>
<tr>
<td>&quot;MFIs must depend on gov't and donor funding rather than commercial sources&quot;</td>
<td>Mid-90's – Top MFIs began to attract significant savings and commercial funding</td>
</tr>
<tr>
<td>&quot;MFIs cannot be profitable and reach the poorest.&quot;</td>
<td>Today – MFIs are striving to reach these twin objectives</td>
</tr>
</tbody>
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Financial Systems for the Poor

- National Microfinance Bank, Tanzania
- CUA, Ghana
- Banco do Noreste, Brazil
- Credit Unions
- Commercial Banks
- MFIs
- State Banks
- Non-financial Institutions
- Postal Banks
- Kenya Postal Savings Bank
- Post offices, retailers
Providers of Financial Services

Perhaps 630 million poor people currently accessing some form of financial services

The Big Country Problem

Market Penetration: Big vs. Small countries in L.A.

Based on research by CGAP and Accion International
Combining mf expertise with large-scale distribution systems

<table>
<thead>
<tr>
<th>Best Practice Microfinance</th>
<th>Many large scale delivery mechanisms</th>
</tr>
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<tbody>
<tr>
<td>✅ High repayment</td>
<td>✅ Low repayment</td>
</tr>
<tr>
<td>✅ Affordable but cost-covering interest rates</td>
<td>✅ Loss-making</td>
</tr>
<tr>
<td>✅ Efficient operations</td>
<td>✅ Mono-products</td>
</tr>
<tr>
<td>✅ Innovative methodologies</td>
<td>✅ Bloated operational costs</td>
</tr>
<tr>
<td>✅ Flexible products</td>
<td></td>
</tr>
</tbody>
</table>

What strong MFIs know how to do

✔ Uncollateralized Loans Get Repaid
✔ Providing Deposit Services
✔ Covering Cost of Delivery
✔ Improving Efficiency
✔ Linking MFIs and Banks
✔ Building Info Infrastructure
✓ Un-collateralized loans get repaid

- Even weak institutions enjoy strong repayment
- Value to client of ongoing access mitigates risk
- Solid portfolio quality: Global avg. PAR>90 days = 2.1%

But competition leads to over-indebtedness

✓ Providing deposit services

- Huge domestic resource
- Clients value savings esp. poorer clients
- Growing diversity—insurance, transfers, pensions

But there is still an overemphasis on credit
Improving efficiency

Operational Efficiency

......But there is big scope for improvement – technology should help

Covering Cost of Delivery

- ASA, an NGO in Bangladesh
- Compartamos, a finance company (transformed NGO) in Mexico
- PADME, a credit union in Benin
- CERUDEB, a commercial bank in Uganda

<table>
<thead>
<tr>
<th>AROA</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11.5%</td>
<td>ASA</td>
</tr>
<tr>
<td>28%</td>
<td>Compartamos</td>
</tr>
<tr>
<td>9.5%</td>
<td>PADME</td>
</tr>
<tr>
<td>3.1%</td>
<td>CERUDEB</td>
</tr>
</tbody>
</table>

...But much easier at top end, and urban markets
\textbf{Linking MFIs & Banks}

\begin{itemize}
\item Advantages for Bank:
  \begin{itemize}
  \item Leverages branch infrastructure
  \item Increased outreach
  \item Cheaper delivery costs (i.e. salary)
  \item Competitive edge in active SME markets
  \end{itemize}
\end{itemize}

\begin{itemize}
\item Advantages for MFI:
  \begin{itemize}
  \item Low-cost expansion
  \item Focus on lending (utilize teller services)
  \item Links poor clients to other banking services
  \end{itemize}
\end{itemize}

\textbf{Building Information Infrastructure}

\begin{itemize}
\item Consensus on disclosure guidelines and ratio definitions
\item Ratings capacity and quality is increasing
\item Auditors' competence in microfinance growing
\item MIS systems are improving
\item MIX: data on MFIs and investors
\end{itemize}

\textbf{...But quality and comparability are a long way off}
The Challenge:

Exponential Growth of Quality Services

- Promote range of financial services
- Develop diversified and sustainable institutions
- Build the information infrastructure
- Foster sound policy and legal framework

Wide Range of Products & Services

Beyond Business Loans

- SAFETY
- LOANS
- SAVINGS
- INSURANCE
- TRANSFER PAYMENTS
- MICRO-PENSIONS
- ETC...
- FLEXIBILITY
- CONVENIENCE
- AFFORDABILITY
Financial and non-financial Institutions

% of Rural Clients Served in El Salvador

Money-lenders
21%

MFIs and Banks
33%

Processors and Traders
46%

Transparency and Information Infrastructure

MIS Systems  External Audits  Performance Benchmarking  Evaluation And Rating  Supervision

34
Creating supportive legal frameworks

Key Features of Microfinance

<table>
<thead>
<tr>
<th>Feature</th>
<th>Responsive Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>High transaction costs</td>
<td>Ability to charge cost-recovery interest rates</td>
</tr>
<tr>
<td>Clients lack conventional collateral</td>
<td>Allow unsecured Lending</td>
</tr>
<tr>
<td>Inappropriate, doc. Requirements</td>
<td>Simpler reporting and loan documentation requirements</td>
</tr>
</tbody>
</table>

"Excellent financial performance does not imply excellence in outreach to the poor ..."

BUT

"...Reaching the poor is not at odds with maintaining excellent financial performance"
Thank you

www.cgap.org

Building Financial Systems for the Poor
Credit Unions & Savings-Driven Financial Intermediation: Striking the Balance in Microfinance

Lucy Ito  
Vice President  
World Council of Credit Unions (WOCCU)  
lito@woccu.org

October 2, 2003 • Istanbul, Turkey  
“Mikrofinance: Global Experience & Prospects for Turkey”  
Mikrofinance Workshop • IFC/KfW/UNDP/BKKD

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About WOCCU

- Represents >100 million credit union members in 85 countries worldwide.

- Manages long-term TA programs to develop, strengthen, & modernize credit union systems Africa, Asia, the Caribbean, Central Asia, Europe, Latin America, & the South Pacific.

- Works to create an appropriate regulatory environment for safe & sound credit union operation.

About Credit Unions

- Credit unions (a.k.a. savings and credit cooperatives) are user-owned MFIs that offer savings and credit services.

- Membership is based on a common bond—a linkage shared by a diverse group of savers and borrowers (e.g., community, organization, employee group).

- Depending on a country’s legal & regulatory framework, CUs may be authorized by Superintendency of Banks, Central Bank, Ministry of Finance, Ministry of Cooperatives, or freestanding CU law & supervisory agency.
CU Financial Intermediation between Net Savers & Net Borrowers

<table>
<thead>
<tr>
<th></th>
<th>Ecuador 12/31/02</th>
<th>Poland 12/31/02</th>
<th>Philippines 12/31/02</th>
<th>Uzbekistan 12/31/02</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CUs</strong></td>
<td>22</td>
<td>124 (680)</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td><strong>Member-Savers</strong></td>
<td>914,485</td>
<td>701,386</td>
<td>218,354</td>
<td>2,800</td>
</tr>
<tr>
<td><strong>Savings &amp; Shares</strong></td>
<td>$92.2 m</td>
<td>$587 m</td>
<td>$31.8 m</td>
<td>$58,622</td>
</tr>
<tr>
<td></td>
<td>Avg.$101</td>
<td>Avg.$836</td>
<td>Avg. $145</td>
<td>Avg. $21</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>$81.7 m</td>
<td>$432 m</td>
<td>$29.2 m</td>
<td>$58,268</td>
</tr>
<tr>
<td><strong>Loans / Savings</strong></td>
<td>88.6%</td>
<td>73.6%</td>
<td>91.8%</td>
<td>99.4%</td>
</tr>
</tbody>
</table>

Striking the Balance in Microfinance

- Historical Credit Bias in Microfinance:
  - Government Policies
  - Donor Reporting Requirements
  - Practitioner MIS
  - Microfinance Innovations

- *Supply-led* development for the poor.
Balance through Savings Mobilization

- Intermediates between dynamic demand of net savers and net borrowers.
- Eliminates reliance on external sources of capital.
- Everyone, including especially the poor, needs safe and accessible savings services.
- *Demand-driven* development.

### Savings & Credit

\[ \text{Savings} \& \text{Credit} = \text{Demand Driven Microfinance} = \text{Balance} \]

- Institutional self-sustainability
  - Savings are stable source of funds eliminating reliance on external funds.)

- Savings are a stabilizing influence on poor households
  - (compared to stressful effects of debt).

- Greater scale & better quality outreach results from *combined* savings and credit services, rather than from credit alone. (Typical Borrower-Saver Ratio 1:4 - 8)
Client diversity and a mix of products offer poor people a ladder of asset accumulation.

Crispina’s Ladder of Asset Accumulation

- 2001: Loan of $10,000 for a truck
  Savings: $4,000
- 2000: Loan of $4,000 for hogs/cows
- 1999: Savings and $2,375 loan to expand cantina (seats 50 & 6 staff)
- 1990: Savings & loan for coconut crop
- 1988: Savings and $575 loan for house
- 1987: Savings and $175 loan for farmland
- 1986: $125 loan for cantina improvements
- 1985: $38 loan for cantina equipment, hogs (seats 10, no staff)
Three Reasons Why CUs & Other MFIs Should Not Engage in Savings Mobilization?

- Losing members’ money.
- Losing members’ money.
- Losing members’ money.

Market Pyramid: Success Factor Financial Sector Institutional Diversity

The broad size of lower pyramid suggests absorptive capacity for and value of an array of diverse FIs with diverse services... competition.

Credit Unions
Profit ➔ Member-Clients

(Model CUs are commercially managed but socially responsible MFIs.)

Wholesale & Retail

Large Corporations/Institutions

Medium-sized Businesses

Small Businesses

Medium Income Consumers

Low Income & Poor Individuals

Commercial Banks
Profit ➔ Shareholders

NGOs for Very Poor
No or Little Profit?
Success Factor:
Diversity of Member-Clientele

• Serving the poor exclusively is not a sustainable strategy for financial intermediation between member-clients.
• Diversity spreads risk and transaction costs of reaching poor across a broader clientele and product mix.
• Agricultural (or any sectoral) risk is exacerbated by exclusive targeting and mitigated by client diversity.
• Diversity of member-clientele and product mix offers ladder of asset-accumulation for the poor.

Diversity Enables CUs to Reach More Poor
(Philippines – Dec 2002)

<table>
<thead>
<tr>
<th>Loan Ranges</th>
<th>&lt;$250 SCWE</th>
<th>&lt;$250 Individual</th>
<th>$250 – $500</th>
<th>$500 – $1,000</th>
<th>&gt;$1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume US$ Millions</td>
<td>$1.5 3%</td>
<td>$6.1 20%</td>
<td>$2.7 9%</td>
<td>$5.9 19%</td>
<td>$14.6 48%</td>
</tr>
<tr>
<td>Number</td>
<td>23,142</td>
<td>75,710</td>
<td>9,847</td>
<td>11,388</td>
<td>10,757</td>
</tr>
<tr>
<td>Avg. Size</td>
<td>$65/72</td>
<td>$81</td>
<td>$274</td>
<td>$518</td>
<td>$1,357</td>
</tr>
<tr>
<td>% of All Loans</td>
<td>18%*</td>
<td>58%*</td>
<td>8%</td>
<td>9%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Savings and credit services for wealthy & poor members, alike, yet, vast majority of loans (76%) go to small borrowers (<$250).
Success Factor: 
Diversity of Products & Services

- Savings
  - Passbook/Current Account
  - Programmed Savings
  - Term Deposits
  - Youth Savers Club
  - Power Teen Club
  - Checking
  - ATM
  - Debit Cards

- Loans
  - Emergency Loans
  - Short-term Loans
  - Medium-term Loans
  - Quick Loans
  - Share Secured
  - Pawn Loans
  - Revolving Lines of Credit
  - Credit Cards
  - Car Loans
  - Home Improvement Loans
  - Mortgages

- Remittances
  http://www.woccu.org/prod_se 
  rv/irnet/index.htm

- Insurance (LP/LS)

Savings Mobilization: 
Common Sense

- Professional and sound management.
- Effective Savings protection measures.
- Voluntary, unencumbered savings.
- Competitive array of services and products.
- Diversity in wealth, savings capacity, & seasonal behavior of membership/clientele.
- Strong public image.
WOCCU Lesson

More of the world’s poorest will have the opportunity to climb out of poverty if donors, governments, and practitioners (including credit unions) apply the principles of and incentives for:

- Striking a Balance between Savings & Credit
- Client Diversity
- Product & Service Diversity
- Institutional Diversity in the Financial Sector
ALEXANDRIA BUSINESS ASSOCIATION

The Small and Micro Enterprise Project
Since May 1989

ABA
Presentation by: NABIL A. ELSHAMi
Executive Director
The Alexandria Business Association

The Pioneers In Micro Credit

THREE AMBITIOUS PROGRAMS

- Small & Micro Credit Program
- Blossoms Program
- Towards Self - Employment Program
GOALS & OBJECTIVES

Employment Creation
Income Generation
SME Expansion
Transformation of Informal Sector to Formal

TARGET GROUPS

Small & Micro Credit Program
- Existing MICRO Enterprises employing up to 5 Workers
- Existing SMALL Enterprises Employing from 6-15 Workers

Blossoms Program
Female-headed households - FHH
GOALS

Small & Micro Credit Program

• To assist existing micro enterprises in expanding their activities and to improve their living standards

Blossoms Program

• To assist in initiating/expanding income generating activities and to improve the economic, social, cultural, and health standards of women and their families

Funding-Lending Chart
MODALITIES

Small & Micro Credit Program
• Individual loans
• Loans: L.E. 1,000 - L.E. 25,000 (US$ 165 - 4100)
• Average loan size: L.E. 2,762 (US$ 460)
• Terms: 6 - 24 months monthly installments

Blossoms Program
• Solidarity Groups of five members
• Loans: L.E. 100 - L.E. 500 (US$ 16 - 85)
• Average loan size: L.E. 221 (US$ 37)
• Terms: 10 - 40 weekly installments

OPERATIONAL APPROACH

• Commercial interest rates
• Un-collateralized loans
• Quick and decentralized credit procedures
• Strong customer service
• Excellent MIS (ABA’s Loan Tracker)
• Staff Incentives
OPERATIONAL APPROACH

FIELD OFFICER .... Key person:

- Develops New Clients
- Appraises credit needs
- Assesses enterprise & borrower
- Follow-up (Repayment & Development)

OPERATIONAL APPROACH

- 75 % of staff: Operations & TA
- 25 % of staff: Administration & Support
- 65 % of staff: University Graduates
- 32 % of staff: Females
FINANCIAL PERFORMANCE

Average Number of Loans Per Month
FINANCIAL PERFORMANCE

Achievements

<table>
<thead>
<tr>
<th>August 31st, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Amount lent</strong></td>
</tr>
<tr>
<td><strong>Total number of loans</strong></td>
</tr>
<tr>
<td><strong>Average loan size</strong></td>
</tr>
<tr>
<td><strong>Clients reached</strong></td>
</tr>
<tr>
<td><strong>Loans Outstanding</strong></td>
</tr>
<tr>
<td><strong>Latest Repayment</strong></td>
</tr>
<tr>
<td><strong>Number of Staff</strong></td>
</tr>
</tbody>
</table>
FINANCIAL PERFORMANCE

- Credit income covers all operational & financial costs
- Operating Cost Ratio is only 8%
- Portfolio at risk < 2% of Loans Outstanding Balance

ELIGIBILITY REQUIREMENTS

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; L.E. 3,000 (US$ 500)</td>
<td>Personal ID Card</td>
</tr>
<tr>
<td></td>
<td>A fixed business address</td>
</tr>
<tr>
<td>&gt; L.E. 5,000 (US$ 800)</td>
<td>Ability to read &amp; write</td>
</tr>
<tr>
<td>&gt; L.E. 7,500 (US$ 1,250)</td>
<td>Social Security Certificate</td>
</tr>
<tr>
<td>&gt; L.E. 10,000 (US$ 1,600)</td>
<td>Tax Card</td>
</tr>
<tr>
<td>&gt; L.E. 15,000 (US$ 2,500)</td>
<td>Bank Checking Account</td>
</tr>
<tr>
<td>&gt; L.E. 20,000 (US$ 3,300)</td>
<td>Financial Statement for the Business + Tax Statement</td>
</tr>
</tbody>
</table>
BUSINESS SUPPORT SERVICES

4 Types of Services

- Training
- Marketing
- Library
- Technical Assistance

Objectives

- Upgrade managerial and technical skills
- Improve production technology
- Assist in marketing
- Provide updated knowledge and technology

CONSULTING SERVICES

Provided Nationally, Regionally and Internationally

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CONSULTING SERVICES

Types of Services

- Design of sustainable micro credit schemes
- Design of service delivery mechanisms
- Sequencing of actions to begin credit schemes
- Training workshops with comprehensive modules
- Staff Incentives and Performance Measurement
- Impact Tracking

Consulting & Advisory Services

West Bank & Gaza

Bulgaria

Albania

Latin America
Towards Self-Employment Program (TSEP)

**GRANT ACTIVITY**

- Dedicated to reducing poverty by helping unemployed people to start businesses that they plan and manage themselves
- Provides a Conditional Grant of L.E.200 paid in 2 installments
- Is funded from the contributions of the business people, members of ABA and others
- Is managed by the SME Project Staff on VOLUNTARY basis

**ACHIEVEMENTS**

Up to APRIL 30th, 2003

Number of beneficiaries

3,002

Rate of sustained businesses

74%
ABA's approach to graduate poor people to micro credit

The most permanent solution to poverty and unemployment is not to feed, but to enable man to support himself and his family.
Thank you

ABA

Invites you to visit our web site at www.abasme.com
ENHANCING DEVELOPMENT IMPACT THROUGH SUSTAINABLE MFIs

Aftab Ahmed
Manager
Global Micro & Small Business Finance Group
Why *Commercial* MSB Finance?

