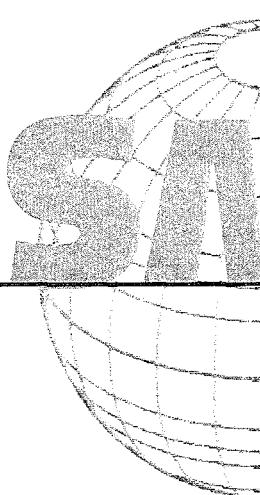


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SMEFACTS

NEWS ABOUT WORLD BANK GROUP SMALL AND MEDIUM ENTERPRISE INITIATIVES
Vol. 1, No. 13 September 2000

Micro Enterprise Bank, Bosnia

Promoting Economic Growth and Financial Sector Development

IN BRIEF

NAME:

Micro Enterprise Bank, Bosnia and Herzegovina (MEB-Bosnia)

SPONSORS:

IFC; European Bank for Reconstruction and Development (EBRD); FMO (Netherlands); KfW (Germany); Internationale Micro Investitionen AG (IMI); Technical co-operation and onlending funds have been provided by the Governments of Japan and Norway, the European Union and IFC. From November 1997 to December 1999, MEB Bosnia was managed by staff members of Internationale Projekt Consult (IPC) GmbH, Frankfurt.

BEGAN:

November 1997

TRACK RECORD:

In less than three years the bank has developed a strong \$8.5 million micro/SME loan portfolio and achieved profitability.

SMEFACTS
 is a publication
 of the
 World Bank Group
 SME Department.

Director:
 Harold Rosen

For Information
 Contact:

Rob Wright
 Rwright@ifc.org
 Tel. # 202 473 7997
 Fax # 202 522 3742

Since the end of its devastating war in 1995, Bosnia and Herzegovina (BiH) has undertaken a massive reconstruction effort with support from the international community. Annual per capita GDP, which had shrunk to about \$500, has doubled over the last five years. Thanks to the currency board arrangement the country has enjoyed monetary stability. However, a difficult political environment, severe governance problems and a lack of structural reforms call into question the viability of the country's economy in the medium term.

Sustained economic growth, however, requires urgent private sector development.

Private micro and small enterprises (MSEs) play a key role in this process. In addition to the many



Craftsman: MEB-financed goldsmith at work in Sarajevo.

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enterprises that operate informally, it can be assumed that there are more than 50,000 private enterprises registered in Bosnia and Herzegovina, the vast majority of them micro businesses with fewer than five employees. As in other transition economies, trade enterprises account for most of the country's private MSEs. About 30% of these are service enterprises, while small-scale producers probably account for less than 20%. The developmental constraint most frequently cited by private MSEs is their insufficient capitalization and lack of access to credit. Over 90% finance their operations exclusively with their own funds. Most of the entrepreneurs who are making use of borrowed funds have obtained loans from relatives, friends or informal lenders, whereas bank lending plays an insignificant role.

MEB-Bosnia was set up in November 1997 to address these issues. It is working to alleviate the financial constraints faced by micro and small enterprises by providing financial services on a country-wide basis that are specifically tailored to their demand. The institution focuses on lending, deposit-taking, current account facilities, and domestic and international money transfers. The bank's corporate objective is to build an institution that will be an enduring part of the local banking sector and thus contribute to the development of the financial system in Bosnia.

MEB was founded because, although Bosnia is highly overbanked, there is a severe underprovision of financial services to the target group. Both state-owned and private banks are very fragile due to their high levels of non-performing loans, improperly provisioned assets, and dubious links between shareholders, customers and banks, implying serious governance problems. It was therefore not surprising that when the local authorities began tightening their control over financial institutions, a number of banks went into receivership or are about to be liquidated. And as time progresses, more of the 40 banks that are still operating in Bosnia are also likely to close down or merge.

In addition, most banks do not show any interest in serving MSEs on a significant scale. For example, the loans available from commercial banks start at about \$25,000 to \$50,000. On the other hand, a large number of non-governmental organizations (NGOs) provide loans and grants to micro enterprises, with loan amounts up to \$5,000. However, NGOs are neither able nor allowed to provide micro and small enterprises with those non-credit financial services they require in their daily business operations, e.g. savings accounts, international money transfers and various types of bank guarantees. Moreover, the sustainability of many NGOs is questionable.

Results

MEB has now been in operation for almost three years. The results to date have been very satisfactory. Based on a network of five branches (Sarajevo, Ilidza, Tuzla, Bihać and Mostar), the bank's total assets have grown to \$12 million as of August 2000. The portfolio of loans outstanding comprised more than 2,800 loans with a combined total volume of more than \$8.5 million. The vast majority are in the \$1,000 to \$10,000 range. In the first eight months of this year, the disbursed average loan amount has been at \$4,000. The productivity of the bank's 20 loan officers has risen continuously to the point where they are, on average, each managing a portfolio worth \$400,000, consisting of 150 loans, up from \$240,000 and 80 loans in August 1998. Portfolio quality is high: only 0.7% of the outstanding balance was in arrears by more than 30 days.

Fifty percent of the loans on MEB's books were for working capital, the other half for fixed asset investments; maturities ranged from 6 to 36 months. Half of the outstanding portfolio was disbursed to companies operating in the trade sector, 34% to service companies and 16% to the production sector. In addition, MEB offers housing reconstruction loans at its Tuzla and Bihać branches. Housing reconstruction loans will also be added to the range of products available at the new Mostar branch, which has just recently opened.

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The volume of transactions in the Treasury and Payments Division has increased steadily. The number of current and savings accounts has grown to 2,050, with an aggregate deposit volume of \$2 million. The money transfer business has also developed relatively favorably: on average, 600 national and international transfers are now carried out at the five branches every month, with a combined total volume of \$2.0 million.

By June 1999, net income from operations had recouped the losses incurred during the start-up phase, and by the end of 1999 the bank had accumulated a retained profit of \$135,000. For 2000, a return on equity of about 15% is expected.

Outlook

It goes without saying that economic and political developments in Bosnia and Herzegovina and in the region as a whole pose considerable risks to the operational and economic performance of MEB. However, thanks to the relatively large number of loan contracts there is a considerable diversification of risk in MEB's loan portfolio, leaving the institution less vulnerable to economic fluctuations than other banks operating in Bosnia. The pending reform of the national money transfer system in Bosnia also presents considerable opportunities, as it will enable MEB, due to



MEB-Bosnia: Financing for Bosnian entrepreneurs.

its expanding branch network, to come a significant step closer to providing country-wide money transfer services. However, the main reason for optimism is the genuine commitment and solid financial expertise of the shareholders, executives and staff. On this basis, MEB can be expected to emerge as one of the strongest financial institutions in Bosnia and Herzegovina, playing a key role in the development of the country's financial sector. ■

For information about World Bank Group SME activities in Southeast Europe, contact:

Christopher Miller
Balkan Enterprise Facility, Sarajevo
Tel.: (+387-33) 217-76
Fax: (+387-33) 217-762
E-mail: cmiller3@ifc.org