

# Microfinance in Eastern and Western Europe: A Comparative Analysis

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Microlending, Small Business Finance, Market Research

## Abstract

We assess the experiences of Eastern European Microfinance Institutions (MFIs) in order to derive recommendations for their Western European counterparts. In particular, six dimensions are discussed: (1) building a supportive stakeholder environment, (2) defining a marketing strategy, (3) using advanced technologies, (4) defining a comprehensive product range, (5) developing screening mechanisms, and (6) selecting the right staff. We then proceed to propose a detailed action plan that incorporates these recommendations and define concrete milestones for the completion of each specific project step. This might serve as a blueprint for nascent Western European MFIs planning to enter their market.

# Microfinance in Eastern and Western Europe – A Comparative Analysis

Christoph Kneiding<sup>1</sup> and Alexander Kritikos<sup>2</sup>

## 1. Introduction

Microfinance in Western Europe is on the rise. According to the industry's most comprehensive benchmarking report (EMN, 2006), the number of microloans disbursed between 2004 and 2005 grew by 15%. With the majority of actors having been lending since 2000, the sector in Western Europe is still young and diverse. As is the case with any infant industry, Western European Microfinance Institutions (MFIs) struggle to achieve scale. The most important strategic issues for the sector are related to funding and sustainability. Funding operational costs in particular is a significant challenge for lenders. The majority of MFIs are highly dependent on public and private sources for both operational costs and loan capital. The regulatory environment regarding usury and borrowing for onward lending constrains lender efforts to cover costs and achieve scale in many of these countries (EMN, 2006).

Insightful practitioner reports on the experiences of Western European MFIs are scarce. Two notable exceptions are the field report on Street UK's operations in London (Copisarow, 2000) as well as Aspire's candid briefing on its achievements, challenges and lessons learned during five years of operations in Northern Ireland (Forster et al., 2006). The question arises if these reports can be complemented through the substantial experiences that have been made in more favourable market environments like Eastern Europe, where roughly 4,000 MFIs served 2.2m customers and held a gross loan portfolio of USD 4.8bn as of 2004 (Pytkowska and Rataj, 2007). Clearly, having been exposed to vast unsaturated markets, these institutions are way ahead on the learning curve compared to their Western European peers and might serve as valuable reference points. This article will shed light on this issue, also having in mind that the market environments in Eastern and Western Europe are diverse.

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The implications we derive are generally applicable to any Western European MFI. Nevertheless, in order to get some specific insights, our focus will be the German market. The same applies to Eastern Europe, the source of potential learning effects: this region will be exemplified by Poland, the neighbouring country of Germany, where we were able to interview the CEOs of two landmark MFIs and of the Microfinance Centre (MFC) in Warsaw. We believe that this reduction to specific country examples is necessary to derive meaningful and – above all – practical implications for those MFIs considering entering the market. This outweighs the potential loss of the ‘big picture’ a more general review might produce.

The remainder of the paper is structured as follows: Section 2 presents a methodology for comparing the differing institutional frameworks in Eastern and Western Europe, exemplified by two countries: Poland and Germany. It closes by formulating a list of main barriers to growth for German MFIs. Section 3 identifies six central success factors of Eastern European MFIs, drawing on the experiences of two showcase institutions from Poland. Based on these findings, Section 4 proposes a detailed action plan for German MFIs intending to enter the market. Section 5 concludes.

## **2. Comparison of Institutional Frameworks**

The provision of microfinance in European countries is affected by a number of environmental factors, including the entrepreneurial culture, the financial system and welfare system, the legal framework as well as financial support given to microfinance institutions. The *eScorecard* is a tool for contextual benchmarking of microfinance environments between different countries in the EU that has been developed in a joint effort of different European regional actors (DG Employment, 2007). Five distinct dimensions have been rated by experts along different criteria which are then translated into a compound score, indicating how well a particular country fares on each dimension. This score takes values between 1 and 5, with higher values indicating a better rating. All in all, the *eScorecard* considers 5 dimensions, which are defined in the following way:

**a) Micro-Entrepreneurial Context**

- Macro-Economic Situation (measured by GDP growth per capita, net number of start ups per year, and size of the informal sector)
- Entrepreneurial culture (measured by self-employment ratio, enterprise fluctuation, and business survival)
- Public support of micro-entrepreneurs (measured by governmental strategy, programs, and administrative hurdles)
- Diversity of entrepreneurship (measured by the proportion of women and migrants in self-employment)