- Micro & Small Businesses (MSB) account for major share of private sector employment for low-income populations

- Meeting global demand for MSB Finance requires scale & sustainability

- Grant funding alone cannot satisfy demand

- Private capital targets commercially sustainable financial institutions

  **IFC objective:** to expand the range and volume of credit & other services for the target group by creating and strengthening commercially viable MFI's

**IFC Approach**

- Establishing “greenfield” MSB financial institutions

- “Upscaling” & Transforming NGOs into formal financial institutions

- Introducing MSB finance windows in commercial banks

- Developing linkages between MFI's and commercial banks

- Creating wholesale investment vehicles that channel capital to MFI's
Strategic & Technical Partners

Leveraging Resources + Expertise = Ensuring Impact

- ACCION International
- Aga Khan FED
- BRAC
- Cyrano Management
- DOEN Foundation
- EBRD
- FINCA International
- FMO
- Horus/Banque Financial
- IADB/MIF
- IMI/IPC
- KfW/DEG
- LSF Financial Systems
- Mercy Corps International
- Opportunity International
- PlaNet Finance
- Shorebank
- Women’s World Banking

"Greenfield" Approach

Establishing new MFIs with strategic and technical partners

- Commercial orientation from the outset
- Strong shareholder group and corporate governance
- Time-bound technical assistance (TA) for start-up period
- Equity risk sharing with TA provider/project manager
- Gradual diversification to service small businesses
"Greenfield" Institutions

- **ACCION**  
  Nigeria

- **AKFED**  
  Pakistan, Afghanistan, Tajikistan, Kyrgyz Republic

- **IPC/IMI**  
  17 microbanks globally

- **LFS**  
  Azerbaijan, Turkey

- **Opportunity International**  
  Montenegro

'Up-scaling’ & Transforming NGOs

- Assisting NGOs/MFIs to expand into small business sector
- Advising regulators on appropriate legal framework
- Operational TA & advisory support
- Investing equity (& debt if needed) in transformed entity
- Providing strong governance and management oversight through Board membership
“Up-scaling” & Transforming

- ACLEDA, Cambodia
- Caja Los Andes, Bolivia
- Finca, Kyrgyz Republic
- K-Rep Bank, Kenya
- Microinvest, Brazil
- Samruddhi, India

“Small-scaling” at Commercial Banks

- Introducing specialized microfinance windows in commercial banks (e.g. with Financial Bank in Benin & Chad)

- Providing credit lines and technical assistance to enable commercial banks to develop MSB loan portfolio (e.g. Azerigazibank and Rabitabank, Azerbaijan)
Central Asia Facility

IFC and EBRD Facility for small business finance

○ $118m Facility extending credit lines to partner banks for on-lending to MSBs in Kazakhstan, Kyrgyz Republic, Uzbekistan & Tajikistan

○ Parallel TA Facility for MSB finance operations in partner banks

MFIs – Commercial Banks Linkages

Global Microfinance Credit Enhancement Facility

○ US$30 million structured debt finance facility for MFIs globally

○ Sponsored by IFC, other international finance institutions & commercial investors

○ Linking MFIs with local commercial banks through credit enhancement products, facilitating local currency financing
Wholesale Investment Vehicles

**ProFund** (1995)  
$22m equity/quasi-equity fund,  
10 MFIs in Latin America

**IMI** (1998)  
EUR 44.3 m global investment company,  
17 MFIs worldwide

**AfriCap** (2001)  
$15m equity/quasi-equity/debt fund  
for MFIs in Africa

**AIM ACCION** (2003)  
$20m investment company  
for MFIs in Latin America and Africa

**ShoreCap** (2003)  
$25m investment company  
for MSB finance institutions in Eastern/Central Europe, Asia and Africa

### Scale Impact Sustainability

<table>
<thead>
<tr>
<th>Partner: IMI/IPC</th>
<th>At June 30, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eastern Europe</strong></td>
<td></td>
</tr>
<tr>
<td>Micro Enterprise Bank, Bosnia</td>
<td>1997</td>
</tr>
<tr>
<td>Microfinance Bank of Georgia</td>
<td>1999</td>
</tr>
<tr>
<td>Micro Enterprise Bank, Kosovo</td>
<td>1999</td>
</tr>
<tr>
<td>FEPFAO Bank, Albania</td>
<td>1999</td>
</tr>
<tr>
<td>Micro Enterprise Credit, Moldova</td>
<td>2000</td>
</tr>
<tr>
<td>Micro Finance Bank, Serbia</td>
<td>2001</td>
</tr>
<tr>
<td>Microfinance Bank, Ukraine</td>
<td>2001</td>
</tr>
<tr>
<td>ProCredit Bank, Bulgaria</td>
<td>2001</td>
</tr>
<tr>
<td>MIBK Bank, Romania</td>
<td>2002</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>301.1</td>
</tr>
<tr>
<td><strong>Latin America</strong></td>
<td></td>
</tr>
<tr>
<td>Caja Los Andes, Bolivia</td>
<td>1995</td>
</tr>
<tr>
<td>Financiera Capit. El Salvador</td>
<td>1995</td>
</tr>
<tr>
<td>Financiera CONIFER, Nicaragua</td>
<td>2000</td>
</tr>
<tr>
<td>Micro Credit Nacional, Haiti</td>
<td>2000</td>
</tr>
<tr>
<td>Societé Financière Equatoriale</td>
<td>2001</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>138.4</td>
</tr>
<tr>
<td><strong>Africa &amp; Asia</strong></td>
<td></td>
</tr>
<tr>
<td>NovoBanco, Mozambique</td>
<td>2000</td>
</tr>
<tr>
<td>Micro Enterprise Bank, Philippines</td>
<td>2001</td>
</tr>
<tr>
<td>Silktam SLC, Ghana</td>
<td>2002</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>465.6</td>
</tr>
</tbody>
</table>

Average Return on Equity (annualized) for all IMI Investments: 12.1%
### Scale Impact Sustainability

<table>
<thead>
<tr>
<th>PARTNER</th>
<th>INVESTEES</th>
<th>Established</th>
<th>RoE* (USD '000)</th>
<th>Number of Borrowers</th>
<th>Average Outstanding Loan Amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCION</td>
<td>Compartamos, Mexico</td>
<td>1990</td>
<td>56.0%</td>
<td>49,000</td>
<td>140,000</td>
</tr>
<tr>
<td></td>
<td>Mibanco, Peru</td>
<td>1998</td>
<td>24.0%</td>
<td>108,000</td>
<td>110,000</td>
</tr>
<tr>
<td>AKFED</td>
<td>FMFB, Pakistan</td>
<td>2002</td>
<td>0.16%</td>
<td>880</td>
<td>1,760</td>
</tr>
<tr>
<td>FINCA</td>
<td>Finca, Kyrgyz Republic**</td>
<td>1995</td>
<td>19.8%</td>
<td>4,100</td>
<td>19,778</td>
</tr>
<tr>
<td>LFS</td>
<td>MFB, Azerbaijan</td>
<td>2002</td>
<td>Negative</td>
<td>1,067</td>
<td>911</td>
</tr>
<tr>
<td>SHOREBANK</td>
<td>Samruddhi, India</td>
<td>1996</td>
<td>2.2%</td>
<td>6,800</td>
<td>41,960</td>
</tr>
<tr>
<td></td>
<td>K-Rep Bank, Kenya</td>
<td>1999</td>
<td>11.0%</td>
<td>17,000</td>
<td>25,000</td>
</tr>
<tr>
<td>OTHERS</td>
<td>ACLEDA Cambodia</td>
<td>2000</td>
<td>30.9%</td>
<td>33,000</td>
<td>90,608</td>
</tr>
<tr>
<td></td>
<td>Finadev, Benin</td>
<td>2001</td>
<td>10.1%</td>
<td>5,200</td>
<td>13,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>225,047</td>
<td>443,017</td>
</tr>
</tbody>
</table>

*annualized

** at February 2003

### Investee Institutions

![Map of Investee Institutions](image)
Accion International: Pioneering Microfinance in the Americas

Microfinance Workshop: Global Experience & Prospects for Turkey - IFC, KfW, UNDP
October 2-3, Istanbul, Turkey

Monica Brand, Senior Director
Marketing & Product Development
ACCION International
ACCIÓN International, a private nonprofit organization founded in 1961,

- works to reduce unemployment & poverty
- by providing credit and other financial services
- through its network of 26 institutional affiliates & partners
- to the over 60 million self-employed poor throughout the world

Pervasive, permanent impact

ACCION’S OBJECTIVES

Mission: Give people the tools they need to work their way out of poverty

Means: By building strong microfinance institutions

Core Operating Principles:

Scale: Massive Reach
Sustainability: Cover their costs, operate as financially viable institutions
Link to Markets: Commercial Approach
**ACCIÓN's Hallmarks**

- Focus on Innovation
- First microenterprise loan in 1973
- Bridge (Loan Guarantee) Fund in 1984
- First transformation of an NGO (BancoSol) in 1992
- Application of business practices to microfinance
- Client focus
- Efficient, profitable institutions
- Depth of technical assistance
What ACCION offers:

**INSTITUTION BUILDING**

- Technical Assistance to build capacity:
  - Resident Advisors
  - Technical Teams
  - Equity investments
  - Governance
  - Double bottom line
  - Social enterprise

- Start-up Lending Operations
- Grow The Local Institution
- Manage Rapid Growth Strong Financial Performance
- Become A Regulated, Formal Financial Institution

**Institution Building**

ACCION has worked with 3 different models to create regulated financial institutions specialized in microfinance

- Non-profit transformation (ACCION Comunitaria Perú · Mibanco)
- Start-up Banks (Bangente, BancoSolidario)
- Subsidiary Of Large Bank: “Service Company Model” (Haiti: Sogebank · SogeSol)

www.accion.org/publications/insight
ACCION's Impact
1985-2002

ACCION's has loaned $4.6 billion to 2.7 million microentrepreneurs, benefiting microentrepreneurs, benefiting millions of families.

Impact: Amount Disbursed

![Bar chart showing amount disbursed from 1989 to 2002](image)
Impact: Clients Served

ACCION's Evolution*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulated Institutions (RIs)*</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>NGOs in transformation to RIs</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Non-governmental orgs (NGOs)</td>
<td>7</td>
<td>16</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>17</td>
<td>20</td>
<td>26</td>
</tr>
</tbody>
</table>

* includes ACCION affiliates & non-network partners which received technical assistance.

Portfolio (US$MM)  | 1.2  | 13.8 | 154.4 | 463.1 |
Borrowers         | n/a  | 68,423 | 276,991 | 811,348 |
Amt Disbursed (US$MM) | 5    | 38    | 328   | 836.4 |
Loans             | 15,746 | 125,582 | 555,916 | n/a |

74
Expanding Our Reach

Increasing Our Impact

<table>
<thead>
<tr>
<th>period</th>
<th>Affiliates</th>
<th>clients</th>
<th>portfolio</th>
<th>countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-1985</td>
<td>12</td>
<td>14,500</td>
<td>US$966,000</td>
<td>4</td>
</tr>
<tr>
<td>1986-1990</td>
<td>35</td>
<td>40,200</td>
<td>US$13.7 MM</td>
<td>9</td>
</tr>
<tr>
<td>1995-2001</td>
<td>26</td>
<td>550,000</td>
<td>US$350 MM</td>
<td>22</td>
</tr>
</tbody>
</table>

ACCION International Network - Latin America 2002

In the Process

Country  Commercial  Regulated  of Transforming  NGOs
Argentina     |             |             | EMPRENDER      |
Bolivia       |             |             | Actuar Tolima  |
Brazil        | ABN Amro    | Banco de Norte | FMSD |
Colombia      |             | Finamérica   | FED            |
Coop. Emprender|             |             | FUNDAP         |
Ecuador       | Banco de Pichincha Banco Solidario | FED |
Guatemala     |             | Génesis     |                |
Haiti         | SogeBank    |             |                |
Honduras      |             | Finso (FUNADEH) | FUPACODE |
Mexico        |             | Compartamos |                |
Nicaragua     |             |             |                |
Panama        | Multi-CreditBank |      |
Paraguay      | EL Comercio |             |                |
Peru          |             | MiBanco     |                |
Venezuela     |             | Bangante    |                |
Key Indicators
2002 Results

<table>
<thead>
<tr>
<th></th>
<th>Latin America &amp; Caribbean</th>
<th>Africa</th>
<th>ACCION USA</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Clients at Year-end</td>
<td>749,843</td>
<td>57,710</td>
<td>3,795</td>
<td>811,348</td>
</tr>
<tr>
<td>Total Amount Disbursed</td>
<td>$782.5 million</td>
<td>$35 million</td>
<td>$16.9 million</td>
<td>$936.4 million</td>
</tr>
<tr>
<td>Active Portfolio at Year-end</td>
<td>$424.3 million</td>
<td>$18.4 million</td>
<td>$20.4 million</td>
<td>$463.1 million</td>
</tr>
<tr>
<td>Average Loan*</td>
<td>$566</td>
<td>$318</td>
<td>$5,375</td>
<td></td>
</tr>
</tbody>
</table>

*Calculated as "average loan balance," the total outstanding portfolio at year-end 2002, divided by the total number of active clients. This figure indicates the average amount yet unpaid by each client.

Link to the Capital Markets

- Lines of Credit guarantees
  (Bridge Fund - 1984)

- Equity investments
  - Profund (1995)
  - Gateway Fund, LLC (1997)
  - AIM, LLC (2003)

- Other financial services
  - Commmercial paper placements & bond offerings
  - MFIs listed on local stock exchanges
  - Portfolio Securitization
Microfinance's mutually reinforcing pillars

Industry Trends

Challenges
- Competition
- Client retention
- Market reach
- Profitability pressure
- Institutional sustainability
- Poverty alleviation

Opportunities
- Marketing
- Product development
- Delivery channels
- Rationalize operations & expand outreach
- Reengineering
- Technological applications
Risks: Insufficient Capacity

In many ways, the industry is unprepared for these exciting trends.

The amount of available capital, demand & new products outstrips the institutional and structural capacity of the industry to deliver.

Meeting the Challenge

If the microfinance field is to realize its full potential, it must attract the human & institutional capital to match its financial endowment.
A Commercially Viable Approach to Poverty Alleviation
FINCA Overview:
Mission and Vision

MISSION:
To provide financial services to poor entrepreneurs so that they can create their own jobs, raise household incomes, and improve their standard of living.

VISION:
A global network of sustainable financial institutions dedicated to meeting the financial needs of the lowest market niche.

FINCA Overview:
Basic Village Banking Methodology

At the end of four-month cycle, affiliates receive full payment plus interest, $2,240; combined savings = $400.

Members repay loans on average loan cycle of four months.

FINCA Affiliates make a loan (US$2,000) to a group, average size 20 members (average loan size per member, $100).

