Peer-to-Peer Visit Report

MI-BOSPO visited FEBEA, Crédal, microStart, DG NEAR, and EMN on 25-26 September 2019

PRACTICAL VISIT

Background to the whole visit:

MI-BOSPO started as a microcredit project in 1996 and has the legal form of a foundation. It is based in Tuzla, Bosnia and Herzegovina, and serve 24,000 clients - 65% of whom are women - with a portfolio of about 33 million EUR. MI-BOSPO has 34 offices and employs around 186 persons.

MI-BOSPO has been a learning organisation since the very beginning and visiting similar financial institutions around the world has served for inspiration and motivation in serving its clients in the best and most efficient way possible. A visit to FEBEA, Credal, microStart and a meeting with the European Microfinance Network (EMN) and Roberto Estellés-Colom, Programme Manager at the Directorate-General for Neighbourhood and Enlargement Negotiations at European Commission (DG NEAR) were organised in order to gain knowledge on how financial services are provided in an alternative manner in Europe, aiming at learning from different delivery and business model practices. MI-BOSPO was also seeking to network for potential future learning exchanges but also to discuss the current Bosnian Framework and to request support from the policy and advocacy side.

MI-BOSPO chose to visit the various institutions for different learning targets.

1. FEBEA

MI-BOSPO wanted to learn more about ethical banks and cooperative banks, what differentiates them from commercial banks, and what is their business model and ownership structure.
FEBEA has 28 members. Half are banks and half are cooperatives. FEBEA explained that its main characteristic is that both banks and cooperatives base their operations on ethical principles. Owners have a concern over where and how their funds/deposits are used, they care about the clients they serve and there are strong ethics about salary systems reflecting care for their employees.

It was important to learn the ethical principles of FEBEA’s members especially banks – and how accountable those legal entities are towards their depositors, community members, especially with regard to the environment. Many of FEBEA’S members’ investments go towards environmental projects, to supporting sport and cultural activities, job creation and to finance enterprises.

FEBEA can have two kinds of membership: full memberships and associate membership. Full ones are for financial organisations that have activities within EU countries and associate members are those that are not operating within EU countries. Both membership types require compliance with FEBEA’s charter.

1.1 Lessons learnt during the visit:
- Ethical banking or ethical financial institutions are not the same as other financial intermediaries because they have ethical principles that they work by. These principles are about going back to the roots of financial services, working for and with the community, without derived financial services and existence for profit only. One of examples of these values is that FEBEA has a salary range for its employers up to 7 times more compared to the lowest one in that bank/financial institution.
- This is a strong differentiator which also gathers similar institutions into the FEBEA network.
- FEBEA members believe in the importance of spreading their belief and morals behind banking in Europe. Profitability of banks is not a primary goal as it is at the service of ethical purposes.
- FEBEA supports its members in accessing EU resources and in sharing their practices, especially on the advocacy for ethical values of financial companies, banks and cooperatives.
- Some FEBEA members found that non-governmental organisations and social projects could be good clients. NGOs have liquidity issues, donars commit funding but funds are not transferred in time for the NGO to start a project implementation.
- FEBEA members are able to provide bridge funding if presented with adequate documentation. This kind of funding has not been activated in Bosnia and Herzegovina.
2. CREDAL

MI-BOSPO’s interest in CREDAL was to learn about the cooperative model, targeted clients, promotion, product design, methodology as well as financial management, access to funding and the different ways of financing Credal’s operations. On the local framework side, MI-BOSPO was interested in discussing and understanding the legal framework under which Credal operates.

Credal is a cooperative that has existed for over 20 years. Within its structure it is divided into a cooperative and an NGO. They have around 40 employees, 70 volunteers and branches in all the major cities in the French-speaking part of Belgium. Volunteers are engaged by Credal to form an external loan approval committee. Employees are involved in governance and procedural matters. If they would like to, they can also save with Credal’s cooperative. Most of them choose to and this signals their belief in how the institution is run and its mission. Credal operates with 40 million Euros being owned by 4,000 members and 1 member, regardless of investment, has 1 vote.

