

Responsible Finance

Stories of Impact

This series provides examples of our impact, expertise and lessons learned working with clients and partners.



Reducing Over-indebtedness for Bosnia and Herzegovina's Microfinance Borrowers

Microfinance has been a lifeline for many in Bosnia and Herzegovina, playing a critical role in helping people - particularly women - recover from the conflict.

Yet the rapid growth of microfinance industry combined with limited financial literacy among its customers resulted in multiple borrowing and over-indebtedness. Aggravated by the financial crisis, over-indebtedness led to a dramatic rise in non-performing loans and an average of 40 percent loss in equity. By 2009, one-third of microfinance clients in the country had at least two loans and were unable to make on-time repayments.

In partnership with other organizations, IFC is working to restore Bosnia and Herzegovina's microfinance sector by promoting Responsible Finance practices: consumer protection, financial institutions self-regulation, and financial education. In addition, IFC focuses on debt resolution and improving the legal and regulatory environment for microfinance.

“IFC raised awareness about Responsible Finance among MFIs in Bosnia and Herzegovina, engaging them in financial education initiatives and shedding light on the issue of over-indebtedness”.

— Nejira Nalic, CEO, MI Bospo

RESULTS & IMPACT

IFC played an important role in developing Bosnia and Herzegovina's microfinance industry before the financial crisis and in recovery efforts post-crisis. To date, IFC has:

- Invested over \$ 25 million in three microfinance institutions (MFIs) in Bosnia and Herzegovina since 1999 and more through Microfinance Investment Vehicles (MIVs)
- Facilitated drafting of the *Law on Protection of Consumers – Users of Financial Services*, currently in legislative process
- Provided advisory services to *Plus*, a personal responsible finance association focusing on debt resolution. Since 2010 *Plus* has:
 - Educated more than 7,000 people in Bosnia and Herzegovina through personal finance workshops
 - Provided financial counseling and mediation services to 2,050 individuals
 - Developed a unified framework for debt resolution process and engaged ten local commercial banks and MFIs to form a debt counseling steering group
 - Joined the European Consumer Debt Network, a non-government organization aimed at mitigating over-indebtedness and financial exclusion

The Opportunity

The rapid growth of the microfinance industry in Bosnia and Herzegovina in the late 90's provided much-needed access to finance for people, whose economic well-being was disrupted by the war. The sector has also been one of the key drivers of job creation in the country, with every microfinance borrower employing two people on average.

However, a flood of liquidity along with low financial literacy in Bosnia and Herzegovina resulted in multiple borrowing and subsequent over-indebtedness. The financial crisis of 2008 worsened the situation, further undermining public and investor trust in the country's microfinance industry.

With nearly 300,000 microfinance borrowers, representing over 10 percent of the country's population, the crisis of over-indebtedness has become a serious issue. Yet many over-indebted clients in Bosnia and Herzegovina are reluctant to seek professional counseling, since the cultural norm is to rely on friends and family for financial matters.

Our Approach

IFC has been engaged in Bosnia and Herzegovina's microfinance industry since 1999, directly investing \$25 million in three local microfinance institutions (MFIs) and providing over \$60 million through dedicated investment funds. Having foreseen the challenges posed by the rapid growth of the sector, IFC had been advising its clients on microfinance best practices long before the crisis.

In the aftermath of the financial turmoil IFC's focus entirely shifted from expanding Bosnia and Herzegovina's microfinance portfolio to a comprehensive effort to revive and consolidate the industry while tackling the over-indebtedness issue.

IFC promotes Responsible Finance framework in Bosnia and Herzegovina as the main vehicle to address multiple challenges facing the country's microfinance sector. The three pillars of Responsible Finance - consumer protection regulation; financial institutions' self-regulation; and financial education – support the enabling environment to revive the microfinance industry and reduce over-indebtedness.

• Industry level

At the industry level, IFC partnered with Consultative Group to Assist the Poor (CGAP) to provide comments for the draft *Law on Protection of Consumers – Users of Financial Services*, which is currently in legislative process. The law will facilitate a more transparent financial market through better information to clients and effective mechanisms of dispute resolution.

• Institutional level

IFC worked with Bosnia and Herzegovina's microfinance institutions in several areas. Firstly, IFC helped establish clear "ground rules" for debt resolution. In cases when a borrower has multiple loans from different MFIs, this industry-wide framework helps prioritize payments and avoid aggressive collection practices.

Secondly, to make the sector more transparent, IFC assisted in unification of the key standard documents for debt counseling - such as common financial statement.

Lastly, IFC partnered with SMART Campaign, which ensures compliance with core principles for fair treatment of microfinance clients and prevents over-indebtedness. These principles embed client protection into operations and serve as a mechanism for market recognition of responsible MFIs. Three MFIs in Bosnia and Herzegovina have been certified by SMART - among the first in the world.

• Consumer level

IFC helped establish *Plus*, a non-profit debt advice center. Since 2009, over 7,000 people participated in its personal finance workshops, and over 2,000 individuals received debt counseling and mediation services. Over 40 percent of over-indebted microfinance clients who turned to *Plus* for counseling were able to work out a financial plan to re-pay their loans.

In addition to face-to-face workshops, *Plus* established a telephone hotline on debt issues and a mobile financial education program.

To achieve maximum reach, *Plus* is now expanding its educational program to employees of local governments and large private companies, who are often asked to be guarantors for microfinance loans because of their regular salaries. Supermarket chain Merkator, Sarajevo Gas Company, and the municipalities of Sarajevo and Tuzla became *Plus*' first partners in this initiative.

With IFC support, *Plus* credit experts are training the staff of local social work centers, municipalities, and free legal assistance offices in debt resolution, thus paving the way to make making debt counseling services in Bosnia and Herzegovina more sustainable.

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries.

REGION: EUROPE AND CENTRAL ASIA | COUNTRY: BOSNIA AND HERZEGOVINA | STRATEGIC PRIORITY: FRAGILE AND CONFLICT-AFFECTED STATES |
THEME: MICROFINANCE, RESPONSIBLE FINANCE | BUSINESS LINE: ACCESS TO FINANCE

CONTACT

Lory Camba Opem | Washington, DC
LCamba@ifc.org | +1 202 4733609
ifc.org/gfm

Nataša Goronja | Sarajevo
MGoronja@ifc.org | + 387 63560840
ifc.org/gfm

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