**b) Welfare Bridge**

- Scale and nature of inactivity trap (measured by scale and nature of long-term unemployment, and self-employment by unemployed)
- Activeness of labour market policy (measured by gross unemployment benefit replacement rate, and activating nature of labour market policy)
- Specific policy measures to foster self-employment out of unemployment (measured by governmental action plans to fight unemployment, and the availability of income support programmes)

**c) Legal Framework**

- Existence of specific regulations on microfinance
- Usury regulation (measured by existence and impact of a national usury law)
- Institutional Variety (measured by openness of the legal system)
- Regulation for non-profit NGOs

**d) Financial Bridge**

- Small lending culture in banks (measured by available products and national coverage)
- Existence and impact of MFIs (measured by number of institutions and number of deals)
- Public awareness of access to finance (measured by research activity, and existence of programs)
- Mainstreaming of microfinance (measured by cooperation between different actors, and policy incentives)
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### e) Funding and Support

- Gross operating margin (measured by comparing MFI interest rates and costs of lending)
- Public support for MFIs (measured by lobby activity, governmental agendas, and existence of guarantee schemes)
- Donor culture (measured by diversity of funding sources, and tax-deductibility of donations)
- National allocation of EU funds (measured by the positioning of entrepreneurship within the national ESF strategy)

A preliminary assessment has been conducted by a small group of experts for a set of six EU countries: France, Germany, Netherlands, United Kingdom, Poland, and Romania.<sup>3</sup> Figure 1 presents the average dimensional scores that each country has been assigned. Some major trends emerge: In terms of the legal framework, Germany and the Netherlands fare way below average, indicating a poor regulatory support structure for microlending activities. Furthermore, the experts attest Germany and France a rather poor entrepreneurial culture, which is expressed in the low score for the micro-entrepreneurial context. Funding and support are best rated for Poland and France, probably driven by the massive lobbying activities of two landmark institutions, Fundusz Mikro in Poland and ADIE in France. Finally, the financial bridge is rated especially low in Germany, indicating a low public awareness for the microlending topic.

	F	G	NL	UK	PL	ROM
Micro-Entrepreneurial Context	2,38	2,21	2,83	3,35	2,25	3,56
Welfare Bridge	2,67	3,11	2,89	2,56	3,00	3,33
Legal Framework	4,00	1,50	2,50	5,00	4,50	4,50
Financial bridge	3,75	2,88	3,63	3,88	3,13	3,00
Funding and support	3,46	2,25	2,63	3,17	3,67	2,89

Figure 1: eScorecard Country Scores (F=France, G=Germany, NL=Netherlands, UK=United Kingdom, PL=Poland, ROM=Romania).

For the purpose of this analysis we want to take a closer look at two specific countries: Germany and Poland (set apart with green and red colours in Figure 1). As

<sup>3</sup> It remains to be seen if these assessments are corroborated when extending the sample size, i.e. the number of persons interviewed. This second phase of the eScorecard project is still pending due to funding issues (source: email information by Stefanie Lahn of Evers&Jung).

Figure 1 indicates, three of the five dimensions are rather comparable, namely the micro-entrepreneurial context, the welfare bridge<sup>4</sup>, and the financial bridge. Major differences can be observed along the dimensions legal framework as well as funding and support. Compared with German MFIs, their Polish counterparts have received generous financial support, especially in their start-up phase (for example, Fundusz Mikro received a USD 20m grant through the Polish-American Enterprise Fund in order to start operations<sup>5</sup>). Furthermore, Poland, like most Eastern European countries, is endowed with an appropriate banking regulation with a microfinance lending window. This is not the case for Germany, where MFIs have to channel their loans through commercial banks, rendering the loan process extremely cumbersome and costly. Generally, Western European countries are dominated by rather rigid banking regulations and a more complex regulatory environment for small businesses.

