BOSNIA AND HERZEGOVINA

Country Level Savings Assessment

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**List of Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>BiH</td>
<td>Bosna i Hercegovina (Bosnia and Herzegovina)</td>
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<td>CBBH</td>
<td>Central Bank of Bosnia and Herzegovina</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<tr>
<td>FBiH</td>
<td>Federation of Bosnia and Herzegovina</td>
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<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<tr>
<td>KM</td>
<td>Convertible mark (also known as BAM)</td>
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<td>MCO</td>
<td>Microcredit organization</td>
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<td>OHR</td>
<td>Office of the High Representative</td>
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<td>RS</td>
<td>Republika Srpska</td>
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EXECUTIVE SUMMARY

This report summarizes the fourth test of CGAP’s Country-Level Savings Assessment Tool, which took place in Bosnia and Herzegovina (BiH). The purpose of the toolkit is to help government agencies, donors, international networks, and technical service providers to define potential strategies for increasing poor people’s access to high-quality deposit services. The methodology examines four levels of the financial system: client demand, institutional capacity, industry infrastructure and support services, and policy. The assessment concludes with suggested strategies for improving the quality and quantity of deposit services available to poor and low-income households.

Bosnia and Herzegovina is in the process of rebuilding its economy and society after a destructive war which ended in late 1995 with the signing of the Dayton Accords. The banking system has received considerable attention and is today highly competitive, strictly regulated, and considered to be the most successful sector of the economy. However, a substantial amount of currency is still outside the banking system compared with other transitional economies.

Demand for savings services is constrained by mistrust in the banking system and the loss of savings habits during the war period. A recent survey shows that unmet demand is significant. However, the savings products currently on offer do not seem to provide the services that the unbanked population needs since banks do not direct their efforts towards mobilizing savings from the poor. While microcredit organizations (MCOs) know the low-income market and have incentives to gather deposits, they lack legal structures and the technical capacity to do so. Supervisory structures have been the focus of intense rebuilding efforts, but training and technical assistance for small-balance deposit mobilization, electronic payment methods, and liquidity management alternatives are all in need of development.

Based on the information gathered though this country assessment, seven suggestions for promoting quality deposit services for low-income people emerged:

1. **Conduct more research on the unbanked population** to provide information on their habits and needs.
2. **Carry out financial education focused on savings with low-income and unbanked clients** to provide information on banking services and rebuild trust.
3. **Develop specialized products and services** for low-income clients.
4. **Encourage partnerships between institutions** that bring together the capacity, permission, and incentive to mobilize small deposits.
5. **Offer technical assistance for bank downscaling.**
6. **Expand the e-payment infrastructure** to bring more money into the system and increase the convenience of access.
7. **Stimulate stronger communication and policy dialogue between policy makers and microcredit institutions** to clarify the legal infrastructure and to inform policymakers about the needs of the microfinance industry.

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1 For more information on the Tool, please see http://microfinancegateway.org/resource_centers/savings/country_level_assessments.
INTRODUCTION

This report summarizes the results of CGAP’s country-level savings assessment in Bosnia and Herzegovina (BiH). The assessment was conducted to test the Country Savings Assessment Toolkit under development as part of CGAP’s Savings Initiative. The purpose of the tool is to help government agencies, donors, international networks, and technical service providers to define potential strategies for increasing poor people’s access to high-quality deposit services.

Country-Level Savings Assessments gauge the level and characteristics of client demand for financial savings among low-income clients in a given country, and identify opportunities and constraints to meeting that demand. While poor people save in a variety of ways, including informal and in-kind savings as well as formal savings, this assessment examines the supply and demand of deposits in formal financial institutions. The methodology examines three levels of the financial system: 1) the capacity for small deposit mobilization among financial service providers (“micro” level); 2) financial infrastructure and second-tier support services for retail institutions (“meso” level); and 3) public policies and government entities that offer an enabling environment (or not) for savings mobilization (“macro” level). The assessment concludes with suggested strategies for improving the quality and quantity of deposit services available to low-income households.

The assessment draws on 1) analysis of existing studies and information on demand levels, institutional capacity and the macro environment in Bosnia (see Annex 6 for sources consulted) and 2) interviews with over 84 informants related to small deposit mobilization in BiH during the in-country assessment carried out September 12 – 23, 2005 (see Annex 7 for the list of interviewees); 3) visits to financial institution branches to collect information on savings products.

BOSNIA AND HERZEGOVINA: MOVING FORWARD, LOOKING BACK

BiH is a multiethic European country with a turbulent recent history, and it ‘moves forward with one eye on the rearview mirror,’ as one informant aptly noted. The series of wars marking the disintegration of the federation of nations that was Yugoslavia reached BiH in 1992, resulting in 250,000 of the prewar population of 4.4 million killed or registered as missing, and about half of the population forced out of its homes. The United Nations recorded around 1,325,000 refugees and exiles. The social fabric of the country was severely affected, and the country’s productive infrastructure, which had been heavily industrial, was nearly completely destroyed. Only a small fraction of the prewar working population of 900,000 was still employed after the war. Much of the population’s asset base, including housing, vehicles, farm equipment and livestock and household possessions was also lost or destroyed.

The banking system that existed at the end of the war in 1995 was weak, with most bank assets state-owned and over 90 percent of the loans non-performing. Most banks’ foreign currency deposits had been seized by the National Bank of Yugoslavia prior to the war. Several banks had failed at the end of the 1980s, and just under 2.5 billion KM (~$1.5 billion) in public savings were lost – slightly less than the current total amount of deposits.

More banks failed shortly after the war, and a subsequent crash in the late 1990s lost 50 million KM – which, as the third crisis within a relatively short period, had a considerable impact on client confidence. The Former Yugoslavia was the guarantor of the resulting ‘old’, or lost savings, and the Bosnian government has taken over this responsibility. The negotiation of a solution to this issue is still underway, and likely to be solved with long-term bonds and a small cash payment.

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2 For further information on CGAP’s savings initiative and information on small-balance deposit mobilization visit the CGAP Savings Information Resource Center (SIRC) at www.microfinancegateway.org/savings

3 See Marguerite Robinson (2001) and Stuart Rutherford (2001) for good descriptions of the savings habits of the poorer population.

4 The assessment team was comprised of Monica Lindh de Montoya, Independent Consultant; Rani Deshpande, Microfinance Analyst at CGAP; Jasmina GlisovicMezieres, Associate Microfinance Analyst at CGAP; and Ivana Busic, Logistics Coordinator for the mission.

5 BiH Demobilization and Reintegration Project, World Bank.

6 World Bank, Bosnia and Herzegovina. Poverty Assessment, 2003

7 Approximately USD 31.6 million at current exchange rates.
A number of currencies circulated in the country after the war. A currency board was set up in the Central Bank in 1997 and a new currency, the convertible mark (KM), pegged to the Deutsche Mark (DM), was introduced. When the DM was abolished at the end of 2001, the KM was pegged at 1.9558 to the Euro. The Euro still circulates widely; savings deposits are around 50 percent in Euro and 50 percent in KM. While the war disrupted links to international financial markets and produced a period of very high inflation, the currency board has delivered low levels of inflation similar to the Euro area.