Borrowers save 20 percent of their loan; invest their loans in their businesses; meet weekly or bi-weekly to make payments on loans.
## FINCA Overview:
### Network Outreach

<table>
<thead>
<tr>
<th></th>
<th>FY2003 ²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Active Borrowers</td>
<td>245,747</td>
</tr>
<tr>
<td>Loans Outstanding</td>
<td>$41M</td>
</tr>
<tr>
<td>Avg. Loan Outstanding</td>
<td>$166</td>
</tr>
<tr>
<td>PAR</td>
<td>2.2%</td>
</tr>
<tr>
<td>Writeoffs ²</td>
<td>0.04%</td>
</tr>
<tr>
<td>ROE</td>
<td>8%</td>
</tr>
<tr>
<td>Savings</td>
<td>$9M</td>
</tr>
</tbody>
</table>

¹ YTD as of June 2003; ² YTD Writeoffs / YTD Loans Disbursed

## FINCA Overview:
### Key Features of FINCA’s Model

- Network of Affiliates: FINCA’s model is unique within the microfinance industry. We function much like a holding company and most affiliates are wholly-owned subsidiaries.

- FINCA has permanent relationship with affiliates and is committed to their sustainability. Weak performers are not disaffiliated but are rescued.

- FINCA shares best practices across the network, particularly technological best practices. The FINCA Operating System (FOS) strengthens each affiliate and the network as a whole.
FINCA Overview:
Basic Network Structure

Benefits of the Model:
- Economies of scale through standardization and BDP
- Share financial assets
- Share human assets, expertise, knowledge
- Offer lessons learned across network
- Self-regulation
- Allow country MFIs to focus on clients
- Support and nurture each affiliate

FINCA Overview:
A Brief History of Network Evolution

<table>
<thead>
<tr>
<th>ORIGINAL MODEL</th>
<th>CURRENT MODEL</th>
<th>FUTURE VISION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependency on grants as a source of financial support and growth</td>
<td>Hybrid model of financing from grants (declining), interest income (growing rapidly), and private donations (growing slowly)</td>
<td>Operating costs funded primarily by interest income, while comm., borrowings and investments fund portfolio expansion. Private grants fund new startups, TA and policy work.</td>
</tr>
<tr>
<td>Focus on delivery of one core product: Village Banking</td>
<td>Commercial borrowing just beginning</td>
<td>Focus on delivery of broad range of financial services - business and consumer loans, savings, credit facilities while taking care to avoid over-indebting the poor</td>
</tr>
<tr>
<td>Pure non-profit status</td>
<td>Focus on delivery of multiple loan products - VB, small group, and individual loans</td>
<td>NGOs replaced with regulated or semi-regulated financial entities with clear ownership</td>
</tr>
<tr>
<td></td>
<td>Pure non-profit status but formal regulation beginning in some affiliates</td>
<td></td>
</tr>
</tbody>
</table>
FINCA Overview:

Key Lessons

- Microfinance practitioners can help governments to ensure that poor borrowers get access to financial services (both products and education) through a variety of approaches that are constantly being reinvented.

- Partnership between Microfinance practitioners and governments is essential to ensure the development of sound, practical institutions and regulatory frameworks that promote the development of strong financial markets.

- Microfinance practitioners can help to build an effective base from which strong commercial institutions grounded in real market needs can emerge.
Micro Finance Banks

in South East Europe

Istanbul, 2.-3. October 2003
Helmut Töllner
Criteria for Commerzbank joining as Shareholder in Microbanks

Objective Criteria:
- All banks have a similar shareholder structure, 100% foreign institutional, 5-6 shareholders, each holding approx. the same percentage.
- Banks are profit oriented, though not aim for profit maximization.
- Banks strive to mobilize sufficient volume of deposits from general public as main source of funding.
- Proven low rate of arrears and a very conservative provisioning policy.

Criteria for Commerzbank (continued)

- Steady and reasonable RoE after start-up phase.
- Each shareholder/institution provides additional start-up support beyond its pure capital investment.
- All banks use the same innovative credit technology developed by IPC.
- All banks are able to perform all kind of banking operations and have the same business-policy orientation.
Criteria for Commerzbank (continued)

- Subjective criteria:
  - the investment gives us a foothold in countries where we do not (yet) want to be operational under our own name
  - initial investment is comparatively modest (country-ratings are all below investment grade)
  - the banks offer to our European clients and their local business, modern and reliable banking services in markets with mostly unstable banking environment
  - we are the only/preferential correspondent bank for the respective microbank

Criteria for Commerzbank (continued)

- No conflict of interest with our correspondent banking activities, as Micro Banks serve a different client segment than local commercial banks normally do
Role of Commerzbank in the group of shareholders

- Provide access to it’s domestic and international network of branches, subsidiaries, offices, plus more than 3,000 correspondent banks around the globe
- Provide name recognition to local micro- and SME clients (like former “guestworkers” in Germany)
- Train microbank’s staff in international payments, letters of credit, guarantees, collections etc.
- Provide standby mm-lines for emergency liquidity needs of the banks
- Delegate experienced own staff for management of international business, for treasury / FX activities of microbanks and for audit committees

Role of Commerzbank (continued)

- Introduce its clients and/or their local JV’s or agents to the microbanks for providing financing to them or their local buyers
Micro Finance Banks in South East Europe
Commerzbank has acquired an equity stake in:

- 2002 Albania (ProCredit Bank, Tirana)
- 2001 Bulgaria (ProCredit Bank, Sofia)
- 2002 Bosnia-Herzegovina (MEB, Sarajevo)
- 2001 Romania (Miro Bank, Bucharest)
- 2001 Serbia and Montenegro (ProCredit Bank, Belgrade)
- 2000 Kosovo (MEB, Prištine)

To be mentioned: 2001 Georgia (ProCredit Bank, Tbilisi)

Commerzbank’s experience in Microbanks

- We see this public/private project in banking as success. All banks listed above - except one - are profitable, the average return we see from the investment as a whole meets our expectations.
- The support we can provide to the banks differs a lot, depending on a) the country they operate in, and b) the age of the bank.
- In newly founded banks, with their focus on quick branching out and on Micro clients, banking needs are more domestic oriented.
Experience (continued)

older banks have mostly outgrown their initial micro focus after 3-4 years. Here Commerzbank can better play its role in international commercial business (advising/confirming L/C and L/G, transfers), in treasury, in staff-training and client introduction.
Commercial Microbanking

LFS' Experience and Lessons Learned for Turkey

Microfinance Workshop
Istanbul
Dr. Bernd Zattler
October 2-3, 2003
LFS Financial Systems

Headoffice
Berlin

Specialization
* Renders consulting and management services to financial institutions in emerging markets
* Undertakes equity investments in MFIs (recently in Micro Finance Bank of Azerbaijan, MFBA)

Investments will be transferred to ACCESS FUND until end 2003

Basic Facts

* Shareholders: EBRD, IFC, BSTDB, LFS
* Fully licensed commercial bank
* Capital: USD 5 m
* LFS provides management for start-up period
* TA financed by EU and KfW
* Products: Micro and Small loans up to USD 100,000, deposits, payment services, foreign currency transactions
* Start with Baku area
Results after 11 Months of Operation
(figures as to 30 September 2003)

- Disbursed loans: 2,385
  (2,011 micro, 374 pawn loans)
- Disbursed amount: USD 4.3 million
- Outstanding loan amount: USD 2.6 million
- Average loan amount: USD 1.791
- Average no. of micro loans disbursed per
  loan officer (Sept. 2003): 18.2
- Portfolio-at-risk (30 days): 0.4%

Results after 11 Months of Operation
The Problem of Micro Lending

* Lack of traditional collateral
* ... and reliable financial information
* No (credit) history

↓

Need to establish a cash flow statement.

↓

This can generate high information costs.

Main Means to Reduce Transaction Costs

* "House-bank" principle
* Allow MFI to develop SME-business
* Do the easiest first!
Lesson 1: 'House Bank' Principle

Principle:
Offer all financial services the banks clients generally require!

In the case of micro enterprises, in particular:
Loans, deposits incl. current accounts, letters of credit, payment services.

Reason:
- Generates (Information) Synergies
- Makes MFI more attractive to clients (only 1 bank)!

Lesson 2: Enable MFIs to develop SME-Business

Reasons:
* Larger loans cause relatively lower transaction costs.
* Some micro enterprises grow ...
* Most SMEs also do not have access to adequate financing.
Lesson 3: Do the easiest first!

**Principle:** In particular
Start in largest cities!
After cost coverage, open branches in less attractive regions!

**Reason:** Reduces risks and start-up costs!

Main Conclusions

Sustainable micro banking requires

* Offer all financial services micro enterprises usually need.

* Expand into the SME segment.

* Start with commercially most attractive regions.
Microfinance – Global Experience
And Prospects for Turkey

October 2\textsuperscript{nd}/3\textsuperscript{rd}, 2003
'Downscaling in the commercial bank sektor

Experience from Central/Eastern Europe'

Presented by Neil Ramsden

Why downscale?

• Risk diversification at the portfolio level
• Increased competition in mid/large corporate sectors
• Higher margins

and some objections:

• Small/micro businesses seen as riskier than larger corporate segment
• Too costly to service
• Too difficult to assess
EBRD experience in Central Europe

• Picks up example of successful mother programme in Russia
• Supported by EU
• Targeted at 10 Accession countries
• €495 million disbursed to 19,000 borrowers
• SME definition – less than 250 employees, t/o €40 million
• NPLs over 60 days – around 1%

Selected EBRD downscaling in Central Europe
Latvia – the macro environment

• Ongoing preparations for EU accession in 2004
• GDP of LVL5 billion in 2002 (about 32% of Eurozone average, up from 28% in 1997)
• 43,000 active SMEs accounting for 99% of all businesses
• Latvia has 18 SMEs per 1,000 residents (EU average – 51/1,000)
• Government policy targeted at SME promotion (tax rate to be reduced to 15% by 2004)

Latvia – the banking sector

• Ongoing consolidation – 62 banks in 1993, 23 in 2001 (10 foreign owned)
• Domestic credit accounts for 31% of GDP
• Private sector generates 65% share of GDP
Unibanka - background

- Owned by Skandinaviska Enskilda Banken
- Most profitable bank in Latvia in 2002
- 1200 employees, 33 branches (and 31 sub branches)
- 480,000 client relationships
- Top 3 banks – Hansabanka, Parex, Unibanka
- Total assets – 1.1 billion, net worth 110 million
- PBT – 23 million (all figures FY2002)

Unibanka - mission

‘...to be the leading provider of universal financial services in all the major market segments....’

Equates to a targeted 30/35% market share in each segment
Downscaling at Unibanka

- Strong performance in large/medium corporate sector
- Robust credit risk policies/procedures for larger loans
- Identified need to develop capacity in micro/small business sector (loans up to $30,000)
- 18,000 'active' SME clients, but less than 20% take credit
- Larger loan approach inappropriate for smaller loans – long approval times
- Increasing competition in large corporate segment

How did the bank move down market?

- Developed and introduced a judgemental scoring model
- Developed a package for small business customers – not just lending product
- Trained all branch staff in use of model
- Model piloted before bank-wide roll out
- Extensive marketing – focus on speed of decision making
- No separate SME unit – product fully integrated into bank
What were the results? (1)

- Greater consistency across the branch network
- 2,700 loans disbursed (August 2003) for €33 million
- Average loan size- €13,000
- Arrears over 60 days- 1.22%
- Decision times-less than one hour
- Model results verified against internal risk rating system
- Model used for all lending under €30,000 in the bank

What were the results? (2)

- 80% of lending outside the capital city
- 60% of loans for investment purposes
- Trade, agriculture and services €80% of lending
- Average loan term €27 months
- Effective margin range €3.25% to 9.25%
Unibanka – comments

• Commitment of management was crucial
• Steering committee provided direction/oversight
• System embedded – bank has taken ownership
• Next step will be upgrade to statistical model
  (but not enough ‘bad’ data yet)
• Judgemental scoring can work in absence of
  formal credit scoring bureaux

Lessons from EBRD experience

• EBRD programme acts as a catalyst only – bank commitment
  is vital
• Senior level champion required
• Other examples where model is used – Lithuania, Bulgaria
• Downscaling is relative to the starting point – experience in
  Slovakia
• Need to develop appropriate MIS to measure profitability
• Downscaling does not lead to increased risk
Regulatory Framework and Supervision of Microfinance: 
*Global Experience and Prospects for Turkey*

Dr. Klaus Glaubitt
Head, Financial Sector Division, KfW
I. Of What Importance is Regulatory Framework to the Development of a Sustainable Microfinance Industry?

- Sound financial development must be built on 3 pillars:
  - Corporate governance
  - Competition
  - Prudential regulation and supervision

- Eastern Europe's transition challenges:
  - Ensuring maximum economic growth by channeling savings to enterprises and to private households
  - Integrating the informal sector into the mainstream economy

- Insufficient regulatory framework led to weak results in the first years of reform

- The success of KfW's model was made possible by the existence of quality regulatory framework

II. Which Institutions Should be Prudentially Regulated and Supervised?

- Prudential regulation and supervision serve to protect the financial soundness of licensed financial intermediaries.

- Microfinance institutions (MFIs) provide financial services to low-income populations

- MFIs should be regulated and supervised if and when they:
  - mobilize deposits from the public
  - reach a size at which their failure has far-reaching consequences

- Adequate regulatory framework must also encompass NGOs
III. How Have Various Countries Approached the Microfinance Regulatory Framework?

- There are several main approaches to regulating MFIs:
  - Refusal to introduce regulation
  - Self-regulation under own supervisory body
  - Full regulation under existing laws or through the establishment of specialized laws
  - Regulation by regulatory authorities and supervision by a third party

IV. How Can Supervisory Bodies Effectively Oversee Microfinance Institutions?

- Flexibility is crucial
- CGAP proposes the following criteria:
  - Minimum Capital Investment
  - Capital Adequacy
  - Liquidity Retirements
  - Asset Quality
  - Portfolio Diversification

- "Self-Regulation" and "Delegated Supervision" have drawbacks
V. What Reforms in the Regulatory Framework/Microfinance Legislation Would Most Effectively Promote Turkey’s Microfinance Industry?

- BRSA’s “Act on Micro-Financing Institutions” aims to increase the availability of loans to micro-entrepreneurs

- Requirements as Challenges
  - Minimum Capital Requirements
  - Share Transfers
  - Management

- Restrictions as Challenges
  - Field of Operations
  - Deposit Insurance
  - Target Group

Conclusion

- Lessons of Eastern Europe:
  - Adequate laws are a necessary precondition for stimulating microfinance and integrating sectors of the economy, but are insufficient alone.

- A regulatory and supervisory authority that enforces and interprets the law constructively is an essential precondition for the emergence of successful microfinance.

- Q & A
Microfinance: global experience and perspectives for Turkey

October 2 - 3, 2003
Conrad Hotel, Istanbul

Timothy R. Lyman, Esq.
DAY, BERRY & HOWARD FOUNDATION
How have various countries approached the microfinance regulatory framework?

- Subject microfinance to the same rules as other financial institutions or adopt a specialized framework? (Both approaches have worked – as have hybrid approaches)
- Existing rules almost always could benefit from at least some modification
- If a separate framework is developed, beware of regulatory arbitrage

How can regulatory bodies effectively oversee microfinance?

- Don’t waste prudential regulatory resources on nondepository institutions
- For depository microfinance, specialized supervisory expertise is needed
- ‘Delegated supervision’ won’t work without close monitoring of the agency to which supervision is delegated
- True ‘self-regulation’ seldom works effectively
What reforms to promote microfinance in Turkey?