During the visit Credal presented their products and explained that their target groups are mainly those who cannot access financial services at the bank. Profitability is not Credal’s goal. It is instead seen as a means to achieve their mission. Therefore more relevance is given to the quality of the offer, to the clients and to the social and environmental returns.

2.1 Lessons learnt during the visit:

- A cooperative as a model is different from any form of practice for financial transactions in Bosnia and Herzegovina. This is exactly why it was very interesting for MI-BOSPO learn the following:
  - first of all about the engagement of volunteers within credit approval process,
  - that members can be clients – using their own funds to finance their activities;
  - that members are willing to have their savings used to fund and target clientele: refugees, people excluded from all financial access;
  - that members expect their funds to be used for social and environment projects and projects that are about creating self-employment and job creation and/or other socially beneficial activities;
  - At Credal, non-governmental organisations (NGOs) can be clients too. This is not a case in Bosnia and Herzegovina. The NGO became a new target for some banks in Belgium, and it proved to have a good track record.
The main problem for NGOs is usually liquidity. Donors commit to funding, but the transfer of these funds does not coincide with the period of the project implementation. This kind of funding has not been activated in Bosnia and Herzegovina as NGOs are seen as project-based organisations that do not have their own funding to secure a loan from the banks or from microcredit organisations.

- Real commitment to start ups, and social and environmental issues
- Credal’s advocacy for the clients and help with administrative procedures to not limit unemployment benefits for the first year of a start-up.

3. microStart

MicroStart has three main mission directions: the first is about providing access to financial means, the second is about training and the third - named promotion – is about advocacy work to create a more favourable climate for micro and small entrepreneurs in Belgium.

MicroStart was created in 2011 by BNP Paribas Fortis, the European Investment Fund, Partena – a government institution for entrepreneurship development - and Adie.

MicroStart is solely driven by the mission of providing both financial and business development services and has a strong belief in a volunteer force to support their clients. They give support to both start-ups and already existing enterprises. Currently they are investing in a digital platform, evolving to create a 360° view of their stakeholders in one system based on cloud technology, creating the best suitable system to support their staff and volunteers.

MicroStart has a coaching entity that engages volunteer: people who have experience and knowledge and want to help entrepreneurs in starting up and improving their businesses.

3.1 Lessons learnt during the visit:

MI-BOSPO learnt some similar lessons to the ones from the cooperatives as well as about the potential of creating relationship between cooperatives and non-profit organisations in serving the clients. For example:

- Visiting microStart showed that it is possible for clients to receive both financial and non-financial services from, visibly, one entity. To be more precise, different legal entities are presented as one towards the community and/or clients.
- Furthemore, MI-BOSPO learnt that microStart do not see profit as a goal as they also work with subsidies.
- MicroStart is willing to work with/advocate towards the government so that micro and small entrepreneurs can more easily register for and access government funds.
- MicroStart is investing in ensuring easier access to their services using available technologies.
- MicroStart values and its strength in public and private partnership.
- MicroStart is exploring the possibility of keeping data on a cloud based technology for security and regulatory aspects.

Key lessons to be adopted from the three practical visits:

- A collaboration of public and non-governmental sectors. It may be interesting to test whether such an involvement could be used to further improve the financial inclusion matter within the MI-BOSPO area of activities.
- The improvement of the social performance management. It could be useful for MI-BOSPO to use some examples to further internally and externally promote and manage its social performance.
- Although it is difficult, based on legal framework, to engage with volunteers, MI-BOSPO can try to find opportunities for having a project that involves talent and knowledge from the experts' community.

ADVOCACY

4. DG NEAR, meeting with Mr. Roberto Estellés-Colom

The Commission’s Directorate-General for Neighbourhood and Enlargement Negotiations is responsible for EU policy on enlargement and the EU’s eastern and southern neighbours. It is also responsible for relations with the member countries of the European Economic Area and European Free Trade Association insofar as Commission policies are concerned.