Since the end of the war, the reform in the BiH banking sector has advanced faster and further than in any other sector of the economy. The entity legislatures passed new banking laws and established a deposit insurance agency, and the regulators undertook a courageous round of bank liquidations, among other actions. The stability produced by these reforms has encouraged a flood of foreign banks to enter the BiH market. Their appearance on the scene has been credited with increasing competition, raising standards, and improving services to the public.

However, economic statistics indicate that still more efforts and time are needed in order to bring BiH deposits in line with comparable countries. As shown in Figure 1, currency outside banks is high.

Several factors probably affect the amount of money in circulation. One is the large grey economy. Another is the substantial amount of remittances that enter BiH yearly, estimated to be about 13 to 14 % of GNP. According to average IMF figures from 1999—2003, Bosnians were the sixth largest recipients of remittances as a percentage of GDP worldwide. The World Bank database records formal remittance inflows at $1.1—1.2 billion per year between 2000 and 2003, but it is believed that between 30 to 50 percent of total remittances enter the country through informal channels (for example via travelers and international bus couriers). This implies that approximately $300—$600 million could be bypassing the banking system entirely.

CLIENTS: LEARNING TO TRUST

Satisfying current unmet demand for deposit services could more than double the number of accounts in Bosnian banks, but will depend in part on continuing to overcome a persistent lack of trust in the banking system.

Unmet demand for deposit services is significant

Despite the widespread use of banks before the war, relatively few Bosnians have bank accounts

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8 **IMF Balance of Payments Statistics Yearbook** and IMF staff calculations.

9 The high cost of sending funds via formal means is a reason for resorting to informal cash transports. According to a recent study (Schrooten, Bringing Home the Money - What Determines Worker’s Remittances to Transition Countries? 2005), Western Union charged 14.5 percent, or 14.5 Euros to send 100 Euros from Germany. Costs were even higher percentage-wise for smaller sums, but lower for larger sums.
today. In a survey conducted by Mareco Index Bosnia (MIB) in June 2003, only 26 percent of the participants in the survey said that they had a bank account of some kind. However, as illustrated in Figure 2, almost 1.5 times this number reported demand for a bank account.

Figure 2. Percentages of MIB survey sample with, without, or wanting savings accounts

![Pie chart showing percentages of MIB survey sample](chart.png)

The Bosnian banking system currently has approximately 1.5 million accounts (the deposit insurance agency covers 1.4 million accounts, which are estimated to represent 90% of the accounts in the system). Therefore, if only those who expressed demand for bank accounts could be brought into the banking system, accounts could potentially grow by 2 million – with another 2 million accounts possible if demand could be created among those that say they currently do not want bank accounts.

As illustrated in Figure 3, even a more conservative analysis that takes client income levels into account indicates that there are at least 650,000 attractive clients still unbanked in the market. If each of these clients could be enticed to open just one account, the total number of accounts would still grow by 50 percent.

Figure 3. Potential market segments by income level

![Graph showing potential market segments](graph.png)

Sources: World Bank, Mareco, authors’ calculations.

Demand is constrained by habits and trust

At the client level, perhaps the most relevant question is why 36 percent of Bosnians did not express any demand for deposit services. Our interviews indicate that this is partially due to lost habits. The long period during which they lacked a dependable banking system forced Bosnians to resort to alternative modes of saving, which have become new habits. These include saving larger amounts in hidden places at home, saving abroad, or investing in business, real estate, animals or goods. In addition, a generation of young adults that grew up during the conflict never had the opportunity to become accustomed to depositing in a bank.

However, interviewees indicated that a far larger obstacle lies in clients’ widespread mistrust of the banking system, an observation corroborated by findings from the Mareco survey. For example, when savers were asked whether they felt their savings were safe, 95 percent said yes. However, as illustrated in Figure 4, nearly 60 percent of these respondents...
were keeping their savings at home. Just under 30 percent of those who felt their savings were safe kept them in a bank, while nearly 5 percent invested in their businesses, 3.6 percent saved in life insurance products, and 1 percent saved in another country.

**Figure 4. Why do you feel your savings are safe?**

<table>
<thead>
<tr>
<th>Feel savings are safe</th>
<th>Feel savings are not safe</th>
<th>Keep savings at home</th>
<th>Keep savings elsewhere</th>
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<tbody>
<tr>
<td>95%</td>
<td>5%</td>
<td>36%</td>
<td>5%</td>
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While restoring trust in the banking system may overcome the reluctance of many to deposit, lack of confidence does not seem to affect those who do want a bank account, but do not have one. What prevents this segment of clients from accessing deposit services? The following section examines how well Bosnian banks are meeting the demand for deposit services that already exists in the market.

**MICRO LEVEL: A PARADOX OF INCENTIVES AND ABILITY**

Bosnian banks have little incentive to direct their efforts towards mobilizing savings from the poor; on the other hand, microcredit organizations (MCOs) know the low-income market and have incentives to gather deposits but they lack legal structures and the technical capacity to do so.

Banks are the only financial institutions permitted to receive deposits from the public in BiH. A new banking law has raised capital requirements in a series of steps from an initial 2.5 million KM (~$1.5 million) up to 15 million (~$9 million) as of the beginning of 2003, forcing many small banks to merge or find strategic partners. The result has been a salutary consolidation of the sector. The total number of banks dropped from 72 in 1998 to 28 in 2005, and non-performing loan levels dropped from 59 percent in 1999 to 11.5 percent in 2005.

Insurance companies also receive savings in the form of life insurance premiums, but this is only a small part of total savings deposits in BiH. Companies in FBiH wrote life insurance policies for 18 million KM (approximately USD 12 million) in 2003 and 27 KM million (approximately USD 18 million) in 2004, according to data on the website of the Insurance Supervisory Agency of the FBiH. Information for the RS was not available (see www.nados.ba).
2002.\textsuperscript{16} Banking sector employment has simultaneously grown from 6,986 in 2000 to 7,839 in 2004.\textsuperscript{17}

Bank ownership has also transitioned from public to private and now increasingly to foreign hands, as the clean-up and rationalization of the Bosnian banking sector spurs the entry of many foreign players (see Annex 3 for details on foreign ownership). Ninety percent of the capital in the banking industry was in private hands by the end of June 2003, as compared with just over half in the end of 2000. Sixty-seven percent of the capital was in foreign hands in mid-2003, and this percentage is steadily increasing.\textsuperscript{18}

Bosnian banks’ need for medium- and long-term funds provides additional impetus to this trend, as foreign ownership enables them to send short-term deposits abroad for investment by their parent banks, and receive longer-term lines of credit in return. The largest banks in the country are now foreign-owned, and there are expectations that even more local banks will be acquired by shortly as competition in the market remains intense.