- Make possible a range of different vehicles, as there are advantages and disadvantages of each
- Design options that will appeal to both donors (generally bilateral aid agencies) and investors (generally IFIs, but increasingly also international social investment funds)
- Design reforms that encourage mainstream financial institutions to participate (both directly and indirectly)
- Beware of regulatory arbitrage
- Don’t forget what you already know

Questions and answers
Turkey: Microfinance Workshop
October 2-3, 2003

Sponsored by KfW, The International Finance Corporation and BDDK

WHAT DONORS CAN DO TO ASSIST THE DEVELOPMENT OF THE MICROFINANCE INDUSTRY IN TURKEY

Ira Lieberman
The Open Society Institute
Background

1990s Characterized by Rollercoaster series of Economic / Financial Crises

• High Inflation
• Volatile Exchange Rate
• Large Fiscal Deficits
• Heavy Debt Burden
• Government Crowding Out of Credit Markets
• Low Level of Financial Intermediation
• High Nominal and Real Rates of Interest
<table>
<thead>
<tr>
<th>Key Economic Indicators (Percent)</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP Growth</td>
<td>(6.1)</td>
<td>6.3</td>
<td>(9.5)</td>
<td>7.8</td>
</tr>
<tr>
<td>CPU (Inflation Dec-Dec)</td>
<td>69</td>
<td>39</td>
<td>68.5</td>
<td>30</td>
</tr>
<tr>
<td>Nominal Interest Rate</td>
<td>106</td>
<td>38</td>
<td>99</td>
<td>64</td>
</tr>
<tr>
<td>Unemployment</td>
<td>7.1</td>
<td>6.6</td>
<td>8.5</td>
<td>10.6</td>
</tr>
<tr>
<td>Net Public Debt (% GNP)</td>
<td>61</td>
<td>58</td>
<td>95</td>
<td>80</td>
</tr>
</tbody>
</table>


**Background (continued)**

2001 financial economic crisis led to intervention and restructuring of the state banks

Halk Bank traditionally provided loans to micro and small enterprises

Ziraat Bank provided credit to agriculture and to rural cooperatives
Background (continued)

Positive Features Halk and Ziraat

- Multi-Branch Institutions covering Turkey
- Relatively large banks
- Extensive outreach to target clients
- Halk potentially a large Micro / SME Bank if managed well
- Ziraat complements Halk through rural and agricultural lending

Halk Bank
Micro (Cooperative) Loans
as of May 2002

<table>
<thead>
<tr>
<th></th>
<th>USD95million</th>
<th>(19% of Loans)</th>
</tr>
</thead>
<tbody>
<tr>
<td>297,552 clients</td>
<td>(86% of clients)</td>
<td></td>
</tr>
</tbody>
</table>

Average Loan size: USD 319
Loan Limit: USD 3,000

Maturity: working capital loans 1-2 years
equipment loans 2-4 years

Interest rate: subsidized at or near inflation
Required deposit: 10% loan amount, blocked

(Source: WorldBank, September 2002)
Problems

Subsidized lending required substantial support from government

Politicized directed credit substantially increased the losses and created a non-payment culture (duty losses)

State Banks crowded out the private provision of capital

History of politically appointed management

Weak governance of State Banks

Problems (continued)

The restructuring and possible privatization of Halk and Ziraat could create a vacuum in lending to the Micro / SME and rural sectors

Renewal in 2003 of subsidized loans from Halk creates the potential for further losses

Even with subsidies and support from government, the Micro and SME sectors have been poorly served
Financing Expectations Micro and Small Enterprises

Did you borrow from a bank in 4th quarter 2001?

Financing Expectations Micro and Small Enterprises (continued)

Do you expect to borrow from a bank in 2002?

Role of Government

Maintain macro-economic stability

Get out of State Banking but ensure that privatization does not leave a void in the small business and rural sectors

Create a legal and regulatory environment which facilitates entry into financial services supporting micro and small enterprises

Why Donors Should Assist

Turkey represents a lagging case in Microfinance, there is strong case for donor assistance

• Potential EU accession

• Democratization of capital

• Eliminate politicized, directed credits - large state losses

• Increase the level of financial intermediation, especially to micro and small enterprises
Why Donors Should Assist (continued)

• Provide incentives to the informal sector to formalize

• Encourage micro and small business entry

• Allows existing small and micro enterprise to grow and create jobs

Why Donors can do?

Work with the banking supervisor BDDK to establish a legal and regulatory environment conducive to Microfinance (CGAP, Grants, Technical Assistance)

Fund training of supervisory staff (CGAP, Grants, Technical Assistance)

Invest in Microfinance Institutions (MFIs) as a demonstration effect (IFIs, Equity and Loans, Events for Start-ups)

Provide technical assistance to Turkish Commercial Banks willing to downstream into small and micro credit and saving
What can Donors do? (continued)

- Provide technical assistance for training, workshops and to build capacity in the industry as it emerges

- Assist the government in the privatization of Halk Bank and consider participation in ownership of the privatized bank
  
  - Technical Assistance
  - Equity
  - Debt

What can Donors do? (continued)

- There is a role for a number of diverse institutions to decrease dependence on 1-2 large State Banks.
  
  - Stand alone Microbanks (IFIs)
  
  - NGOS – to reach down to the poor eg. Southeast and Black Sea regions (multilateral and bilateral donors)
  
  - Credit unions
  
  - A postal bank to intermediate savings throughout the country
Effective Financing of Microfinance

Microfinance Workshop
October 2-3, 2003, Istanbul

Doris Köhn
KfW
Regional Vice President
Europe
What key lessons can be drawn?

- Adapted project design
- Target-group orientation
- Principles of competition and market orientation
- Policy dialogue and donor coordination

What models have been proven effective?

- Downscaling Approach: Partner Banks
- Upgrading Approach: Micro Finance Institutions (MFIs)
- Greenfield Approach: Micro Finance Banks (MFBs)
Models I & II: Down-scaling & Up-grading Approaches

- Provision of long-term refinancing at "market conditions"
- Advisory services and staff training
- Partner banks: focus on urban small and medium-sized enterprises
- Micro Finance Institutions: focus on micro-enterprises in both rural and urban areas

Models I & II: Down-scaling & Up-grading Approaches (Example EFBH)
Model III: Micro Finance Banks

- KfW as shareholder in 18 microfinance banks together with other international partners
- Microbanks as demonstration vehicles
- Excellent performance

Outstanding Loan Volume 01/1999 - 08/2003
(Business & Housing)
(€ URO, mln)
Deposit Volume Development vs. Gross Loan Portfolio
01/2000-08/2003
(in million EURO)

Model III: Micro Finance Banks
(breakdown of portfolio into loan size categories)

Distribution by volume

Distribution by number of loans

Average size of outstanding loans (in EURO)

I: 1,488
II: 18,245
III: 122,869

la=<g 1,000 Ib g 1,000-10,000 II=g 10,000 - 50,000 III=g 50,000
What are the results achieved in Eastern Europe?

- Positive impact on micro, small and medium-sized enterprises
- Contribution to economic growth and employment
- Structural effects on financial sector with microfinance banks as role model for commercial banks
- Effective policy dialogue and donor coordination
- Flexible, tailor-made solutions for individual countries

What are some possible implications for Turkey?

- Aim for sustainable microfinance institutions from the very beginning
- Provide funds at close to market conditions
- Plan for exit of grants and technical assistance
- Allow deposit taking, client diversity (from micro to small to medium enterprises) and broad range of financial services
- Promote competition among different institutional approaches
- Foster policy dialogue among stakeholders as industry develops
MICROFINANCE IN TURKEY

Kiendel Burritt
Prepared for UNDP Turkey
Some Basic Microfinance Concepts

• Financial service needs are shared across income groups
  - Safe place to store money (savings)
  - Ability to transfer money (remittances)
  - Access to liquidity (savings or credit)
  - Mechanisms to decrease risk (insurance)

• In Turkey, large segments of the population do not have access to these services

• What kinds of institutions deliver microfinance services globally?
  - NGOs, specialized microfinance banks, finance companies, commercial banks, bank subsidiaries, credit unions.....

Some Basic Microfinance Concepts

• What are some key lessons?
  - Subsidized credit programmes don’t result in widespread and long-term access to financial services
  - Sustainable microfinance services are delivered by commercially viable institutions
  - Commercially viable institutions can tap mainstream capital markets (savings, debt, equity) necessary to enable large scale access to services

• What are the potential benefits of microfinance services to clients?
  - Access economic opportunities to diversify and increase sources of income
  - Decrease vulnerability by enabling people to build assets to draw from during periods of economic crisis or downturn
  - Smooth income during difficult periods to maintain consumption levels (food, education and health care)
Some Basic Microfinance Concepts

- What are the potential economic benefits of microfinance sector development?
  - Contribute to financial sector deepening
  - Supports broad-based economic growth
  - Ease economic and social disparity

What is the Demand for Microfinance Services?

- Demand for microfinance services in Turkey is vast
  - Self-employed, micro and small enterprises estimated at 6.3 million, and vulnerable households estimated at 5.4 million
  - Estimated demand for lending services: 1-2 million potential clients
  - Estimated loan capital needs: $2 to $3 billion

- Reflecting significant market segmentation, clients demand a broad range of loan sizes ranging from $200 to $7,000
  - Average loan through Halk Bank window: 2.3 billion TL ($1,630);
    average loan size to Maya clients: 500 million TL ($350)

- Considering the vast array of potential services: savings, insurance, remittances, pension funds – market appears infinite

- Demand may be dampened however by
  - Willingness of borrowers to repay
  - Capacity of borrowers to repay
What is the Supply of Microfinance Services?

- A limited numbers of clients are served through the formal financial system
  - Estimated at 120,000 to 130,000 borrowers (200+ million portfolio (June 2003)), primarily through Treasury-supported Halk Bank subsidized loan programmes
  - TESKOMB reports doubling of client numbers since June as a result of increased subsidies (rates fell from 44% to 30% in July), but will the loans be repaid?
  - Ziraat Bank announced in June restructuring of 1.1 million non-performing loans valued at $2.1 billion; number of “active” loans unknown
  - Strict criteria for accessing loans and the development of supply driven products have resulted in “rationing” of credit
  - Loan requirements likely limit services to “better-off” among the target market
  - Others rely on informal sources and supplier credit

What is the Supply of Microfinance Services?

- The market offers a limited range of products
  - Traditional asset-based lending technologies
  - Tend to be supply-led, not demand driven

- The number and range of institutional types providing microfinance services are limited
  - **State-owned banks**: Halk Bank (enterprise bank) and Ziraat Bank (agricultural bank) dominate the market
  - A few NGOs are experimenting with new products and service delivery methodologies (Grameen Bank replication, Maya Enterprise for Microfinance, TKV)
    - Only Maya appears to be on a potentially commercially viable path now, but challenges posed by the legal framework and the operating environment make profitability a distant goal
  - Some examples of commercial bank “downscaling” (Garanti Bank and others)
What is the Supply of Microfinance Services?

- Additional institutional forms in the future (?)
  - Draft law to establish Specialized Microfinance Banks
  - Opportunities for Subsidiaries or Service Companies of Commercial Banks?

- Market challenges for suppliers
  - Weak Credit Culture
    - Legacy of subsidies
    - Frequent debt forgiveness
    - Poorly performing loans portfolios
  - "Norms and Standards" unfriendly to MFIs enforcing strict repayment and charging cost-recovery interest rates
  - Significant upfront investment required to establish systems, develop demand-driven products, and prime the market

What Conclusions Can We Draw?

- Limited effective demand still translates into large market numbers and significant opportunity for current and new suppliers
- Meeting demand will require the establishment of new suppliers
- Meeting the needs of a highly segmented market, will require a range of institutional models (NGOs, specialized microfinance banks, commercial banks, bank subsidiaries or service companies, etc.)
- Market development will require innovative products and lending methodologies
The Short-term Prospects: "Bearish"

- Macroeconomic criteria sufficient (inflation under control, signs of economic recovery, interest rates falling), but
- Challenges in the broad policy environment
- An uncertain economic future
- A fragile and difficult banking environment
- Weak credit culture
- Persistence of subsidized loan programmes
- Uncertain legal framework
- Significant up-front investment of time and money to support product innovation and market development

- Together, these factors may
  - Hinder entrance of new suppliers
  - Limit "effective" demand

What Broad Policy Issues Influence Development of the Sector?

Red Flag:
- Persistence of subsidized loan programmes undermine a strong credit culture, inhibit the entrance of new suppliers and hinder innovation critical to meet the massive, unserved market in Turkey
- Subsidized rates were dropped to 30% in July 2003

Yellow Flag (with green flag potential):
- SME support initiatives exist, but are comprised of, "...many disjointed efforts without reference to overarching clear objectives."
- Income transfer to vulnerable populations may create long-term dependence and distort the market for credit if not well designed and sequenced with initiatives that aim to enable long-term access to capital
  - *It is repeat access to capital, not one-time transfers that enable vulnerable populations to increase assets and reduce vulnerability*
- Legal and regulatory framework not yet conducive to the development of a diversified, competitive industry
What Broad Policy Issues Influence Development of the Sector?

Green Flag:
- Government of Turkey's 8th Five-Year Development Plan recognizes the important role of the SME sector, and the need to expand their opportunities to finance
- Government committed to address economic disparity and vulnerability issues
- Policies that support economic stabilization and banking sector reform efforts
  - Controlling inflation and public expenditure
  - Strengthening the regulatory and supervisory framework
  - Restructuring and privatizing the state-owned banks (?)

Legal and Regulatory Framework: What are the Priorities for Turkey?

- Establishing a clear, unambiguous legal framework for unlicensed MFIs, including NGOs
  - Draft law permits lending activities, but does not define the secondary legislation (for example, taxation laws)
  - Prohibits NGO ownership in licensed banks, implications can be negative

- Finalization of the draft law to enable emergence of specialized banks
  - Changes recommended to lift certain restrictions on ownership, markets, and services

- Harmonizing laws and regulations that govern diverse players in the microfinance sector (NGOs, Specialized Banks, Commercial Banks, etc.) to ensure a level playing field and the emergence of a diversified and competitive industry
The Long-Term Prospects: “Bullish”

- Market opportunity is great
- Microfinance sector development supports key government priorities
  - Reduction of vulnerability and economic disparity
  - Contributes to process of financial sector deepening
- Efforts underway to develop an enabling legal and regulatory framework
- Banking sector reform and economic stabilization efforts should strengthen the enabling environment, and the confidence of clients and new suppliers
- Economic recovery expected over the long-term
- Presence of Banks with extensive branch networks
  - Halk Bank (546 branches) and Ziraat Bank (1,495 branches)
  - Commercial bank networks
- Technology infrastructure in place

- Convergence of factors may enable “leapfrogging”

How to Realize Market Potential?

- Build on efforts to strengthen the enabling environment
- Support Innovation
  - Requires extensive market research and the development of new financial service technologies
- Support Establishment of demonstration models of financially viable institutions of diverse institutional types
  - Investment
  - Technical know-how
- Catalyze private sector investment: commercial sources of capital necessary to grow the market (estimated at $2-3 billion.)
- Coordinate donor, government and investor activities to accelerate industry development
  - Shared vision among players
  - Support industry norms and standards
  - Co-investment in institutions
  - Constraints applied to bad practice interventions
  - Collaboration to support enabling environment
Türkiye'de Sürdürülebilir Mikro Finans: Maya Örneği

Sustainable Microfinance in Turkey: A Case Study of Maya
Kadın Emeğini Değerlendirme Vakfı (1986):
• Amacı dar gelirli kadınların sosyal ve ekonomik gelişimine destek olmak ve yaşam kalitelerini iyileştirmektir.
• İstanbul, Kocaeli, Sakarya, Düzce, Diyarbakır ve Mardin'de 14 Kadın ve Çocuk Merkezi aracılığıyla, her yıl yaklaşık 1000 kadın ve çocuğa hizmet vermektedir.
• Çocuk Bakımı ve Eğitimi, Ekonomik Güçlendirme, Bireysel ve Kollektif Kapasite Geliştirme, Afet ve Afet Sonrası Yeniden Yapılanma Sürecine Katılım alanlarında faaliyet göstermektedir.

Foundation for the Support of Women’s Work (1986):
• Works for supporting the social and economic development and increasing the living standards of low income women.
• Serves around 1000 women and children each year through 14 Women and Child Care Centres in Istanbul, Kocaeli, Sakarya, Düzce, Diyarbakır and Mardin.
• Activities include Early Child Care and Education, Economic Empowerment, Individual and Collective Capacity Building, Disaster to Development.
Maya Micro Ekonomik Destek İşletmesi:
• KEDV'in İktisadi İşletmesi olarak Haziran 2002'de kurulmuştur.
• Dar gelirli kadınlara işlerini geliştirmeleri ve alle gelirlerini artırmaları için mikro krediler (~450 milyon TL) sağlar.
• Türkiye'de, sosyal misyonunu gerçekleştirirken bir yandan da sürdürülebilir bir mikro finans kuruluşu olmayı hedefleyen ilk İşletmedir.