MI-BOSPO was very interested in setting up such a meeting as it represents an opportunity to introduce their operations, to present the Bosnian legal framework and to learn more about potential collaboration to support microcredit sector from the policy development side. MI-BOSPO was also looking to present the issues the clients face and to present the business model that should be able to reach more unbanked people, in order to move towards even deeper financial and social inclusion, job creation and support to micro, small and medium businesses.
MI-BOSPO is registered as a microcredit foundation. Foundations are allowed to disburse loans up to 5,000EUR and companies – either joint stock companies or limited liability companies – are allowed to disburse loans up to 25,000EUR. All microcredit organisations must be profitable and pay taxes. The retained earnings (microcredit foundation profit) is reinvested back into portfolio as a legal requirement. Microcredit organisations are regulated by banking agencies that operate under the authority of the Ministry of Finance.

During the meeting MI-BOSPO representatives shared their concerns about MI-BOSPO’s access to funding that can ensure they are even more efficient so their clients in turn have access to more affordable funding. MI-BOSPO representatives also shared their concerns about the administrative burden for people to access entrepreneurship activities, and they express the need to be more encouraged to invest their own funding in creating job opportunities, and also how simple changes in supporting start-ups and existing businesses to grow can make a big impact on increasing employment opportunities. MI-BOSPO also express a worry about the insufficiently implemented legal framework for microfinance to improve its support to low income people who lack opportunities to raise funding and who also lack educational and support services for their economic endeavours.

The DG NEAR representative shared information on the funding supported by the European Union available for the microfinance sector in Bosnia and Herzegovina such as the European Fund for Southeast Europe (EFSE), implemented together with the German Development Bank Kreditanstalt für Wiederaufbau (KFW). Some Bosnian microcredit organisations already use existing financing via EFSE and KFW. Unfortunately, other EU funding for microfinance available in the region such as the Employment and Social Innovation (EaSI) is not accessible in Bosnia and Herzegovina as it requires a national contribution by the interested country.

4.1 Lessons learnt during the visit:

- That DG Near is present in Bosnia and Herzegovina.
- MI-BOSPO is already using available funding via different fund vehicles.
- Furthermore, the meeting showed that Bosnia and Herzegovina could have access to other EU programmes should they decide to contribute to the budget.

5. European Microfinance Network

MI-BOSPO also met with the European Microfinance Network (EMN) to learn more about EMN’s operations and how MI-BOSPO can contribute to the network’s activities. MI-BOSPO took the opportunity to learn about EMN’s services and how EMN could
help to promote the sector and collaborate on policy advice regarding the advancement of microfinance in Bosnia and Herzegovina. EMN needed some information on Bosnian sector in order to be better informed for their efforts to assist in advocating for Serbian microfinance legal framework, MI-BOSPO shared their view on Bosnian crisis and sector’s reputation.

5.1 Lessons learnt during the visit:

- The meeting left both parties with more information on their individual practical aspects and set the scene for potential future collaboration, especially in using the available funding for Peer-to-Peer’s MI-BOSPO learning activities.
- Available sharing of activities on country level
- Sharing of activities is available via EMN website, one can learn about country level microfinance presence.
- Access to funding for peer to peer visits is available for Bosnia and Herzegovina microfinance institutions.
- EMN reward is an available activity for MI-BOSPO to access, too.
- EMN can be available for advocacy activities for Bosnia and Herzegovina microcredit sector.

Key lessons to be adopted from the two meetings:

- How to explore potential for social investing. DG Near is an interesting vehicle and, in addition to this, MI-BOSPO should look into other available resources such as Helenos, the first European private equity fund or Cosme, the programme for the “Competitiveness of Enterprises and Small and Medium-sized Enterprises”.
- Bosnia and Herzegovina sector cannot access funding before it is eligible.
- Lastly, MI-BOSPO can take advantage of EMN’s availability for peer to peer funding and for advocacy activities.