\textbf{Dimensions of access}

Despite the increasing strength of the banking sector, the number of unbanked Bosnians indicates that banks are not meeting the needs of all potential clients. Physical access to bank branches does not seem to be a major obstacle, as the number of bank branches in BiH is relatively high at 809 (or 5,068 people per branch) and fairly well distributed throughout the country.

It is unknown to what extent banks reach the poorer sector of the population, especially people living in rural areas. In a focus group of microfinance practitioners held as part of this assessment, most participants believed that few people currently have to travel more than 30 minutes to get to a bank.\textsuperscript{19}

This may well be the case, as seen in Annex 8, which maps the branches and agencies of the six largest banks in terms of savings deposits.\textsuperscript{20}

At the product level, a survey of eight Bosnian banks’ basic deposit products (current accounts) indicates that they generally do not pose insurmountable obstacles in terms of affordability or accessibility (mystery shopping results are shown in Annex 4). Most banks do not require any minimum balance, and some even offer interest on current accounts regardless of the balance maintained – a relatively rare feature internationally. Monthly maintenance fees were also very low in relation to typical incomes; the most common amount charged, 1 KM, is just .5% of monthly poverty-line income in Bosnia. The requirement of an identity card to open an account is also manageable for the vast majority of people in Bosnia, where such IDs are widespread. Nor did any of the banks mention other costs or requirements to open or maintain accounts.

However, this last point brings up a criticism of bank offerings regarding the prevalence of “hidden” charges and conditions pertaining to bank accounts. Some interviewees reported anecdotes of less bank-savvy customers discovering such charges only at the time of or after making certain transactions, such as payments or account closures. While Bosnian bank products appear attractive at first glance, they may thus suffer from a certain lack of transparency regarding their true cost.

Whether true or not, this perceived lack of transparency signals a need for more attention to the client-service needs of customers who may be less used to dealing with banks. The wide-open banking market in Bosnia since the end of the war has prompted most banks to pursue a universal strategy, offering a wide range of relatively standardized products to appeal to the broadest possible target audience. However, the Mareco survey has shown, there is a large segment of potential clients whom these standardized products do not attract. While an egalitarian approach to clients is commendable, low income and/or rural clients may require more or different explanations and more personal treatment in order to feel welcome and well-served by a bank.


\textsuperscript{17} “Foreign buyers speed up Bosnia consolidation,” The Banker, October 3, 2005, p.16.

\textsuperscript{18} Nicholl, Bosnia and Herzegovina – progress and partnership, 2003.

\textsuperscript{19} BiH market research firms define about 43 percent of the population in BiH as rural, living in villages or settlements of 2,000 people or less (Lindh de Montoya and McNeil 2003:vii), but some estimates are higher. A census (none has been carried out after the war) is badly needed to generate dependable information on the characteristics of the current population.

\textsuperscript{20} These numbered 250 (of 809 total) and the banks plotted on the map are Raiffeisen Bank, Hypo Alpe Adria Bank (both Banja Luka and Mostar-based chains) Unicredit Zagrebacka Bank, HVB Central Profit, and Razvojna Bank.
Ability, but little incentive
Smaller, local banks seem to be most explicitly focused on a more personalized model of customer service because, in the words of one interviewee, “every customer counts for us.” Large foreign-owned banks express less need for small deposits, which are widely perceived to be costly to mobilize and mostly short-term. Although the banking sector is slightly underiquid overall, with 6.69 billion KM (~$4 billion) in loans and 6.02 billion KM (~$3.9 billion) in deposits in June 2005, 75% of loans are medium-or long-term as against only 40% of deposits. The fact that foreign-owned banks are able to import longer-term funds from their mother institutions for on-lending reduces their incentives to invest in mobilizing small deposits. The absorption of smaller local banks by larger players thus raises questions about whether consolidation may reduce service options for small depositors.21

Incentive, but no ability
With their very personal service and knowledge of low-income clients, microcredit organizations (MCOs) could be well-placed to address the client-interface needs of small depositors. Over 50 organizations offering microcredit are registered in BiH, but only about fifteen are substantially active (for a table of leading MCOs, see Annex 5). Their method of interfacing with low-income clients would give MCOs an advantage in mobilizing small deposits, and their rapidly growing and largely short-term loan portfolios mean that they also have a strong incentive to do so. While banks have regulatory permission to collect small deposits but little incentive, the situation is exactly the opposite among MCOs. Lack of regulatory permission to collect deposits has in turn meant that MCOs have not developed the internal structures, processes, or skills to manage deposit mobilization.

There have been some limited attempts by MCOs to mobilize savings by using other methods than direct deposit-taking. LOK Micro, for example, offers a life insurance product in cooperation with Triglav, a Slovenian insurer. The MCO Mikra has taken another approach, mobilizing savings through a village banking model and thus illustrating the demand for deposit services among even the poorest MCO clients (see Box 2).

Box 2. Mobilizing savings through the zadruga - MIKRA
Using village banking methodology and a traditional concept known as the zadruga (collective group), Mikra has been able to facilitate and encourage savings among poor clients by collaborating with commercial banks. Microfinance clients form zadrugas with between 20 to 30 members, and these groups create a common "mutual support fund" that each contributor can access when needed.

The common funds are owned and only used by the groups, whose members decide how they can be used according to their internal arrangements and procedures. The remaining balance is kept in a group deposit account in a local bank, generating a regular market rate. The sums lent out to zadruga members are repaid with interest, which when accumulated over time, can generate earnings up to 40% annually for each group member, depending on the size of the group and its account.

Mikra simply facilitates this process in each group and ensures that the funds are not misused by individual members. The households that Mikra works with have an income of between 500 (~$300) and 2000 KM (~$1200). The average loan amount is 2000 KM or two-thirds the average size of the main players in the industry, indicating that Mikra works with a generally poorer section of the population. Nonetheless, Mikra now has 9000 active clients, who have accumulated 2 million KM in total funds through the zadrugas.

21 A possible exception to this trend could be the post bank, now undergoing privatization. The reorganized post bank will have the largest number of branches and possibly the deepest geographical outreach in the country. It also plans on a more service-oriented approach than conventional banks, including outreach efforts to youth and senior citizens, many of whom already receive small consumer loans and remittances there. With appropriate products and management, the post bank could be well-positioned to provide deposit services to the low-income market.

22 The microcredit sector has been supported by the World Bank Local Initiatives Project, which provided funding and technical assistance to facilitate the development of strong, financially viable institutions and to create an appropriate legal and regulatory framework. Seventeen organizations were supported in the first phase of LIP, and eight in a second phase. Seven of these eight organizations had reached full financial sustainability over the course of the first project (LIP 2 2003).
MESO LEVEL: STILL EMBRYONIC

While supervisory structures have been the focus of intense rebuilding efforts, training and TA for small-balance deposit mobilization, electronic payment methods, and liquidity management alternatives are all in need of development.