Maya Enterprise for Microfinance:
• Economic enterprise of FSWW registered in June 2002.
• Provides micro loans (~$320) to low-income women to improve their businesses and increase family income.
• The first in Turkey committed to becoming a financially sustainable micro finance institution while achieving its social mission.
Hedefler:

- Yeterli ekonomik ölçege ve belirlenen hedef kitlere ulaşmak (en fazla 8000 aktif müşteri)
- 6 yıl içerisinde finansal sürdürülebilirliğe ulaşmak
- İkinci etapta hedef bölge olarak belirlenen Kocaeli, İstanbul ve Sakarya/Düzce'de şubeler kurmak

Objectives:

- Achieve economic scale and outreach (min. 8,000 active clients)
- Reach financial sustainability within 6 years
- Establish branch offices in initial target areas of Istanbul, Kocaeli, Sakarya/Düzce.
Kredi Ürünü:
- Evinde, dükkanında veya tezgahta iş yapan kadınlar
- Ek bir teminat gerektirmeyen, 3-10 kredi müşterisinden oluşan gruplara dayanan bir güvenle sistemi
- 50 milyon TL'den 750 milyon TL'ye kadar başlangıç kredileri
- 3 aydan 6 aya kadar geri ödeme dönemleri, aylık takımlar
- 3 ayda bir güncellenen ve piyasa ortalamanın bazı alan bir faiz oranı
- Bir sonraki kredi başvurusunda, miktarda ortalama % 25 artış

Loan Product:
- Women with existing businesses at home, shop or stall
- No collateral, group guarantee by 3-10 women
- Initial loans from 50 mn TL ($40) up to 750 mn TL ($520)
- Loan terms from 3 to 6 months, monthly repayments
- Interest rate based on market average, adjusted quarterly
- Average increase of 25% each subsequent loan
**Maya in numbers** *(as of 30th Sept.)*

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Loans Disbursed</td>
<td>442</td>
</tr>
<tr>
<td>No. Active Clients</td>
<td>237 (66 groups)</td>
</tr>
<tr>
<td>Amt. Loans Disbursed</td>
<td>198 bn TL ($142,000)</td>
</tr>
<tr>
<td>Avg. Loan Size</td>
<td>450 mn TL ($320)</td>
</tr>
<tr>
<td>Portfolio at Risk</td>
<td>0%</td>
</tr>
</tbody>
</table>
Types of Business Financed

Sector: Trade: 56% Production: 40% Service: 4%
Business Site: Home: 72% Shop: 25% Stall: 3%
Typical Businesses: Handicraft: 25%
Sundries: 23%
Cosmetic / Cleaning Supplies: 20%
Tailoring / Sewing: 10%
Handmade Jewelry / Gifts: 5%
Güçlükler
- Yasal Engeller
- Finansal Engeller
- Pazarlama Zorluklar

Summary of Challenges
- Legal barriers
- Financial barriers
- Marketing Challenges
Yasal Engeller:
• Yasal boşluklar nedeniyle uzun süren onay süreçleri, operasyonların başlamasını geciktirmiştir.
• Maya'nın yasal statüsünün "kar amaçlı iktisadi işletme" olması bir çok yükü de beraberinde getirmiştir. (BSMV, damga ve kurumlar vergisi gibi)
• Şu anki kanun tasarısı STK'ları kapsamamaktadır. STK'ların ne şekilde mikro kredi verebilecekleri ve ne tür ürünler sunabilecekleri net değilidir.

Legal Barriers:
• Legal "gap" resulted in long approval process and caused delays in start up.
• Legal status as “for-profit economic enterprise” has resulted in a heavy tax burden (corporate, bank insurance & stamp taxes)
• Current draft law excludes NGOs; no clear path for NGOs to start MF or offer a range of products.
Financial Barriers:
- High personnel expense as % of operating costs due to labour-intensive nature of MF
- Managing risk in unstable economic environment (inflation, revaluation/FX risk)
- Difficulty in pricing loan products due to public expectations of “low” interest rates
Marketing Challenges:

- Need to educate the public given lack of knowledge about MF.
- Banking crisis and economic instability causes fear of debt and lack of confidence among micro entrepreneurs.
- Additional effort required to reach home-based women.
- Continuous market research is essential to match products to client needs.
Our Response to Challenges:

- **Strong board of advisors with range of professional experience**
- **Strategy for building public awareness about micro finance**
- **Relationship building and partnerships with other institutions (media, municipalities, international networks, trade fairs, client to client networking and business support)**
- **Strategy of pilot testing and ongoing market research to modify products and improve efficiency in procedures /systems**

Teşekkür Ederiz.

Thank you for your attention.
MICROFINANCE CENTRE
for CEE and the NIS

MICROFINANCE WORKSHOP

October 2, 2003
İstanbul, Turkey
PRESENTATION CONTENTS

- Microfinance Centre: Mission and Structure
- Objectives of Microfinance in CEE and NIS
- The State of Microfinance in CEE and NIS
- Impact of Microfinance
- Principles of Successful MF Service Delivery
- Why do MFIs Fail?
- Regional Case Studies
  - Case Study 1: Constanta Foundation, Georgia
  - Case Study 2: Prizma, Bosnia and Herzegovina
- Lessons Learnt in CEE and NIS
I. Microfinance Centre: Mission and Structure
The Microfinance Centre for Central and Eastern Europe and the New Independent States is the leading membership-based resource centre in CEE and the NIS.

Its mission is to promote the development of a strong and sustainable microfinance sector in order to increase access to financial services for low-income people, particularly micro-entrepreneurs.

The MFC fulfills this mission by providing high quality training, consulting, research, mutual learning and legal and policy development services.

MICROFINANCE CENTRE

MFC has 74 Member MFIs in 27 countries

MFC structure:
2 regional representations
14 staff persons
19 trainers
Research
- "Action Research": Impact, SEEP PLP
- Bringing global expertise to the region:
  - ATMS, MSA
  - Mapping of microfinance and best practices
  - New tools and training development
  - 8 implementing partners

Legal & Regulatory Program
- Diagnostic analysis
- Resource centre on legal acts
  (legal database)
- Policy Monitor
- Policy Forum

Networking
- Over 1500 participants / 50 training
  events
- Portfolio of 12 courses in 3 languages
- Courses developed by COAP
  (Bankakademi and MFC)
- 3 new courses developed, including
  the "Client Assessment"
- 19 local trainers

- Facilitating local experience sharing
- 6 conferences (300 participants in
  Budapest)
- Bi-annual newsletters
- Web page
- Resource centre
II. Objectives of Microfinance in CEE and NIS
THE OBJECTIVES OF MICROFINANCE:

• To provide appropriate financial services to significant numbers of low-income, economically-active people in order to improve their conditions and local economies.

• To build sustainable, long-term financial institutions to serve the poor.

What public goals does microfinance serve in CEE/NIS?

• Provides financial resources to the economically active poor
• Targets the excluded or marginalised
• Provides business support for start-ups
• Supports existing micro-enterprises
• Supports local development
• Supports creation of non-farm employment
• Assists in privatization of the economy from the „bottom up”
III. The State of Microfinance in CEE and the NIS
Microfinance Portfolio in CEE/NIS

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Active Borrowers</th>
<th>Average Loan Size (USD)</th>
<th>Average depth of Outreach (%)</th>
<th>Outstanding Loan Portfolio (million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGO MFIs</td>
<td>335,000</td>
<td>950</td>
<td>120</td>
<td>198</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>38,000</td>
<td>5,400</td>
<td>690</td>
<td>168</td>
</tr>
<tr>
<td>Microfinance Banks</td>
<td>110,000</td>
<td>3,500</td>
<td>360</td>
<td>383</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>1,647,000</td>
<td>300</td>
<td>15</td>
<td>631</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,130,000</td>
<td>340</td>
<td>15</td>
<td>1,380</td>
</tr>
</tbody>
</table>

Microfinance is still a young industry in CEE/NIS

Average age of MFIs: 4 years 4 months
Target markets: credit unions and NGOs are leaders in rural lending

NGOs serve the lowest end of the microenterprise market
### Top 10 MFIs by number of clients

<table>
<thead>
<tr>
<th>Name of MF1</th>
<th>Country</th>
<th>No. of active loan clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 MRG</td>
<td>Georgia</td>
<td>29,000</td>
</tr>
<tr>
<td>2 KMB-Bank</td>
<td>Russia</td>
<td>22,000</td>
</tr>
<tr>
<td>3 KAFC Kyrgyzstan</td>
<td>Kyrgyzstan</td>
<td>20,000</td>
</tr>
<tr>
<td>4 FINCA Kyrgyzstan</td>
<td>Kyrgyzstan</td>
<td>20,000</td>
</tr>
<tr>
<td>5 Constanta Foundation</td>
<td>Georgia</td>
<td>16,000</td>
</tr>
<tr>
<td>6 Mercy Corps Women’s Micro Credit</td>
<td>Kyrgyzstan</td>
<td>13,000</td>
</tr>
<tr>
<td>7 UMCOR/AREGAK</td>
<td>Armenia</td>
<td>12,000</td>
</tr>
<tr>
<td>8 XAC Bank</td>
<td>Mongolia</td>
<td>11,000</td>
</tr>
<tr>
<td>9 FORA Fund</td>
<td>Russia</td>
<td>11,000</td>
</tr>
<tr>
<td>10 MFB Serbia</td>
<td>Serbia and Montenegro</td>
<td>10,000</td>
</tr>
</tbody>
</table>

**Portfolio at Risk – impressive average 3.3% across the region**

<table>
<thead>
<tr>
<th>Type of MFI</th>
<th>Average PAR&gt;30 days</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs</td>
<td>4.12%</td>
<td>0</td>
<td>54.1</td>
</tr>
<tr>
<td>Microfinance Banks</td>
<td>0.77%</td>
<td>0</td>
<td>2.05</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>0.37%</td>
<td>0</td>
<td>1.44</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>6.38%</td>
<td>0</td>
<td>16.73</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.30%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**MFIs with positive ROA**

- 10% of all NGOs and microfinance banks have reached financial sustainability and offer positive return on investment

- Financially self-sufficient MFIs in CEE/NIS have only been operating for 3 years compared to 5-7 years in other regions

**Facts: NGOs**

On average serve 3,300 clients and have a loan portfolio of $1.8 mln

Clients include the poorest disadvantaged groups:
- women – 64% of all NGO clients
- war-affected people – 10% of all NGO clients
- rural clients – 36% of NGO clients live in rural areas
- informal businesses

Group lending and village banking for clients lacking collateral

70% NGOs provide business support

Maintain the highest productivity levels of all MFIs

but ...

- Limited number of products
- High operating costs (operating cost ratio 32%)
- Still rely on donor funds
- Undercapitalized
- Uncertain legal status in many countries
Facts: credit unions

Are the least subsidy dependent
Serve the majority of current microborrowers – 77%
Offer a range of products, including savings, money transfers and insurance
Serve the majority of existing microclients who have savings deposits – 95%
Serve rural clients – 49% of clients live in rural areas
Outreach to very poor and low-end clients
Represent high productivity levels

but...
Uncertain legal status in some NIS countries
Many are poorly governed and managed
Provide primarily consumer loans

Facts: microfinance banks

Offer a range of products – loans, deposits, money transfers, credit cards
Serve registered and unregistered micro-enterprises
Have the lowest operating costs
Have a very good quality of loan portfolio (PAR 0.77%)
Operate within the existing financial system laws
Well capitalized

but...
Serve predominantly urban clients
Serve high-end clients – avg. depth of outreach 360% of GNP per capita
Also depend on donors to cover their up-front investment costs
Facts: commercial banks

Offer a wide range of services loans, deposits, money transfers, credit cards as well as leasing
Operate within the existing financial system laws
Have a very good quality of portfolio
Have low operating costs
Utilize the existing branch network of the bank

but ...

Serve the smallest number of clients (1.8% of all MFI clients)
Serve the high-end of the market – average depth of outreach is 690% of GNP per capita

Regional Outlook

• High demand: annual increase in clients 33%
• Portfolio growth at 62%
• Over 2 million people currently served (5% of the estimated market)
• Significant proportion of MFIs are performing well financially
• Long-term growth possible through transformation and ability to attract commercial sources of funding
Growth Rates Sep 01 – Dec 02

<table>
<thead>
<tr>
<th>MFI Type</th>
<th>Change in Total Gross Loan Portfolio</th>
<th>Change in # Active Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUs</td>
<td>73%</td>
<td>29%</td>
</tr>
<tr>
<td>NGOs</td>
<td>88%</td>
<td>48%</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>22%</td>
<td>50%</td>
</tr>
<tr>
<td>Microfinance Banks</td>
<td>122%</td>
<td>142%</td>
</tr>
<tr>
<td>All MFIs</td>
<td>77%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Room to improve and expand ...

- MFIs are serving a range of microclients, but the majority still remain unserved
- Reasons range from high cost of doing business to legal impediments and lack of finance
- It is essential to serve microclients because of their importance to the economies of the CEE/NIS countries
- This has to be still fully recognized by the financial sector and policy makers
- Understanding the differences between the types of MFIs is crucial to make an informed decision on the fit with the legal and regulatory environment
IV. Impact of Microfinance
IMPACT STUDY FINDINGS

Impact studies of programs around the globe, overall, show that credit programs are successful in reaching poor households and in moving significant numbers above the poverty line.

Impact studies consistently find positive impact in the areas of production, sales and income. In general, average increases in business income attributed to loans range from 25 to 40%.

Positive impact is somewhat less consistent, however, in the areas of asset accumulation and employment. In industrialized nations, employment creation is significantly higher than in the developing world.

IMPACT STUDY FINDINGS

• Microloans have been shown as important in maintaining businesses through economic downturns.

• At the household level, impact studies have generally found increased income and asset accumulation and improved consumption, savings and education. Household income increases range from 25% to 75% across a range of study findings. Microloans made to women are shown to have a direct influence on improved conditions for children.
IMPACT STUDY FINDINGS

Studies have shown that in a minority of cases, credit may increase the vulnerability or poor borrowers, but there is nothing to suggest that the very poor are made worse off by credit.
V. Principles of Successful MF service delivery
VIABILITY OF THE MICROFINANCE INSTITUTION

Financial sustainability

- Operational income from lending activity exceeds expenses

Institutional capacity

- Human resources
- Mission, vision and goals
- Systems and procedures

PRINCIPLES OF SUCCESSFUL MICROCREDIT DELIVERY

- Tailor products and services to the needs of micro entrepreneurs
- Streamline operations in order to reduce costs
- Motivate clients to repay their loans
- Charge full cost interest rates and fees
Principle # 1: Offer Products and Services That Are Tailored to the Needs of Poor Entrepreneurs

- Appropriate loan terms - for environment and needs
- Repeat loans - full repayment brings access to another. It is a process, not an event
- Relatively unrestricted uses - let the entrepreneur manage his/her finances
- Very small loans - appropriate for meeting day-to-day requirements of very small enterprises
- Customer-friendly-locate outlets close to entrepreneurs; use very simple forms: limit time between application and disbursement to a few days

Principle # 2: Streamline Operations to Reduce Costs

- Develop highly streamlined operations (minimize staff time per loan)
- Standardize the lending process (simple applications, approval on basis of easily verified criteria)
- Decentralize loan approval
- Maintain inexpensive office
Principle # 3: Motivate Clients to Repay Their Loans

- Use non-traditional collateral
  (group lending, character-based lending)
- Guarantee continued access to loans upon repayment
- Increase loan sizes sequentially
- Preferential pricing for on-time repayers

Principle # 4: Charge Full Cost Interest Rates and Fees

- Small loans needed by poor people are much more costly to deliver than commercial loans
- Low income borrowers can and will pay high interest rates
- Charge market-based rates
VI. Why do MFIs Fail?
WHY DO MFIs FAIL?

Create obstacles such as legal registration, personal guarantees, property title, and collateral requirements that effectively bar most potential clients.

Are expensive for the poor because of excessive documentation, repeated visits to the institution and endless waiting for loans.

Staff has good community outreach skills, but little business experience, and often lack the ability to provide relevant advice or proper loan analysis.

WHY DO MFIs FAIL?

MFIs are often too complicated, expensive and limited in their capacity to serve clients.

MFIs are undercapitalized and cannot reach sufficient levels of loan volume.

Welfare and business goals are often mixed so staff does not know whether to be social workers or business developers.
VI. Regional Case Studies

a) CONSTANTA Foundation, Georgia
b) PRIZMA, Bosnia and Herzegovina
CONSTANTA, Georgia

<table>
<thead>
<tr>
<th>DATE</th>
<th>Active Clients</th>
<th>Branch Offices</th>
<th>Portfolio Outstanding</th>
<th>Staff</th>
<th>Loan Officers</th>
<th>Financial Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 1999</td>
<td>4,624</td>
<td>1</td>
<td>$285,711</td>
<td>40</td>
<td>13</td>
<td>80%</td>
</tr>
<tr>
<td>Dec 2000</td>
<td>9,733</td>
<td>3</td>
<td>$666,486</td>
<td>70</td>
<td>24</td>
<td>90%</td>
</tr>
<tr>
<td>Dec 2001</td>
<td>13,087</td>
<td>4 (+2 service points)</td>
<td>$1,374,329</td>
<td>99</td>
<td>32</td>
<td>115%</td>
</tr>
<tr>
<td>Dec 2002</td>
<td>16,134</td>
<td>5 (+ 2 outlets/5 service points)</td>
<td>$2,943,822</td>
<td>140</td>
<td>54</td>
<td>147%</td>
</tr>
</tbody>
</table>

Key Areas of Strength

- Standardization
- Expansion Strategy
- Risk Management & Internal Control
- Incentive System and Productivity Enhancement
CONSTANTA Background

- Founded as a fully local NGO at the end of 1997.
- Funding and limited technical assistance from Save the Children.
- Now the largest MFI in Georgia, serving over 16,000 active clients.
- Average loan size of around $190.
- Originally, 100% of clients were women, now 75% women borrowers.
- Average loan officer caseload: 430 active clients.
- Five branch offices, two outlets and six service points as of March 2003.
- Individual lending was introduced in 2001 and now makes up about 20% of the overall portfolio.
- Clients are majority involved in small trade businesses (73%).
- Average APR of 98%.

Historical Key Challenges

- Starting operations with no experience and little technical assistance in microfinance and group lending in particular.
- Reducing operational costs in response to interest rate pressures. In particular, building a cost-efficient way to expand to meet client demand in smaller, distant towns.
- Controlling delinquency, particularly in the individual lending portfolio.
- Introducing a new individual loan product.
- Dealing with human resource limitations during a period of fast geographical expansion.
- Adapting incentive systems to meet productivity goals and financial needs.
- Competition from the downscaling banking sector.
STANDARDIZATION

- Standardized its loan products: two group lending products, for beginning and mature borrowers.
- The first loan product – for the first four loan cycles, with a set maximum of USD 400.
- The initial loan takes up to 15 days to disburse and requires 4 group meetings for preparation.
- The second group loan product is for more experienced clients – after 4 loan cycles (higher amounts, lower interest rates, more flexible repayment terms and lower group member requirements).
- Every six months, all lending manuals are reviewed, largely relying on loan officers for feedback. The manuals are then adapted to new conditions and frozen for the next six months, pending their next review.

EXPANSION STRATEGY

- Current structure: headquarters, 5 branch offices, 2 outlets and 6 service points
- 2 strategies for expansion
  - Strategy 1: development of “service points” or mobile offices in promising new geographical areas
  - Strategy 2: immediate formation of outlet offices. Outlets are similar to branches. They have a Manager, Supervisors and an MIS Officer

Service point after 8 months, 1,000 clients → Outlet

- At least 1,500-2,000 clients are necessary to make a full branch office profitable. Branch offices are fully staffed offices, with office administration (Branch Manager, Office Manager, Accountant).

- The position of Marketing Director was recently introduced. The primary goal: help develop and introduce new products, such as insurance, principally by working in partnership with other institutions.
HUMAN RESOURCE MANAGEMENT

- Challenge: need to hire quality staff to meet high growth needs
- Training new managers
- Training loan officers - building analytical skills by using case studies
- Training and building strong branch managers as the key players in loan approval

MANAGING RISK AND INTERNAL CONTROL (1)

- Built-in internal control in the custom-build MIS
- 2 delinquency crises: the 1st in early 2000 with their group lending product and the 2nd later in 2000, with their new individual loan product. PAR reached 14.7%, but has now been reduced to 10% for individual lending (and still falling) and 1.1% for solidarity groups

- In the case of the solidarity group delinquency, Constanta handled the problem by introducing a new incentive payment system for loan officers rewarding portfolio quality, as well as size. The incentive system immediately alleviated repayment problems, it also eventually led to over-inflated loan officer salaries, which later had to be adjusted
MANAGING RISK AND INTERNAL CONTROL (2)

- Credit rating system strictly tailored to the Georgian environment and based on historical data. The system includes information on:
  - business sectors and subsectors,
  - financial statements,
  - household income,
  - credit history, and
  - collateral quality
- Credit scoring system for future use – now collecting data to form the statistical basis of the system.
- New position introduced: Operations Auditor, to constantly check on staff compliance with lending policies and procedures

INCENTIVE SYSTEM AND PRODUCTIVITY ENHANCEMENT (1)

- The Constanta incentive system originally was designed only to compensate loan officers in the group lending methodology in response to a delinquency crisis. Under this system, the delinquency problem was immediately ameliorated, but some loan officers began earning more than program managers.
- Constanta hired a consultant to help them restructure the system. The change from one incentive system to another was a difficult process.
- Constanta management believes that it is important to prepare staff for change, and to build the clear understanding among staff that the system will always be in a process of adaptation to the needs of the organization and the market.
INCENTIVE SYSTEM AND PRODUCTIVITY ENHANCEMENT (2)

• The current incentive system is fairly simple, based on:
  - number of clients,
  - outstanding portfolio, and
  - portfolio in arrears.

• Negative bonus, if a loan officer performs below set standards.

• Typically the bonus makes up 50% of a loan officer's salary.

• Plans to rework the incentive formula, to give more weight to bringing in new clients rather than simply serving repeat borrowers, as retention rates appear to be naturally high.

• Plans to introduce an incentive system for individual loan officers.

Future Goals and Challenges

• Currently no financial constraints, but as a Georgian NGO cannot legally access commercial sources of financing, which will ultimately become a constraint.

• Need to continually build staff capacity and deal with a shrinking market and new competitors.

• Constanta aims to become an institution providing a diversified portfolio of financial services throughout the country.

• Constanta hopes to see the organization grow to be a strong and recognized financial institution with diversified products and a large and loyal clientele.
<table>
<thead>
<tr>
<th>Date</th>
<th>Active Clients</th>
<th>Outstanding Portfolio</th>
<th>Branch Offices</th>
<th># of Staff</th>
<th># Loan Officers</th>
<th>Financial Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec/00</td>
<td>2,742</td>
<td>$1,550,000</td>
<td>3</td>
<td>29</td>
<td>10</td>
<td>92%</td>
</tr>
<tr>
<td>Dec-01</td>
<td>3,647</td>
<td>$1,850,000</td>
<td>4</td>
<td>33</td>
<td>13</td>
<td>108%</td>
</tr>
<tr>
<td>Dec-02</td>
<td>8,112</td>
<td>$3,450,000</td>
<td>4</td>
<td>44</td>
<td>18</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Key Areas of Strength**

- Business Planning
  
- MIS and Effective Use of MIS
  
- Constant Innovation
Background

- Prizma began as a project of the international NGO ICMC in 1997 and has since registered as a national microfinance institution that serves poor and low-income women in both entities that comprise Bosnia-Herzegovina.
- Current outreach is over 8,000 clients, average loan size around $800, average loan officer caseload – 451 active clients
- Prizma’s evolution phases since inception:
  - start up, characterized by slow-growth and experimentation;
  - emerging, characterized by strong institutional capacity building and strategic positioning; and
  - emergent, characterized by greater market orientation, client focus, and increasing scale
Key Historical Challenges

- Working in an increasingly competitive environment of competent peers and a quickly restructuring banking sector.
- Designing and introducing a significantly new MIS system, as well as getting the organization to use the system in a new way as a management tool.
- Designing new loan products for poor and low-income clientele and managing risk associated with rollout of the product in highly diverse geographical areas.

BUSINESS PLANNING
MIS AND EFFECTIVE USE OF MIS

- Intranet-internal website-for all employees and board intended to rationalize, consolidate, and simplify formal performance reporting and strengthen informal information flows

- Sophisticated client-tracking system

CONSTANTA INNOVATION

Rather than a special activity, Prizma views innovation simply as identifying solutions to client and organization needs. And rather than seeking dramatic changes, typical of very young organizations or those in crisis, the emphasis is on incremental and often discrete adjustments intended to enhance institutional performance and service provision
SOME AREAS OF INNOVATION

• Increasing choice of products for clients

• Enhancing performance: Prizma re-engineered its performance management system—appraisal, reward, and communication—to better align employee interests and reward with greater depth of outreach, improved service quality, and the financial health of the institution.

• Improving communication: information technology to facilitate and strengthen internal communication by developing a secure intranet for all staff and board. Among other things, this intranet provides a calendar, internal messaging, and access to the most current versions of all critical organizational documents.

Future Challenges and Goals

• Strengthening its formal governance structure to effectively identify and manage more complex risks, become more strategic, and maintain continuity over time.

• Balancing the competing challenges it faces as a social enterprise.

• Continuing to innovate as a non-bank financial institution in an environment of legal ambiguity and increasing competition.*

• With a simple mission and guiding vision, Prizma’s future goal remains profoundly simple: to target, attract, serve, retain, and improve the lives of large numbers of poor and low-income people.

[*In 2002, there were estimated to be 41+ financial service institutions operating in Bosnia-Herzegovina, a country of approximately 4 million people.*]
VIII. Lessons Learnt in CEE and NIS
Lessons Learnt in CEE/NIS (1)

**Build strong, viable MFIs**

- The demand for microfinance services is huge
- The MFIs have been able to charge cost-covering rates and build financially sustainable institutions
- Most successful MFIs can meet their social and financial objectives!
- They can also reach scale far exceeding the scale of government-subsidized loan programs

**NOTE:**

In some CEE/NIS countries MFIs have more customers than the formal banking system!

Lessons Learnt in CEE/NIS (2)

**Encourage competition and innovation**

The increasing competition between MFIs has enabled:

- Be more client oriented: introduce new demand driven products,
- Lower interest rates,
- Increase depth of outreach
- Establish new alliances: create linkages with banks
- Merge with other MFIs
- Transform into NBFIs or banks

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Lessons Learnt in CEE/NIS (3)

Develop skills, promote transparency and build forward looking culture

→ Some MFIs are still donor dependent – to survive, they need to realign their priorities to secure long term growth
→ Access to commercial sources of finance is limited
→ Funding is ineffective
→ There are capacity gaps, not all MFI managers or governing boards have the necessary skills to run/govern an MFI
→ The support industry is under-developed
→ Legal impediments exist on the client level
→ In some CEE/NIS countries legal and regulatory obstacles inhibit microfinance

Lessons Learnt in CEE/NIS (4)

Create Enabling Environment for microfinance services

- Rapid development of microfinance in countries where governments accept MFIs as allies
- Enabling legal environment for a wide institutional range (NGOs, CUs, financial companies, microfinance banks)
- Understanding the differences between the types of MFIs is crucial to make an informed decision on the fit with the legal and regulatory environment
- Encourage innovation in product design and service delivery
- Develop policy instruments to encourage private sector investment in microfinance
Strategic Objectives in CEE/NIS
MFC's strategy is focused on a set of strategic objectives aimed at overcoming key 'barriers' to the development of the microfinance sector.

<table>
<thead>
<tr>
<th>Barriers to Development</th>
<th>Strategic Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI Capacity</td>
<td>Build MFI Capacity</td>
</tr>
<tr>
<td>Skills, products and services</td>
<td>Facilitate access to funding, enhance funding effectiveness</td>
</tr>
<tr>
<td>Funding</td>
<td>Create Support Organisation Capacity</td>
</tr>
<tr>
<td>Existing MFIs; funding Inefficiencies</td>
<td>Improve data &amp; info flows</td>
</tr>
<tr>
<td>Support Organisation Capacity</td>
<td>Encourage forward-looking culture</td>
</tr>
<tr>
<td>Information flows</td>
<td>Create an Enabling Policy Environment</td>
</tr>
<tr>
<td>‘Cultural’ issues</td>
<td>Promote Sector Awareness</td>
</tr>
<tr>
<td>Market preparation</td>
<td></td>
</tr>
<tr>
<td>‘Poor policy environment’</td>
<td></td>
</tr>
<tr>
<td>Low awareness of MF &amp; micro enterprise sectors</td>
<td></td>
</tr>
</tbody>
</table>

SUPPORT FOR THE MF SECTOR THROUGH THE MFC

- Training curriculum for MFI practitioners - 15 training courses in 3 languages
- New tools and approaches through action research
- Networking opportunities and exchange visits of MFIs
- Regional Conference and Policy Fora
National Association of Business Women of Tajikistan

PRESENTATION
OF TAJIKISTAN MICROCREDIT PROGRAM
IMPLEMENTED BY NABWT
Sources of funding:
USDA, USAID
Main Partner: Mercy Corps
PROGRAM START DATE: SEPTEMBER, 1999

ABW
GENERAL ISSUES

- Microcredit is one of many intervention strategies designed to alleviate poverty, generate income and promote employment;

- Microcredit is generally appropriate because of ongoing economic activity and sufficient household cash flow already existed;

- Micro lending in Tajikistan has a strong social and labor – market focus;

- In Tajikistan microcredit activities have been implemented by NGO’s, international organizations and banks;
MISSION STATEMENT

NABWT's mission is to improve the well being of families in Tajikistan through development into the strong sustainable institution which is provide high quality financial and training services.

GOALS

- To increase economic and social capacity of women in society, resulting in women's empowerment.
- To promote enabling institutional and regulatory environments for women's access to economic resources.
- To provide micro and small entrepreneurs with access to financial and business development services.
- To attract high quality employees and to further develop their expertise in microfinance and small business development.
- To become a sustainable and self-sufficient microfinance institution.

LENDING METHODOLOGY AND CURRENT SERVICES

NABWT offers clients two basic loan products: group and individual loans:

Group lending program

- Credit amount from US$70 to US$1000
- Group size from 4 to 12 members
- Collateral from group guarantee

Individual lending program

- Credit amount from US$1000 to US$5000;
- Collateral from real estate or other fixed assets
- Monthly repayment with loan terms up to 18 months
- Disbursement and repayment are in national currency but equivalent to US dollars
National Association of Business Women of Tajikistan

OUR TARGET GROUP:

- Self-employed people, mostly women—workers and producers who are economically very active and contribute to the growth of the economy. They are mainly involved in production, trading, and the service sector.

- They do not have access to financial services, which would help them to upgrade their own work and productivity.

- They face two major financial problems:
  - Lack of working capital
  - Non-ownership of assets.

National Association of Business Women of Tajikistan

WHAT CLIENTS LIKE ABOUT OUR PROGRAM:

- Lower interest rate compared with other informal sources of loans;
- Steady source of working capital;
- Group solidarity and/or group dynamics;
- Training and technical support;
- Efficiency in relation to banks or other sources of credit (simple procedures);
- Simpler guarantees compared with other sources of loans;
- Professionalism of credit officers and other program staff;
- Loan disbursed in cash;
- Possibility of second and subsequent loan;
- No business registration requirement;
National Association of Business Women of Tajikistan

PROGRAM ADVANTAGES

- Efficiency in selecting clients
  - Policy of actively acquiring clients;
  - Group counseling;
  - Cooperation with local authorities;
  - Credit worthiness evaluation;
- Way of financing
  - Minimize size (what is the minimum sum to secure a step of development)
  - Stepping;
- Support services
  - Business training;
  - Vocational training;
  - On going consultancy;
  - Advocacy activities;

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THE PROGRAM IS CONTRIBUTING TO INCOME GENERATION

- The program increases household economic well-being (household income increased);
- The program improves the assisted businesses (business sales increasing);
  - Expand/renovate physical premises;
  - Add new products;
  - Hire more workers;
  - Improve quality or desirability of product/add value;
  - Reduce costs by buying inputs in greater volume or at wholesale prices;
  - Reduce costs with cheaper source of loan;
  - Develop a new business;
  - Sell in new markets/locations
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PROJECT PERFORMANCE (CURRENT)

For the project period from September 1, 1999 through June 30, 2003 the lending program statistics are as follows:

<table>
<thead>
<tr>
<th>NABWT</th>
<th>Group Lending</th>
<th>Individual Lending</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Outstanding</td>
<td>766,121</td>
<td>364,352</td>
<td>1,130,473</td>
</tr>
<tr>
<td>Total amount disbursed</td>
<td>9,150,369</td>
<td>1,506,352</td>
<td>10,656,720</td>
</tr>
<tr>
<td>Number Loans Disbursed</td>
<td>50,203</td>
<td>727</td>
<td>50,930</td>
</tr>
<tr>
<td>Number of total clients</td>
<td>7,753</td>
<td>369</td>
<td>8,122</td>
</tr>
<tr>
<td>Average Loan Size</td>
<td>182</td>
<td>2,072</td>
<td></td>
</tr>
</tbody>
</table>

National Association of Business Women of Tajikistan

PROFITABILITY AND EFFICIENCY RATIOS (As of 30.06.03)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan portfolio</td>
<td>$1,130,473</td>
</tr>
<tr>
<td>Portfolio at Risk more than 30 days</td>
<td>1.06%</td>
</tr>
<tr>
<td>Loan Loss Ratio from starting of program</td>
<td>1.41%</td>
</tr>
<tr>
<td>Transaction cost per loan</td>
<td>$17.72</td>
</tr>
<tr>
<td>Operational self-sufficiency</td>
<td>175%</td>
</tr>
<tr>
<td>Financial self-sufficiency</td>
<td>124%</td>
</tr>
</tbody>
</table>
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PROFILE OF CLIENT'S BUSINESSES