Training and technical assistance

Training and technical assistance for small deposit mobilization present a particular problem in the financial sector as a whole. Expertise on this subject has not developed in the local market, and foreign banks send staff to their mother institutions for training. The training needed to design products and marketing strategies for low-income depositors is therefore unlikely to be found within BiH. However, both the bank and microfinance sectors do have industry associations that could serve as conduits for relevant technical support.

The Association of Bankers was founded in 2004 and already counts all BiH banks as members. It is the product of several years’ work to establish a state-level organization, and is committed to working on relationships between banks, establishing codes of conduct, and improving the general business environment. All members contribute to the association’s budget, five bank directors sit on the board, it has 100 registered expert advisors, and the strong support of the international community.

The association considers education to be one of its core functions, and conducts seminars and workshops on important current issues such as the effect of the upcoming VAT on the banking sector. They see their role in training and education as very broad; for example, an initiative currently underway concerns working with banks and the police to inform both about the legal requirements and implications of anti-money-laundering legislation. Although marketing to low-income clients does not currently figure among their training topics, the staff expressed understanding of the importance and market potential of this segment.

The Association of Microfinance Institutions (AMFI) is the microfinance counterpart of the Association of Bankers. It grew out of the World Bank Local Initiatives Projects (LIP 1 and LIP 2), although membership is open to all licensed and registered microfinance organizations that have been providing services for a minimum of 12 months and are willing to submit to an audit report. With the end of LIP 2, it is intended that AMFI will continue the training, research, support, advocacy and lobbying activities formerly undertaken through the project. The staff is well-qualified to meet future challenges which include undertaking the important task of political lobbying for the microfinance sector, establishing appropriate industry standards, and working towards legislation allowing MCOs to develop new business options and sources of funding. There is some question, however, as to how well AMFI will be able to replace the World Bank initiative.

Supervisory structures

Supervisory structures are a bright spot at the meso level in BiH. Bank supervision is done by two entity banking agencies, with a coordinating role for the Central Bank, and supervisory quality has increased significantly with technical assistance from donor organizations. Plans are underway to merge the two banking agencies into the Central Bank (CBBH) to strengthen the independence of bank supervision.

In addition, a state-level Deposit Insurance Agency was established in 2002. An independent non-profit organization with assets of 1.2 billion KM (~$716 million), the agency recently raised the maximum level of insured deposits from 5,000 KM (~ $3,000) to 7,500 KM (~$4,500) per person per bank, with the eventual goal of reaching the Euro-area standard of 20,000 Euros (~ 40,000 KM). As of the end of July 2005, insured banks held over 90 percent of savers’ deposits, and 1.4 million accounts were covered – most of them with a balance well under the insured amount. In September 2005, twenty-two banks were insured by the agency, and three more were in line for membership.

In the last few years the agency has run aggressive marketing campaigns in order to present and to explain its role to the public via television, radio, and billboards, and has carried out market research to gauge their impact. Interestingly, insured banks are not the only ones to report upswings in deposits, suggesting that the agency may need to do more to distinguish banks that are covered. The agency believes that financial education is as important as informing the
public about deposit insurance, and plans to conduct additional campaigns together with the banks.  

**Payment alternatives**

The national payment system that existed in the Former Yugoslavia closed in 2001 and was replaced with a modern European-type system with two clearing houses. One is a real-time gross settlement system and the other is based on giro, and both are owned and operated by the Central Bank. Payments are processed by the commercial banks, and the stiff competition between banks is currently driving transaction fees down.

The e-payment system in BiH is still very limited. Croatia, with a population of 4.5 million, has 6.8 million debit and credit cards in force while BiH, with a similar population (roughly 10% less), has only 680,000 cards. The vast majority of ATMs are located at bank branches and do not accept deposits, rendering them of little value for increasing access to deposit services. Although to date there has been no coordination in establishing ATMs, interviewees indicated that the ATM and POS network has potential to double or triple in size.

Extending the e-payment infrastructure would help to bring cash into the banking system and keep it there, but a number of obstacles constrain such expansion. A race to establish acquiring networks several years ago led to inadequate screening of merchants by issuing banks, resulting in a rash of fraud. In addition, incomplete regulation governing e-payments means that settlement risk continues to be high. Perhaps in reaction to this, clients have been skittish about adopting card technology. Marketing campaigns geared mostly toward product awareness rather than overcoming customer apprehensions have not helped the situation.

In addition, the prevalent use of foreign switching centers (owned by foreign banks operating in BiH) to process card payments drives up the cost of such transactions. In 2002 a local card issuer attempted to establish a national switching center, but its efforts proved premature in the absence of a unified financial sector law. The possibility of opening a domestic switching center is still open, but runs counter to the business incentives of established players, who earn more fees when transactions are routed through foreign centers. Nor are consumers active or educated enough to push for the establishment of a national switch.

A final obstacle to the spread of e-payments relates to the preference for cash payments among grey-economy and even many formal employers. As direct deposits are the main driver of card growth, increase in usage has been slow. Government benefits and pensions can also be paid in cash, and it is estimated that 80% are received this way because of the convenience of doorstep delivery provided by the post office. Reducing the attractiveness of this cash delivery, for example by offering incentives to recipients to receive government payments in bank accounts, could therefore increase deposit mobilization both directly and by encouraging the use of cards.

**Funding flows**

The liquidity management mechanisms open to banks are quite limited. There are no treasury notes, no interbank market, and no repurchase agreements. The 95 percent term-matching requirement limits banks to sending demand deposits abroad for overnight investment, or keeping them with the Central Bank. Many opt for the latter, and banks are over-reserved by a total of about 600 million KM (~$360 million).

The MCOs’ main source of liquidity is bank refinancing, but if efficiently done, in the long run mobilizing deposits directly could be a less costly source of funding. In the absence of regulatory permission to mobilize savings, MCOs will continue to rely on financing from banks and the second-tier institution left behind by the World Bank’s LIP projects. KfW and SIDA have decided to fund loan guarantees of up to 15 million Euros in order to expedite commercial loans to the MCOs at lower rates. The World Bank’s coordination of donor support to the sector has until now done an admirable job of keeping subsidized on-lending funds to a minimum, and it is hoped that this situation will continue to encourage MCOs to operate on a financially sustainable basis.

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23 Interview with Josip Nevjestic, Director, Agencija za Osiguranje Depozita (Deposit Insurance Agency), September 19, 2005.

24 Interview with Amel Kovacevic, General Manager, Bam Card, September 21, 2005.

25 They will also provide 500,000 Euros for technical assistance.
MACRO LEVEL: A RED HERRING

Banking laws may discourage small-balance deposit mobilization

The regulatory framework in BiH has been much discussed and much maligned as discouraging small-balance deposit mobilization. It is true that some aspects of the banking law, such as strict asset-liability matching rules, provide disincentives for banks to go down-market in deposits. At 95 percent matching, Bosnian banking ratios are among the most conservative in the world. This renders short-term deposits all but useless for lending, which in turn discourages further deposit mobilization, especially from small-balance savers. While there is good reason for this conservatism considering Bosnia’s history and the need to build public confidence in banks, anecdotal evidence from around the world indicates that demand deposits are more stable than the current prudential ratios would suggest.