National Association of Business Women of Tajikistan

CLIENT'S PROFILE
TOTAL LOAN DISBURSED

GROWTH OF LOAN PORTFOLIO
National Association of Business Women of Tajikistan

NUMBER OF ACTIVE CLIENTS

- **FY.1999**: 10,000
- **FY.2000**: 5,000
- **FY.2001**: 4,982
- **FY.2002**: 6,332
- **July 30, 2003**: 6,547

National Association of Business Women of Tajikistan

Household dependents

<table>
<thead>
<tr>
<th>Number of household dependents</th>
<th>Clients</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>32</td>
<td>0.4%</td>
</tr>
<tr>
<td>2</td>
<td>342</td>
<td>4.2%</td>
</tr>
<tr>
<td>3</td>
<td>731</td>
<td>9.0%</td>
</tr>
<tr>
<td>4</td>
<td>1520</td>
<td>19.7%</td>
</tr>
<tr>
<td>5</td>
<td>2193</td>
<td>27.0%</td>
</tr>
<tr>
<td>6</td>
<td>1516</td>
<td>19.3%</td>
</tr>
<tr>
<td>7</td>
<td>629</td>
<td>19.3%</td>
</tr>
<tr>
<td>8</td>
<td>407</td>
<td>5.0%</td>
</tr>
<tr>
<td>9</td>
<td>198</td>
<td>2.4%</td>
</tr>
<tr>
<td>10</td>
<td>98</td>
<td>1.2%</td>
</tr>
<tr>
<td>11</td>
<td>57</td>
<td>0.7%</td>
</tr>
<tr>
<td>12</td>
<td>32</td>
<td>0.4%</td>
</tr>
<tr>
<td>13</td>
<td>32</td>
<td>0.4%</td>
</tr>
<tr>
<td>14</td>
<td>16</td>
<td>0.2%</td>
</tr>
<tr>
<td>15</td>
<td>6</td>
<td>0.1%</td>
</tr>
<tr>
<td>16</td>
<td>4</td>
<td>0.05%</td>
</tr>
<tr>
<td>17</td>
<td>2</td>
<td>0.02%</td>
</tr>
<tr>
<td>18</td>
<td>2</td>
<td>0.02%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8128</td>
<td>100%</td>
</tr>
</tbody>
</table>

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FUTURE CHALLENGES FOR CONTINUED DEVELOPMENT IN TAJIKISTAN

- With the level of foreign aid slowly decreasing, there is a potential danger to the continued development of the sector;
- As soon as the organizations become financially stronger, it is necessary to start encouraging them to consider raising funding from commercial sources;
- There is a lack of local technical expertise and knowledge in the field;

LESSONS LEARNED

- It is important to keep in mind two basic objectives of microcredit provision: applying best practice standards to build sustainable microfinance institutions that will be able to last long term, while simultaneously providing services to the low income economically active poor;
- With the loss of confidence in financial institutions, MFIs in post-conflict Tajikistan have to work even harder on being professional in order to gain credibility with the borrowers;
- Lending methodologies and approach to the clients must be culturally appropriate if the institution is to work successfully;
- Donors have to think long term in order to foster development of a healthy microfinance sector and healthy microcredit service providers;
- Understanding the interdependent nature of the sector is crucial;
- Donors, along with the MFIs, may play a significant role in establishing an optimal legal framework for microfinance.
GOALS AND STRATEGIC OBJECTIVES FY03 – FY05

Market Outreach and Growth Objectives

To increase clients to over 14,000 and performing loan assets to $3,000,000 by FY05

Product and service objectives

1. Improve and enhance credit product to provide a broad range of credit products that are tailored to meet client’s needs
   - Improve Group and Individual Lending products
   - Implements credits line for highly rated clients
   - Pilot and Introduce agricultural loans, leasing scheme, consumers loans

2. Extended business education and legal advice for SME

Institutional development objectives

1. Improve and enhance MIS systems
2. Revise planning and budgeting systems
3. Evaluate staff capabilities and develop staff development plans and need for TA
4. Maintain strong internal control procedures
5. Adapt organizational and governance structure to legal environment

To continue to have a competent, committed, and polite staff that includes many employees with many years of experience who have built a reputation for providing high quality products and services

GOALS AND STRATEGIC OBJECTIVES FY03 – FY05

• Re-examination of institution’s strategy;

• Re-examination of current market niche;

• Improving efficiency while maintain the quality of lending operations;

• Develop sound financial standard to gain credibility from commercial investors;

• Offering additional financial services to the micro entrepreneurs;

• Ensure sustainability through improved governance and increased profitability;
NGO-MFIs have both social mission and commercial motive; For a microfinance program each complements the other:

- Social mission assumes that more and more poor people should be covered and continuity of the service should be maintained through plough back of the recovered fund;
- Social mission of NGO-MFIs also means that they will go to the doorstep of the poor people with appropriate financial services with a view to eradicating poverty
- While doing these, they will have to pursue commercial strategy meaning covering full cost recovery with a desired capitalization
- Indeed, the NGO-MFIs should follow the aforesaid two things by striking a balance for having the desired outreach and sustainability

It is expected that the ensuring both strategies will promote

- good governance and management in NGO-MFIs
- help to diversify services;
- improve access to finance;
- preserve the innovations and variety;
- integrate microfinance with formal financial system.
Mercy Corps Experience in Building Sustainable Microfinance Institutions

Pamela A. Eser
Director, Microenterprise and Economic Development
peser@mercycorpsdc.org
www.mercycorps.org
Mercy Corps exists to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities. Since 1979, Mercy Corps has provided over $710 million in assistance to people in 76 nations. The agency’s programs currently reach over 5 million people in more than 30 countries. More than 92 percent of Mercy Corps' resources are allocated to programs that directly assist those in need. Annual revenue: $118 million in fiscal year 2002.

Core Principles

★ Participation
★ Accountability
★ Transparency
★ Sound Governance
★ Sustainable Stewardship
Multiple Strategies

- Evaluate the specific environment, respond to the need
- No set model
- Experimentation and innovation
- Priority on market-based approaches
- Credit and programming
- Use local partners whenever possible

Mercy Corps Microfinance Affiliates

- 16 affiliates in 10 countries (Bosnia, Kosovo, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Afghanistan, China, Mongolia, United States)

- Various institutional forms (commercial bank, MCO, public fund, NBFI, local NGO, Mercy Corps program)

- June 30 2003 statistics:
  - 46,000 active clients
  - $27 MM outstanding portfolio
  - Avg loan size: $556
Microfinance Performance Standards

- Clear client targeting
- Legal registration
- Business and strategic plans
- Accounting system
- Internal control system
- Loan tracking system
- Financial projection system
- Good governance/management structure
- Human resources
- Portfolio quality
- Financial sustainability

MIKROKREDITNA ORGANIZACIJA
TUZLA, ulica 15 maj, Trzni centar, Sjenjak
Tel / Fax: ++ 387 (35), 270-653, 245-780, 245-781, 245-782
E-mail: partner@partner.ba
Bosnia and Herzegovina

- Population of 4 million
- Ethnically mixed, consisting of Bosniaks, Croats, Serbs, Roma, Jew, other
- War from 1992-1995
- 200,000-250,000 killed, 1-2 million displaced
- Two entities with two governments

Pre-war Ethnic Mix
Post-war Ethnic Mix

Bosnia today

- Privatization, with subsequent factory closings and job loss
- Industrial production at 5-10% of its pre-war capacity
- Little or no foreign investment
- Unemployment over 35%
- Average monthly wage of 400 DM
Mercy Corps Donors in BiH

- Local Initiatives Department (World Bank-sponsored)
- United Nations High Commissioner for Refugees
- UMCOR
- Charles Stewart Mott Foundation
- Fred Foundation

- United States government:
  - Department of Agriculture
  - State Department Bureau for Population, Refugees and Migration
  - Agency for International Development

Partner Microcredit Organization
Bosnia and Herzegovina
Mission Statement

- Support micro-entrepreneurs to start or expand their businesses
- Encourage the transition to a market economy
- Promote women in business and offer easy access to credit in rural areas
- Increase employment, improve living standards and create better economic opportunities within BiH, both in the Federation and the Republic of Srpska
Partner Microcredit Organization
Bosnia and Herzegovina
Strategic Goals

• To be a financially stable institution
• To maintain the highest level of customer satisfaction
• To be a reliable provider of high quality financial services
• To be the most desirable and innovative employer

Partner Microcredit Organization
Bosnia and Herzegovina
April 1997 to April 2003

• 32,295 loans ($52 MM) disbursed
• 8,966 loans ($10 MM) outstanding (avg loan size $1,500)
• Clients: 56% female, 12% returnee, 14% displaced, 63% rural
• PAR over 30 days = 0.34%
• Operationally and financially sustainable
• 22 offices with 52 credit officers (82 total staff)
• Loan officer caseload: 200 (individual lending)
• Multi-ethnic staff and Board
• Legal registration as MCO January 1, 2001
• Accessed commercial funding sources in 2003

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Partner Microcredit Organization
Bosnia and Herzegovina
Recent Developments

• 2 new loan products offered targeting (1) agriculture/livestock and (2) ‘income generating’ loans with simplified application procedures
• Interest rate decreases for repeat borrowers
• Interest rate decreases for women borrowers
• Significant investment in market research, MR dept established
• Balanced Scorecard used for strategic planning
• Rating by PlanetFinance
• Constructed HQ building with retained earnings
• Accessed commercial sources of financing

Partner Microcredit Organization
Bosnia and Herzegovina
5 Year Goals 2003 to 2007

• Reach 25,000 active clients with a $30 MM outstanding portfolio
• Fund this expansion with commercial sources
• Evaluate merger possibilities
• Review options for commercialization
• Expand coverage geographically to cover entire country
• Continue to conduct in-depth market research in order to design new products, meet clients’ needs
• Continue with intensive management and staff training
• Establish Training and Evaluation Dept
“Partner” Clients

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“Partner” Clients
"Partner" Clients

"Partner" Clients
Resources

- Consultative Group to Assist the Poorest
- The Small Enterprise Education and Promotion Network
- Microfinance Network
- Microfinance Centre for Central and Eastern Europe and the New Independent States
- MFT Program at University of Colorado, Boulder
- Microenterprise Development Institute at the New Hampshire College Graduate School of Business
- Devfinance listserve
- USAID microenterprise innovation project
- MicroBanking Bulletin
- Journal of Microfinance
- PlaNet Finance
- Microcredit Summit

“PARTNER” STAFF
Bio

Kiendel Burritt

Ms. Burritt is a Senior Technical Advisor for the Special Unit for Microfinance (SUM) at the United Nations Capital Development Fund (UNCDF) where she has worked for the past five years. In her capacity as a technical advisor, she has provided support to UNCDF and UNDP microfinance initiatives in Angola, Cote d’Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mozambique, Morocco, Pakistan, Philippines, Turkey, Yemen, and Zimbabwe. Prior to joining UNCDF, she was based in West Africa working for Freedom from Hunger supporting the integration of microfinance products into the businesses of rural banks and credit unions. She has a Masters in Public Administration from the Kennedy School of Government at Harvard.
Curriculum Vitae  
Sanavbar Sharipova

**Personal Information**

**Birthdate:** January 2, 1963  
**Birthplace:** Khujand, Tajikistan  
**Sex:** Female  
**Nationality:** Tajik  
**Marital status:** Married, with two children (13-year-old and 12-year-old daughters).  
**Languages:** Tajik, Russian, English (English training during 10 years of secondary school and five years in university; completed a course on "English for business"; have spent some times in an English speaking country)

**Address (h):** 1-8 Mopr street, Khujand, Tajikistan, 735700. tel. (9923422) 67171  
**Address (b):** 27 Khakim Karim street, Khujand, Tajikistan, 735700.  
Telefax: (9923422) 63127, tel. (992 3422) 67378  
e-mail: abw_tajikistan@mail.ru

**Profile.**  
Results based innovative practitioner with extensive experience in working with development concepts concerning women Programming. Experienced in Project design, monitoring, evaluation, management and implementation. Special interests focus on: a) effective delivery of services with the full participation and integration of women; b) poverty alleviation and economic development through empowerment; c) development through the support of civil society and the inclusion off all groups; d) rights-based programming respecting human rights and access and full participation in the economic and social development agendas.

**Academic Training**

1985: Higher Degree, Moscow University, Russia.  
1998: Post-Graduate Degree – Economic and Social Development, Khujand State University, Khujand, Tajikistan
Professional Training

2000, February-June
Affiliate to UNIFEM (United Nations Development Fund for Women); developed advocacy, networking, project formulation, program management skills; worked on the following thematic areas: a) engendering governance including peace and leadership; b) strengthening women's economic capacity in the context of the new trade agenda and the emergence of new technologies; and c) promoting women's human rights to eliminate all forms of violence against women and transform development into a more peaceful, equitable and sustainable process

- participated in programme conceptualization, formulation, development and implementation for national and regional projects in the CEE/CIS region with a specific focus on capacity building as a strategy
- worked on the day-to-day management of the CEE/CIS programme, including communications with partners in the region, report-writing, updating and expanding the section's data bases, sharing information and lessons learned, advocacy and networking with partners in the region and across regions
- participated in organization-wide task forces and committees, the March PrepCom II for Beijing+5, and liaising with other UN agencies and UN missions on matters related to the CEE/CIS programme

1997-present: Associate now Fellow, Leadership for Environment and Development program, LEAD International Inc., New York, NY. Skills acquisition in areas of economic empowerment, microfinance, conflict negotiation and resolution, team-building, presentations, cross-cultural training and sustainable development (training sessions were conducted in Costa-Rica, Moldova, Romania, USA)

1997: Certificate of Completion, European Union TACIS Program «Strengthening of Small Business Training and Consultancy Services». Cranfield Summer Program, Cranfield University, Cranfield, United Kingdom. Skills acquisition in areas of Marketing, Business Planning, Accountant, Information Technology, Human Resources Development:
2000: Certificate of Completion, New Hampshire Micro enterprise Development, USA, Training on financial management, financial analysis, impact assessment using AIMs tools;
Elizabeth Littlefield

Ms. Littlefield is the CEO of CGAP. CGAP (the Consultative Group to Assist the Poorest) is a multi-donor organization with a mission to improve the capacity of microfinance institutions (MFIs) to deliver flexible, high-quality financial services to the poor on a sustainable basis to poor people. CGAP serves MFIs, donors and the microfinance industry at large through the technical assistance and strategic advice, the development and dissemination of technical tools and services, the delivery of training, and in-depth research products. CGAP also has a small grant facility that provides funding for these activities.

Ms Littlefield comes to CGAP from the investment bank JP Morgan, where she was the Managing Director in charge of JP Morgan’s financing business in Central, Eastern and Southern Europe, Central Asia, Middle East and Africa until leaving to join CGAP. Her responsibilities at JP Morgan entailed oversight of financings (public, private, structured and derivative) to Governments, corporations and banks, and related advisory work such as debt management and credit rating advisory. Prior to this position, Ms. Littlefield held positions at JP Morgan as a Vice President and head debt trader for external and local debt in Africa, Eastern Europe and Asia, and as a Directeur in JP Morgan’s Paris Office in Corporate Finance, among others.

In parallel to her career in investment banking, Ms. Littlefield also spent a year and a half in 1989-1990 on secondment to the Gambia Women’s Finance Co. and several microfinance institutions in West and Central Africa. During this period, she also provided consultancy services in the microenterprise sector in Pakistan.

Ms. Littlefield has served on the Board of Trustees of Women’s World Banking from 1992-1994 and on the Executive Committee of the Board as Treasurer from 1994-1999. She is the Co-founder and Trustee of the Emerging Markets Charity in the UK, established to raise funds from commercial and investment banks which trade in the emerging markets and to channel the funds to the poor in those countries.