Unfortunately, too, is the fact that there are no other institutional forms, such as savings and loans associations or cooperatives, with legal frameworks that would encourage them to target different client niches. One banker noted that large and small banks have opposing goals – while the large ones want to raise capital requirements in order to fund larger projects such as infrastructure, the smaller ones want to keep the requirements lower and concentrate on smaller and more specialized markets.

While increasing minimum capital requirements thus seems to work against the survival of small banks more focused on low income clients, they are not currently prohibitive. Procredit Bank focuses on small deposits under current laws and regulations, and local banks such as Gospodarska Bank and Vakufska Bank approach this market as part of their overall customer mix. It is thus unclear how much the lack of lower-end deposit services is due to legal obstacles, and how much to a standardized approach and lack of awareness of or interest in the potential in such markets.

Box 3. Macro-level Institutions in BiH

The main regulatory institutions are the state-level Central Bank and the entity-level Banking Agencies and Ministries of Finance. The Central Bank (CBBH) was established in August 1997, and is the only monetary authority in BiH. The Banking Agencies were established in 1998, and are charged with supervision and enforcement of banking regulations. These agencies have been instrumental in ‘cleaning up’ the banking sector after the huge defaults prior to and just after the war. The Ministries of Finance have the responsibility of monitoring the financial sector and initiating new laws. MCOs are monitored by the Ministry of Social Affairs in FBiH and the Ministry of Finance in RS, but in practice left this to the LIP project. It is expected that future monitoring will be done by the Banking Agencies.

Nonetheless, alternative institutional forms could be helpful at some point in the development of the sector. A new banking law expected to pass in late 2006 may address the need for these forms, but there is understandably great wariness of opening the door to a multitude of more loosely regulated institutional types and new players. The sector is likely to move towards greater consolidation with improved alternatives for liquidity management.

Microfinance law is less of an obstacle than thought

Establishing the legal framework for the microcredit sector was the most challenging of the Local Initiatives Project’s first-phase goals. After considerable compromise and delays, similar microcredit laws were passed in 2000 in the FBiH and in 2001 in the RS. The MCOs have grown rapidly and some MCO leaders are concerned about the lack of clarity in the law regarding the diversification of activities into new products such as micro-insurance and micro-leasing. Also, by 2003 there was some concern that as donors left BiH it would be difficult for MCOs to access funds for continued lending. Some organizations viewed savings mobilization as a possibility for increasing outreach and mobilizing inexpensive funds.

26 The International Fund for Agricultural Development (IFAD) has tried to gain governmental support for a law on savings and credit associations that they have drafted in order to establish such associations for farmers. Efforts have been unsuccessful, however, and IFAD has reduced their level of engagement in this area.
LIP's second-phase project chose to focus on making it possible for MCOs to transform from non-profit organizations into a commercial legal form. The new MCO law, which was expected to pass by the end of 2005, provides MCOs with the possibility of registering as foundations with a capital of at least 50,000 KM (~$30,000), or as finance companies with a minimum capital of 500,000 KM (~$300,000). As finance companies, the MCOs will become commercial entities that can enter into commercial partnerships or attract commercial capital. There is some disagreement as to the incentive to become a finance company, however, as the tax burden will increase substantially and it is still questionable what new products might be developed under the new law. The mobilization of savings will not be possible; the only way to move into that area directly is to become a bank.

However, there are ways for MCOs to work within existing regulations to facilitate access to deposit services for the low-income population (see Box 4). Although there seems to be some confusion around this issue, bank-MCO partnerships are legal. It is also fully possible for MCOs to transform into banks under the current framework. The new MCO law only facilitates this process by allowing MCOs to receive commercial equity. Current obstacles to this process are not legal, but stem from a lack of strategic investors and, sometimes, a lack of desire to transform on the part of MCOs.

Although the new MCO law will also open the door to bank buyouts of MCOs, it is questionable whether buyouts will result in better availability of small deposit services. Given their current liquidity situations, banks are likely to be interested in keeping MCOs as separate loan subsidiaries. The new law therefore does not pose additional obstacles to small-balance deposit mobilization beyond those that exist now.

A larger threat to MCOs might be the lack of familiarity and mistrust from some sections of the government. There is a general lack of understanding of the benefits of microfinance among BiH politicians. The issues of ownership of MCO assets and market-based interest rates are particularly questioned. With the closing of World Bank initiatives in the sector and the lack of a strong lobbying association, MCOs are concerned that they may become the victims of uninformed legislation due to simmering mistrust of their activities. It is imperative that microcredit activities are completely integrated into the mainstream financial system, and this is the wish of the donors that have been active in the sector. But such integration is far from complete.

Box 4. Bank-MCO partnerships: the case of Mi-Bospo

Market research carried out among MCO Mi-Bospo's poor women clients in 2005 showed that there was a demand for financial services such as savings and insurance in addition to the loans already offered. As Mi-Bospo cannot offer such services directly, other approaches were considered, and management concluded that cooperation with the commercial banking sector seemed to be the best way to provide a full range of financial services, particularly savings products. Analysis showed that if formulated and structured well, this partnership could meet client needs as well as bring strategic and financial benefits to Mi-Bospo and to the commercial bank involved. The MCO is currently finalizing negotiations with the bank chosen on the basis of the market research - the bank recognized by Mi-Bospo's clients as being 'the best' and the most flexible.

SUGGESTIONS

In light of the information gathered though this country assessment, seven promising strategies could promote access to quality deposit services for low-income people.

1. Conduct more research on the unbanked population.

There has been insufficient research on the numbers, needs and habits of people who currently do not use the banking system. Research should be conducted not only on the potential for mobilizing deposits from low-income clients, but also on their progression to products with higher revenue potential for banks, such as loans and money transfers. The MCOs, best situated to carry out such research, have no motivation to do so until they see the possibility of legally mobilizing deposits. The banks have hitherto only carried out

Lyman, Legal and Regulatory Environment for Microfinance in Bosnia and Herzegovina, 2005.
their own market research individually, but knowledge of the potential and needs of this market segment is of interest to all the banks. Collective research, useful to the entire sector, might therefore initially be carried out through a consortium to minimize costs. The Bankers’ Association would be well-placed to coordinate such research.

2. Carry out financial education focused on savings with low-income and unbanked clients.
While the former suggestion is focused on understanding potential clients, this one concentrates on increasing their understanding of the banking system, and the advantages that it can offer them. The BiH economy has been largely cash-based for the last fifteen years, and part of the population is not familiar with banking mechanisms. Bank offerings may be confusing to some of them. A number of informants underlined the importance of providing counseling on the strategic use of savings for particular life cycle needs. Greater transparency is also needed on fees and charges – no charge should ever come as a surprise to a client. Financial education on these topics could be carried out via the Bankers’ Association, through public awareness campaigns, as well as by banks within their branches. It could also build off the deposit insurance agency’s co-marketing with banks.

3. Develop specialized products and services for low-income clients.
Technical assistance may well be needed for this suggestion, and perhaps the kinds of products developed by microfinance institutions and credit unions operating in other countries can serve as inspiration. The Bauspar-system prevalent in certain eastern European countries is one such example: a collective self-help system providing housing finance, it consists of a savings phase prior to the investment and a loan phase after the investment.28 There are also a number of international institutions with considerable experience in developing small balance deposit services, which could be tapped to transfer knowledge and help implementation in local players.29

4. Encourage partnerships between institutions that bring together the capacity, permission, and incentive to mobilize small deposits.
By increasing each other’s capacity to provide small deposit services, banks and MCOs can team up to reach a wider population with a greater mix of products. The type of life-cycle customer research described in (1) above could be used to incentivize banks to enter into such partnerships. Retail institutions should work with regulators to explain the need for them and to develop deposit collection systems that satisfy concerns for the safety of client deposits. Organizations at the macro level must also clarify the legal parameters for such partnerships.

5. Offer technical assistance for bank down-scaling.
Another alternative for scaling up small-balance deposit mobilization is for banks to move into providing services to the low end of the market on their own. All banks are at least theoretically interested in this market, as BiH does not encompass a high proportion of wealthy people or corporate entities. It seems likely that the pressures of consolidation and competition in the banking sector will eventually lead some banks to diversify or specialize into the low-end market, especially the smaller ones. Technical assistance for downscaling could be provided on a cost-sharing basis by international donors and coordinated through mechanisms such as the Association of Bankers.

6. Expand the e-payment infrastructure.
Expanding the network of ATMs outside of bank branches and into rural communities can encourage people to deposit savings in and channel remittances through banks. Encouraging government benefits and pensions to be paid out via bank accounts will also bring new accounts and deposits into the banking system. Mobile telephone services may also be of interest to small depositors, if they provide an easy and cheap way to bank. The Association of Bankers should be able to play an important role in coordinating ATM expansion among banks, and lobbying to bring government benefits and pensions into the banking system.

7. Stimulate stronger communication and policy dialogue between policy makers and microcredit institutions.
With regard to MCOs, there appears to be considerable lack of clarity about what alternatives to

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29 See for example the product development consultancy MicroSave (www.microsave.org) and the World Council of Credit Unions (www.woccu.org).
direct deposit mobilization are or would be allowed by current and future laws. Some MCOs expressed reservations about pursuing business relationships with banks because they did not think it would be legal. Others expressed a desire for a new law in order to be able to transform into deposit-taking intermediaries, when this is not strictly necessary. We urge stronger policy dialogue between MCOs and policymakers, so that all uncertainties about future legal opportunities and limitations can be cleared up. Policymakers also need to become far more familiar with microfinance and its functions, in development and as part of a financial system. The microfinance association, AMFI, is one candidate to lead such discussions, but capacity-building within the organization is necessary before undertaking this role. Because the leader of such dialogue should be perceived as a disinterested ombudsman by all parties, AMFI’s position as an industry representative may also impede its effectiveness here. An alternative could be the Foundation Odraz, which is part of the government but has deep ties with and understanding of MCOs because of its role in administering the World Bank’s LIP projects.
## Annex. 1. Matrix of Opportunities, Obstacles, and Suggested Actions

<table>
<thead>
<tr>
<th>Level</th>
<th>Opportunities</th>
<th>Obstacles</th>
<th>Suggested Action</th>
</tr>
</thead>
</table>
| **Client Level** | - Substantial unmet demand for bank accounts                                  | - Lack of research on the savings needs and habits of the unbanked                                                                                         | (1) Conduct more research on the unbanked population.  
(2) Carry out financial education focused on savings with low-income and unbanked clients                                                                 |
| Micro Level  | - Reformed, well-performing banking sector  
- Dense bank branch network  
- Largely affordable products                                                                                      | - Banks' service approach not designed to attract those not comfortable with banks  
- Institutions most familiar with low-income populations (MCOs) cannot mobilize deposits                                                                   | (3) Develop specialized products and services for low income clients  
(4) Encourage partnerships between combinations of institutions to mobilize small deposits  
(5) Look into technical assistance for bank downscaling                                                                                                       |
| Meso Level   | - Industry associations potentially capable of coordinating sector-wide efforts  
- Strong deposit insurance agency, bank supervisors                                                                     | - Lack of domestic expertise in small-balance deposit mobilization  
- Limited e-payments infrastructure and liquidity management mechanisms                                                      | (5) Look into technical assistance for bank downscaling  
(6) Expand the e-payment infrastructure                                                                                                                        |
| Macro Level  | - Competent and respected institutions  
- Current legal framework allows bank-MCO partnerships and MCO transformation into a bank                                                                 | - Lack of clarity around deposit-taking possibilities allowed by current law  
- Certain aspects of banking regulations disincentivize small deposit mobilization  
- Lack of alternative institutional forms adapted for mobilizing small deposits                                                                          | (7) Stimulate stronger communication and policy dialogue between policymakers and MCOs                                                                         |
### Annex 2. Key Economic Indicators – Bosnia and Herzegovina

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, 2004 (est.)</td>
<td>4.18 million</td>
</tr>
<tr>
<td>Labor force</td>
<td>1.026 million</td>
</tr>
<tr>
<td>GNI per capita, 2004 (Atlas method)</td>
<td>2,080 USD</td>
</tr>
<tr>
<td>GDP, 2004</td>
<td>8.5 billion USD</td>
</tr>
<tr>
<td>GDP growth rate, 2004</td>
<td>6.2%</td>
</tr>
<tr>
<td>Inflation rate, 2004</td>
<td>0.4%</td>
</tr>
<tr>
<td>Average dollar exchange rate, 2004</td>
<td>1 USD = 1.58 KM</td>
</tr>
<tr>
<td>Average salary (gross)</td>
<td>784 KM in FBiH</td>
</tr>
<tr>
<td></td>
<td>642 KM in RS</td>
</tr>
<tr>
<td>Population under the poverty line, 2003 (6 KM/adult/day)</td>
<td>19.5%</td>
</tr>
<tr>
<td>Population vulnerable to poverty, 2003</td>
<td>30%</td>
</tr>
<tr>
<td>Official unemployment, 2004 (estimated)</td>
<td>44%</td>
</tr>
<tr>
<td>Estimated actual unemployment, 2004</td>
<td>20%</td>
</tr>
<tr>
<td>National savings (as percent of GDP)</td>
<td>3%</td>
</tr>
<tr>
<td>M2/GDP, 2004</td>
<td>51%</td>
</tr>
<tr>
<td>Currency outside of banks</td>
<td>1.6 billion KM</td>
</tr>
<tr>
<td>Bank branches</td>
<td>809</td>
</tr>
<tr>
<td>Population/bank branch</td>
<td>5,068</td>
</tr>
</tbody>
</table>


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30 Vulnerability is defined as not being under the official economic poverty line, but not having income in excess of 50 percent more than the poverty line (World Bank 2003). The vulnerable are at a high risk of falling into poverty due to unexpected events such as illness, loss of job, etc.