Ms Littlefield is a graduate of Brown University and the Fondation Nationale des Sciences Politiques in Paris.
Grzegorz Galusek

Grzegorz Galusek, Executive Director of the Microfinance Centre (MFC) for Central and Eastern Europe and the Newly Independent States, is a microfinance specialist with significant and hands-on experience gained through his work at Fundusz Mikro, a fast growing, professional microfinance institution based in Poland. As Director of the MFC Mr Galusek has designed programs of regional and country specific activities aiming at speeding up the growth of microfinance sector through technical assistance to MFIs and microfinance action research projects. Mr Galusek has initiated a regional, microfinance policy program with a broad goal of fostering creation of a favorable legal and regulatory framework for microfinance in specific countries of C&EE and the NIS. Different technical assistance, research and legal programs under his supervision cover MFIs in Central Asia, Caucasus, Balkans and Central/Eastern Europe. Prior to his work at the MFC and Fundusz Mikro, Mr Galusek coordinated activities of field programs in four C&EE countries for USAID funded legal reform project.
Dr. Ira W. Lieberman Ph.D. is currently a Senior Economic Advisor to the Open Society Institute (the Soros foundation). Previously he worked for the World Bank over some 14 years. At the World Bank he created the international Secretariat for the Consultative Group to Assist the Poorest (CGAP) and was its first Chief Executive Officer from 1995-1999. He was also a Senior Manager, subsequently Senior Advisor, in the ECA Region of the World Bank. Dr. Lieberman has had extensive experience working in Turkey—from 1993-1994 with the Treasury and the Privatization Agency in formulating and advising the Government on its privatization policies and program and again during the 2001 financial / economic crisis where he worked with the Government, the banking sector and industry on an assessment of the crisis and in the development of a workout program known as the Istanbul Approach. Dr. Lieberman had extensive experience in the private sector over some 20 years prior to joining the World Bank. He holds a Ph.D. from Oxford University, an MBA from Columbia University and a BA from Lehigh University, Magna Cum Laude.
Khosrow Zamani  
Director. IFC

Mr. Zamani has been Director, Southern Europe and Central Asia Department (SECA) since March 2000. SECA Department covers IFC's program in 15 countries including Turkey

Since assuming his current position as the Director, Mr. Zamani has been instrumental in building IFC's investment program in the region with several new and innovative initiatives, particularly in Central Asia. In Turkey, under his leadership, IFC increased its commitments significantly during the financial crisis in line with IFC's effort to work as a long-term partner for the private sector. Mr. Zamani was instrumental in creating IFC's Regional Hub in Istanbul in 2000. Currently, he is based in Istanbul and is continuing his efforts to decentralize IFC's operations with the objective of being closer to the clients to better serve their needs.

Mr. Zamani has wide ranging extensive experience in the region. Prior to assuming his current position, Mr. Zamani was the Associate Director, Central Asia, Middle East and North Africa; Manager, Southern Europe and Eastern Europe Department; the Chief Investment Officer for IFC's investment in Russia; IFC Resident Representative in Turkey; the Principal Investment Officer for Czechoslovakia; and Senior Investment Officer for Yugoslavia & Portugal. From 1980-1986, he has at the World Bank Industry Department.

Before joining the World Bank, Mr. Zamani was the managing Director of the National Iranian Investment Company (1979), served as Deputy Managing Director of the Industrial Credit Bank of Iran (1973-1978) and, before this, held positions at the Teharan University of Technology.

He holds a Master of Science degree in Engineering from the Case Institute of Technology, a Master's degree in Business Administration from Warwick University and he followed post-graduate studies in Industrial Management at Cambridge University in England.

He is married with two daughters.
Lucy Ito is Vice President of World Council of Credit Unions, Inc. (WOCCU). Having been with WOCCU for 14 years, Ito provides organizational direction for WOCCU’s technical services programs in Central and Eastern Europe, Central Asia and Asia. Under WOCCU’s mission area of serving as a platform for innovation and knowledge exchange, Ito also provides oversight for such programs as WOCCU’s International Remittance Network (IRnet) and WOCCU’s international meetings and conferences. Ito’s recent technical and operational work has focused on credit unions and microfinance in Bulgaria, China, Great Britain, Macedonia, Mongolia, New Zealand, the Philippines, Poland, Romania, South Africa, Sri Lanka, Ukraine, Uzbekistan, and Vietnam. Ito serves on the Boards of Directors of the Overseas Cooperative Development Council (OCDC), the Small Enterprise Education and Promotion Network (SEEP), and WOCCU Services Group (WSG).
TIMOTHY R. LYMAN, Esq.

Tim Lyman is President and Executive Director of the Day, Berry & Howard Foundation, a philanthropic and legal consulting organization affiliated with the large Northeastern U.S. law firm of Day, Berry & Howard LLP. He is the founding Chair of its Microfinance Law Collaborative. He is also a partner of Day, Berry & Howard, LLP, where he specializes in community development and microfinance law, as well as governmental, nongovernmental and multilateral programs and entities that regulate and provide capital for such purposes. In this capacity, he and Day, Berry & Howard serve as principal outside counsel to Save the Children/U.S. and have advised numerous other internationally active clients on microfinance legal and regulatory issues. He has over 20 years of community development-related legal and consulting experience, both within the U.S. and internationally, as a short-term specialist, long-term advisor and team leader in the fields of legal and regulatory framework development, microfinance and small business development. Over the past decade, he has lectured and consulted extensively on the legal issues affecting microfinance and the development of civil society and its institutions in new republics of the former Soviet Union and Central and Eastern Europe — a region to which he returns twenty years after having lived there as a student. He serves as International Legal Issues Advisor to the Microfinance Centre for Central and Eastern Europe and the New Independent States in Warsaw and the Russian Microfinance Center in Moscow. He is a primary author, along with Robert Peck Christen and Richard Rosenberg, of CGAP’s Microfinance Consensus Guidelines: Guiding Principles on the Regulation and Supervision of Microfinance. Tim received his undergraduate degree from Harvard and his law degree from New York University Law School. He is conversant in a number of European languages.
Monica Lynne Brand  
Senior Director, International Operations  
ACCION International

Monica Brand currently manages the Marketing and Product Development Unit for ACCION International. In this capacity, Monica has designed market research projects, developed competitive strategies, overseen the development and launch of new products, conducted training workshops, and analyzed the institutional capacity of microfinance institutions in Latin America, Africa, and the US. Monica also currently co-teaches two masters-level courses on microfinance at the John Hopkins School for Advanced International Studies (SAIS).

Prior to ACCION, Monica worked two years for the Development Fund in San Francisco, helping to design and launch a $50 million statewide lending intermediary to finance small business and community facilities. She subsequently worked as a small business loan officer in Oakland, California and as a trainer for the Women's Initiative for Self-Employment (WISE). Ms Brand's professional experience also includes work in Cape Town, South Africa, where she founded an entrepreneurial training organization for owners previously disadvantaged small businesses.

Among the works Ms. Brand has authored include ACCION's monograph, Maximizing Efficiency in Microfinance, an Insight piece on "Market Intelligence" and numerous case studies for Harvard Business School. Ms. Brand received both a M.B.A. and a master's of education from Stanford University and her Bachelors of Arts degree in Economics from Williams College, where she graduated with honors. She works in ACCION's office in Washington, D.C., where she is the Treasurer of a local nonprofit. Monica is half-Peruvian and bilingual in Spanish.
Mr. El Shami has more than 14 years experience in the promotion and development of small & micro enterprises in Egypt and Arab Countries. He is the Executive Director of Alexandria Business Association ABA (Small & Micro Enterprise Project). He assisted in the establishment of new Micro Enterprise Foundations in Egypt by providing technical assistance and training. He also provided services in all areas of Micro Credit and Finance to institutions and NGOs in Egypt and Arab countries. He has undertaken assignments for the USAID, UNDP, and the World Bank as a resource person in seminars and training workshops on micro credit and finance. In May 1998, he was elected to become a member of CGAP’s Policy Advisory Group for three years. The Consultative Group to Assist the Poorest (CGAP) is a World Bank’s Micro-Finance Program.
PROFESSIONAL EXPERIENCE

• April 1989 to Present

Executive Director, ALEXANDRIA BUSINESS ASSOCIATION (ABA)
Small & Micro Enterprise Project (The Project started in January 1990 in Alexandria, and expanded to other Governorates)

Assumed the responsibility of program management, shared in designing and developing the lending methodology and institutional systems for tracking, monitoring and reporting. Also, designed and instituted an innovative Incentive System completely linked to the Management Information System.

• January 1994 to Present

Private Consultant - Micro Enterprise Development Specialist. (Offering short-term Consultancy Services to the USAID, World Bank, UNDP and to local and International Consulting Firms)

Assisted in the establishment of new Micro Enterprise Foundations in Egypt by providing technical assistance and training to board members, executive directors, and staff members. Also provided training services in all areas of Micro Credit and Finance to institutions and NGOs engaged in Micro Enterprise Development in Egypt and several Arab countries (Jordan, West Bank & Gaza, Bahrain, Yemen, Morocco, Lebanon, Tunisia).

He shared as a resource person in many workshops and conferences in many Arab and African countries (South Africa, Zimbabwe, Malawi, Benin, Cote D'Ivoire) and Consulting Firms.) Assisted in the establishment of new Micro Enterprise Foundations in Egypt by providing technical assistance and training to board members, executive directors, and staff members. Also provided training services in all areas of Micro Credit and Finance to institutions and NGOs engaged in Micro Enterprise Development in Egypt and several Arab countries (Jordan, West Bank & Gaza, Bahrain, Yemen, Morocco, Lebanon, Tunisia). He shared as a resource person in many workshops and conferences in many Arab and African countries (South Africa, Zimbabwe, Malawi, Benin, Cote D'Ivoire)
• January 1981 to December 1996

Managing Partner, (TICO) TECHNICAL INDUSTRIAL CONSULTING OFFICE
(A private firm founded in 1974)

Managed and operated this firm which offered engineering services in
various industrial fields; technical and economic feasibility studies,
development and master planning, preliminary and detailed engineering
design, construction management and installation supervision.

• October 1961 to December 1980

Board member & Managing Director, BEHERA COMPANY (A
State-owned national company founded 1881)

Assumed the responsibilities of the different positions occupied in the dif­
erent engineering fields of design, production and installation of various
industrial projects in Egypt and many Arab countries.

• October 1957 to September 1961

Mechanical Engineer, ELSHAMI MECHANICAL WORKS
(Family’s private enterprise founded 1926)

The enterprise comprised a foundry and a machine shop specialized in
iron and non-ferrous castings and machining.

• Languages: Arabic (Mother tongue), English (Very good), French (Fair).

• Date of Birth: 26th July, 1935
Neil Ramsden
Managing Director
Bannock Consulting, UK

Neil Ramsden joined Bannock Consulting five years ago to take up a position in the company's SME Finance Division. He was subsequently promoted to Divisional Head and then to Managing Director on the back of the company's success in building a strong business line in this area. He brings a mixture of hands on, consulting experience (having worked for 3 years as an advisor on a downscaling project in Russia) and project management experience (he has been at some stage involved in nearly all of Bannock's downscaling projects in Central and Eastern Europe and therefore knows the issues that many banks have faced, as well as the solutions that have been used by Bannock advisors to help address those problems). Neil has also done some work in the Turkish market on behalf of KfW to investigate the most appropriate mechanisms to reach SME's through formal bank structures.

Neil began his professional career with Barclays Bank in the United Kingdom, where he qualified as a member of the Chartered Institute of Bankers. During his seven year career with Barclays, he worked with SME businesses in the branch network and also spent time dealing with the needs of the large corporate environment in a head office function.
Olga Tomilova is currently Regional Director of the MFC for the NIS. Previously, she was a consultant to Banking on the Russian Women Project, Kennedy School of Government, Harvard University, conducting field research in the Moscow region. Olga previously worked as Executive Director for the Russian Women’s Microfinance Network, Moscow, with five retail microfinance institutions affiliated. Prior to that she worked as accountant/financial manager assistant for Opportunity International, Nizhny Novgorod. She holds a certificate of professional accountant of the Ministry of Finance of the Russian Federation.
PROFESSOR AZIZ AKGÜL
Karaca Sok. No:17/2 GOP, Ankara, TURKEY
Tel: +90 312 440 88 66 Fax: +90 312 440 93 99
e-Mail: aziz.akgul@tbmm.gov.tr

EDUCATION:

1996   Became Professor of Management and Organizational Theory at Kırıkkale University.
1990   Became Assistant Professor of Management and Organizational Theory at İstanbul University
1987-1989 MS and conducted postgraduate research at the Naval Postgraduate School in Monterey, CA
1982-1986 Earned PhD in Management from the Ankara University, Faculty of Political Science
1980-1982 Earned MBA from the Middle East Technical University, Faculty of Economics and Management
1979   BA in Management from the Military Academy in Ankara

EXPERIENCE:

November 2002- Present Deputy for Diyarbakır Turkish Parliament, Turkish Grand National Assembly
June 1997-November 2002 Senior Advisor to the Minister of Trade and Industry of the Turkish Republic.
1996- June 1997 Senior Advisor to the Prime Minister of The Turkish Republic
1996 - 1997 Professor of Management at Kırıkkale University. Also teaches at the Health Institute of Gülhane Medical School at the Social Studies Institute of Başkent University in Ankara.
1993-1996 Chief of the Biostatistic Division of Gülhane Military Medical School Also taught undergraduate and graduate courses in Biostatistics.
1991 Taught management at the Masters Program of the İstanbul University.
1982 Taught at the School of Management at the Middle East Technical University.

PUBLICATIONS:

Has published 7 books and several articles on Management, Operations Research and the Defense Industry.
RUPERT SCOFIELD
BIOGRAPHY

Rupert Scofield, FINCA International’s Executive Director, is an agricultural economist with 30 years’ experience in developing countries of Latin America, Asia, Africa, and the Middle East. Under his leadership, FINCA’s growing network of affiliates has achieved a loan portfolio of over $40 million, and currently serves more than 245,000 entrepreneurs around the world, with all programs moving consistently toward self-sufficiency. Mr. Scofield helped found FINCA in 1984. Past positions include CEO of Rural Development Services, a consulting company, and country program director of the AFL-CIO’s Labor Program in El Salvador. He has a B.A. from Brown University and an M.A. in agricultural economics and public administration from the University of Wisconsin.
* Financial sector studies
* Evaluation of financial institutions/ due diligence
* Institutional analysis and organizational development of financial institutions

**Professional Experience Record:**

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<td><strong>Location:</strong></td>
<td><strong>Berlin, Germany</strong></td>
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<tr>
<td><strong>Company:</strong></td>
<td><strong>LFS Financial Systems GmbH</strong></td>
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<tr>
<td><strong>Position:</strong></td>
<td><strong>Manager and majority owner</strong></td>
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<tr>
<td><strong>Description:</strong></td>
<td><strong>Development of a business strategy for the new consulting firm LFS Financial Systems, and its implementation; organisational development; design of consultancy products; acquisition of projects.</strong></td>
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<tr>
<td><strong>Location:</strong></td>
<td><strong>Hamburg, Germany</strong></td>
</tr>
<tr>
<td><strong>Company:</strong></td>
<td><strong>Luso Consult GmbH</strong></td>
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<tr>
<td><strong>Position:</strong></td>
<td><strong>Senior Consultant and head of the department &quot;Financial Systems&quot;</strong></td>
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<tr>
<td><strong>Description:</strong></td>
<td><strong>Organisational development of the department. Various short-term missions.</strong></td>
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<td><strong>Location:</strong></td>
<td><strong>Peru</strong></td>
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<td><strong>Company:</strong></td>
<td><strong>Interdisziplinäre Projekt Consult (IPC), Frankfurt/Main on behalf of GTZ</strong></td>
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<tr>
<td><strong>Position:</strong></td>
<td><strong>Director of the GTZ Project &quot;Consultancy to the Supervisory Banking Commission and Promotion of the Peruvian Savings Bank Systems&quot;</strong></td>
</tr>
<tr>
<td><strong>Description:</strong></td>
<td><strong>Consultancy to the supervisory Banking commission on the regulation and auditing of financial institutions; Consultancy to the savings banks and their associations regarding business policy questions as well as the introduction of new financial services and management procedures; Development of credit technologies for low-income population strata, as well as instruments for the efficiency analysis of financial institutions and credit operations.</strong></td>
</tr>
</tbody>
</table>
Date: 01/1989 - 10/1989  
Location: Germany  
Company: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)  
Position: Expert Planner

Date: 1986 - 1988  
Location: Eschborn, Germany  
Company: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)  
Position: Planning officer for industrial and financial development

Date: 1984 - 1986  
Location: Hamburg, Germany  
Company: Unilever Internal Audit GmbH, a company which carries out auditing and management counselling on behalf of the 25 Northern European companies connected to Unilever.  
Position: Project Auditor

Date: 1983 - 1984  
Location: Hamburg, Germany  
Company: German Unilever GmbH  
Position: Trainee

Publications:
Desarrollar el Sistema Financiero, in: Caja Municipales de Ahorroy Credito, Lima 1991  
Y el legislator dijo: Créense las Cajas Rurales - resuélvase el problema de financiamiento del agro, in GESTION, Lima 1992  