31 The official unemployment rate reflects the number of people officially registered as unemployed. As such registration is required in order to maintain health benefits, many workers in the informal or grey economy are registered as unemployed. The estimated actual unemployment rate thus provides a clearer idea of real unemployment.
Annex 3. Deposits in Selected BiH Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Majority Ownership</th>
<th>Total Deposits (KM millions)</th>
<th>Total Savings Accounts (thousands)</th>
<th>Total Individual Deposits (KM millions)</th>
<th>Individual Accounts (thousands)</th>
<th>Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raiffeisen Bank</td>
<td>Austrian</td>
<td>1,462</td>
<td>600</td>
<td>n/a</td>
<td>382</td>
<td>60</td>
</tr>
<tr>
<td>Unicredit Zagrebacka Bank</td>
<td>Italian</td>
<td>1,072</td>
<td>n/a</td>
<td>n/a</td>
<td>337</td>
<td>74</td>
</tr>
<tr>
<td>Hypo Alpe Adria Bank (Mostar)</td>
<td>Austrian</td>
<td>938</td>
<td>140</td>
<td>220</td>
<td>110</td>
<td>37</td>
</tr>
<tr>
<td>HVB Central Profit Bank</td>
<td>Austrian</td>
<td>600</td>
<td>n/a</td>
<td>220</td>
<td>n/a</td>
<td>36</td>
</tr>
<tr>
<td>Hypo Alpe Adria Bank (Banja Luka)</td>
<td>Austrian</td>
<td>498</td>
<td>n/a</td>
<td>110</td>
<td>n/a</td>
<td>29</td>
</tr>
<tr>
<td>Razvojna Bank</td>
<td>Slovenian</td>
<td>237</td>
<td>n/a</td>
<td>118</td>
<td>254</td>
<td>56</td>
</tr>
<tr>
<td>Volksbank</td>
<td>Austrian</td>
<td>205</td>
<td>n/a</td>
<td>123</td>
<td>n/a</td>
<td>12</td>
</tr>
<tr>
<td>UPI Bank</td>
<td>Local</td>
<td>180</td>
<td>n/a</td>
<td>65</td>
<td>n/a</td>
<td>12</td>
</tr>
<tr>
<td>Zepter Komerc Bank</td>
<td>Local</td>
<td>165*</td>
<td>100</td>
<td>93*</td>
<td>n/a</td>
<td>17</td>
</tr>
<tr>
<td>Nova Banjalucka Bank</td>
<td>Local</td>
<td>138</td>
<td>158</td>
<td>n/a</td>
<td>142**</td>
<td>44</td>
</tr>
<tr>
<td>CBS Bank</td>
<td>Slovenian</td>
<td>121</td>
<td>n/a</td>
<td>25</td>
<td>n/a</td>
<td>13</td>
</tr>
<tr>
<td>Nova Bank (Poteza)</td>
<td>Slovenian</td>
<td>116</td>
<td>60</td>
<td>n/a</td>
<td>n/a</td>
<td>31</td>
</tr>
<tr>
<td>ABS Bank*</td>
<td>Local</td>
<td>112</td>
<td>28</td>
<td>33</td>
<td>18</td>
<td>41</td>
</tr>
<tr>
<td>LT Gospodarska Bank</td>
<td>Local</td>
<td>104</td>
<td>44</td>
<td>64</td>
<td>38***</td>
<td>25</td>
</tr>
<tr>
<td>Vakufska Bank</td>
<td>Local</td>
<td>80</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>17</td>
</tr>
<tr>
<td>ProCredit Bank</td>
<td>IMI, EBRD, IFC, Commerzbank AG and KfW</td>
<td>41</td>
<td>25</td>
<td>20</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Union Bank</td>
<td>State-owned</td>
<td>20</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: Condensed Reports of External Auditors on the Financial Statements of Banks in the FBiH for 2004, and Annual Reports of Banks. In 2004, Average U.S. Dollar / Bosnian KM currency rate was 0.67.

Notes: (*) based on staff estimates; (**) total number of individual clients; number of individual accounts not available; (***) represents accounts with balances less than 1000 KM.

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32 As compiled from websites, September 2005.
Annex 4. Conditions for demand accounts in selected BiH banks

<table>
<thead>
<tr>
<th>Name of institution</th>
<th>Minimum opening balance</th>
<th>Documentation needed to open account</th>
<th>Maintenance fee</th>
<th>Minimum maintaining balance</th>
<th>Maximum per withdrawal</th>
<th>Fee on dormant account</th>
<th>Annual interest rate</th>
<th>Debit card?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procredit</td>
<td>0</td>
<td>ID card</td>
<td>0</td>
<td>0</td>
<td>no limit</td>
<td>0</td>
<td>0%</td>
<td>Yes</td>
</tr>
<tr>
<td>Nova Bank Bijeljina</td>
<td>0</td>
<td>ID card</td>
<td>1 KM monthly</td>
<td>10 KM</td>
<td>not limited, but need a day notice for larger amounts</td>
<td>none*</td>
<td>1%</td>
<td>Yes</td>
</tr>
<tr>
<td>Raiffeisen</td>
<td>0</td>
<td>ID card</td>
<td>1 KM monthly</td>
<td>0</td>
<td>one day notice if over 10,000 KM</td>
<td>0</td>
<td>1%</td>
<td>Yes</td>
</tr>
<tr>
<td>Hypo-Alpe-Adria</td>
<td>0</td>
<td>ID card</td>
<td>1 KM monthly</td>
<td>0</td>
<td>not limited, but need a day notice for larger amounts</td>
<td>0</td>
<td>1%</td>
<td>Yes</td>
</tr>
<tr>
<td>Unicredit Zagrebacka</td>
<td>0</td>
<td>ID card</td>
<td>1.65 KM monthly</td>
<td>0</td>
<td>not limited, but need a day notice for larger amounts</td>
<td>0</td>
<td>1%</td>
<td>Yes</td>
</tr>
<tr>
<td>Nova Banjalucka</td>
<td>0</td>
<td>ID card</td>
<td>1 KM monthly</td>
<td>0</td>
<td>not limited, but need a day notice for larger amounts</td>
<td>0</td>
<td>1%</td>
<td>Yes</td>
</tr>
<tr>
<td>Gospodarska</td>
<td>0</td>
<td>ID card</td>
<td>1 KM monthly</td>
<td>0</td>
<td>not limited, but need a day notice for larger amounts</td>
<td>0</td>
<td>1%</td>
<td>Yes</td>
</tr>
<tr>
<td>Volksbank</td>
<td>10 KM</td>
<td>ID card</td>
<td>2 KM monthly</td>
<td>0</td>
<td>not limited, but need a day notice for larger amounts</td>
<td>10 KM</td>
<td>3.75%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Mystery shopping, September 2005 (1 KM = $0.60).

* If no transactions for 12 months and balance is less than 10 KM, the account is closed and balance is recorded as income
## Annex 5. Leading MCOs in BiH, 2004

<table>
<thead>
<tr>
<th>Institution</th>
<th>Headquarters</th>
<th>Total Portfolio (KM)</th>
<th>Active Clients</th>
<th>Original Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner</td>
<td>Tuzla</td>
<td>43,023,712</td>
<td>19,834</td>
<td>Mercy Corps</td>
</tr>
<tr>
<td>Mikrofin</td>
<td>Banja Luka</td>
<td>41,712,722</td>
<td>14,033</td>
<td>CARE International</td>
</tr>
<tr>
<td>EKI</td>
<td>Tuzla</td>
<td>37,445,400</td>
<td>18,815</td>
<td>World Vision</td>
</tr>
<tr>
<td>Sunrise</td>
<td>Sarajevo</td>
<td>18,529,391</td>
<td>10,294</td>
<td>Humanitarian organization</td>
</tr>
<tr>
<td>LOK Micro</td>
<td>Sarajevo</td>
<td>15,385,870</td>
<td>5,097</td>
<td>Citizens association</td>
</tr>
<tr>
<td>Mi-Bospo</td>
<td>Tuzla</td>
<td>13,540,869</td>
<td>9,206</td>
<td>Humanitarian organization</td>
</tr>
<tr>
<td>Prizma</td>
<td>Sarajevo</td>
<td>13,356,055</td>
<td>12,603</td>
<td>International Catholic Migration</td>
</tr>
<tr>
<td>Benefit</td>
<td>Lukavica</td>
<td>12,514,673</td>
<td>7,068</td>
<td>Commission</td>
</tr>
<tr>
<td>Sinergija Plus</td>
<td>Banja Luka</td>
<td>12,137,786</td>
<td>3,340</td>
<td>Citizens association</td>
</tr>
<tr>
<td>Mikra</td>
<td>Sarajevo</td>
<td>10,340,288</td>
<td>7,735</td>
<td>Catholic Relief Service</td>
</tr>
<tr>
<td>Lider</td>
<td>Sarajevo</td>
<td>6,505,997</td>
<td>3,180</td>
<td>n/a</td>
</tr>
<tr>
<td>Mikro Aldi</td>
<td>Gorazde</td>
<td>3,354,215</td>
<td>3,805</td>
<td>Citizens association</td>
</tr>
<tr>
<td>Women for Women</td>
<td>Sarajevo</td>
<td>2,147,207</td>
<td>2,919</td>
<td>NGO Women for Women</td>
</tr>
</tbody>
</table>

Self-reported data from MFIs.
Annex 6. Sources Consulted


Social and Economic Background of Bosnia and Herzegovina available at: http://www.yearofmicrocredit.org/docs/countryprofiles/Bosnia_and_Herzegovina.doc

Stubos, George and Ioannis Tsikripis, 2004. ‘Banking Sector Developments in South-eastern Europe.’ Available at: http://www.wiiw.ac.at/balkan/files/GDN_EU_IBEU_Stubos_BankingSectorSEE.pdf


World Bank. 2001. Project Appraisal Document on a Proposed Credit in the Amount of SDR 15.8 Million (USD 20 Million) to Bosnia and Herzegovina for Local Initiatives (Microfinance). Project II, Human Development Sector Unit, South East Europe Country Unit, Europe and Central Asia Region.


## Annex 7. List of Interviewees

<table>
<thead>
<tr>
<th>Name</th>
<th>Position and Organization</th>
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</thead>
<tbody>
<tr>
<td>Mr. Alen Ambrinac</td>
<td>Manager, Deloitte d.o.o.</td>
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<tr>
<td>Mr. Mads Baden Jensen</td>
<td>Consultant, Carl Bro</td>
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<tr>
<td>Mr. Zlatko Bars</td>
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<tr>
<td>Mr. Tarik Barakovic</td>
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<tr>
<td>Mr. Nedzad Beglerovic</td>
<td>Finance Director, MCO “LOK”</td>
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<tr>
<td>Ms. Sadina Bina</td>
<td>Director, MCO “EKI”</td>
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<tr>
<td>Mr. Djenan Bogdanic</td>
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<td>Mr. Zeljko Bogdanic</td>
<td>Director, MCO “SINERGIJA PLUS”</td>
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<tr>
<td>Mr. Srecko Bogunovic</td>
<td>Member of Management Board, Hypo-Alpe-Adria bank</td>
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<tr>
<td>Mr. Mustafa Brkic</td>
<td>Deputy Director, Banking Agency of the Federation of BiH</td>
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<tr>
<td>Mr. Nedim Bukvic</td>
<td>Swedish International Development Agency</td>
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<td>Mr. Sanin Campara</td>
<td>Director, MCO “MIKRA”</td>
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<tr>
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<td>Deputy Director, Economics Institute of Sarajevo</td>
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<td>Mr. Nusret Causevic</td>
<td>Director, MCO “LOK”</td>
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<tr>
<td>Ms. Nusreeta Cerkez</td>
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<tr>
<td>Mr. Adnan Cobic</td>
<td>Acting Director, Business Network - CBS Bank</td>
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<tr>
<td>Ms. Emina Coric</td>
<td>Director of the Department, Department of Assets and Payments - ABS bank</td>
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<tr>
<td>Mr. Sefik Duran</td>
<td>Executive Director, SUNCE insurance</td>
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<tr>
<td>Mr. Aleksandar Dzombiec</td>
<td>Executive Director, Retail Banking - Nova Bank</td>
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<tr>
<td>Mr. Braco Erceg</td>
<td>Assistant Director, MCO “MIKROFIN”</td>
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<tr>
<td>Mr. Nikola Fabijanic</td>
<td>Executive Director, Gospodarska bank</td>
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<tr>
<td>Mr. Brian Fahey</td>
<td>Head of Project, United States Agency for International Aid-LAMP – Linking Agricultural Markets to Producers</td>
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<tr>
<td>Mr. Dzevad Gazibegovic</td>
<td>Provisional Administrator, Postbank BH</td>
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<tr>
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<td>Mr. Adnan Hrenovic</td>
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<tr>
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<tr>
<td>Mr. Petar Jurcic</td>
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<tr>
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<tr>
<td>Mr. Reinhold Kolland</td>
<td>Director, Volksbank</td>
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<tr>
<td>Mr. Amel Kovacevic</td>
<td>General Manager, BamCard</td>
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<tr>
<td>Mr. Goran Kovacevic</td>
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<tr>
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<tr>
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</tbody>
</table>
Country Level Savings Assessment

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Annex 8. Branch distribution of largest six banks in BiH