We therefore advocate a list addressing the shortcomings within Germany's institutional framework hindering an efficient approach of German MFIs towards their potential clients. The comparative approach to Poland is very helpful, as it highlights two issues that need to be tackled in a joint effort of policy makers, regulators and microfinance practitioners:

### ***1) Improve the Legal Framework for Microlending***

At the moment, German micro-lenders have to use a commercial bank as an intermediary when extending loans to their customers. These commercial banks are rather reluctant to assume this role due to low numbers and no (or even negative) profits that are associated with this business. ADIE, an MFI from France, was able to open a special window in the French banking act for microlending activities. This excluded banks from the loan extension process, resulting in a sharp rise of loans extended by ADIE. National regulators in

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<sup>4</sup> It could be argued that Germany's score of 3.11 is too low on this dimension, given that there is a wide range of public support measures that encourage self-employment (the GEM (2007) survey, for example, ranks Germany first in this respect). We therefore think that the actual value of this score should be around 4.0.

<sup>5</sup> This reflects differing philosophies with regard to institution building. While the Polish American Enterprise Fund (and also to a certain extent the Polish government) are willing to fund the setting up of MFIs, this kind of institutional support is frowned upon in Germany. German policy is currently focussing on assisting the potential clients for these loans rather than financing pure infrastructure costs. This decision traces back to bad experiences in the past when institutions were financed over a longer period in other areas of public policy support instruments.

Germany should therefore be motivated to create a micro-finance windows or exceptions to overcome the barrier of a purely bank-based loan market.

## 2) *Secure Funding and Support for Microlending*

Polish experiences show that microlending is a business that needs to be subsidized in its initial stages. This is all the more true for Western European countries that are characterised by a more highly developed banking system and a lower market demand. The German Microfinance Institute (DMI) therefore formulated three essential funding demands that need to be covered by third parties if microlending is to be pursued further in Germany:

- ***Start-up costs*** (including market entry costs like research, advertising, branding etc.) for MFIs amount to around €40-50,000. This includes particularly the setting up of an organisational structure, the development of internal lending processes, as well as building networks with potential distributors like local development agencies or labour offices. Furthermore, loan officers have to be trained, which also has to be included in the start-up costs.
- ***Process costs*** of loan distribution (including monitoring and enforcement) lie around €800 per loan. This number has been extrapolated through (i) estimations by those MFIs that have already made first experiences in the German market; (ii) a comparison to the lump-sums that governmental banks normally pay to subsidise process costs of publicly funded loan schemes.
- Microlending in Western European countries is a risky business, as historical default rates are much higher than in any developing country (EMN, 2006). Considering the low numbers of loans extended by MFIs in Germany so far, their pioneering efforts should be supported by a ***risk coverage*** by means of private or public funds which makes possible defaults tolerable within the MFI's risk model.

## 3. **Success Factors**

Obviously, the differences in the institutional frameworks for microlending between Poland and Germany are significant. A discussion about possible learning effects from East to West should therefore concentrate on those success factors which are

more independent from external influences. For this purpose, the two major MFIs in Poland were interviewed:

- a) *Fundusz Mikro (FM)* was founded in 1994 by the Polish-American Enterprise Fund and was endowed with a capital of USD 20m. This money was extended gradually after certain milestones which had been set in advance were achieved.<sup>6</sup> During its initial phase FM experimented with several lending vehicles, inter alia credit unions, banks, post offices, and direct lending and also with several differing loan products. Gradually, its managers found out that direct lending had the highest potential and carried the least risk. Two thirds of the loans are nowadays used for investments, while the rest is spent on financing working capital. As of March 2007, slightly less than 100,000 loans had been disbursed, and around 14,000 active clients were served. This makes FM by far the largest micro-lender in Poland. And one has to add that the terms of stepwise access to the further funds (provided by the Polish American Enterprise Fund upon on-time realization of previous milestones) is a crucial success factor per se.

*Table 1: Comparison between Fundusz Mikro and Inicjatywa Mikro.*

	<b>Fundusz Mikro</b>	<b>Inicjatywa Mikro</b>
Legal Form	Non-Bank Financial Institution	Non-Bank Financial Institution
Main Funder	Polish American Enterprise Fund	Opportunity International
No. of loans extended	96,714 (03/07)	5,733 (09/07)
Active Clients	14,000 (03/07)	900 (12/06)
Average loan size (USD)	1,761 (09/06)	3,524 (12/06)
Working capital/investments	37% / 63%	48% / 52%
Local branches	37	4
Employees	150	15
Geographic Focus	National	Regional

<sup>6</sup> A relatively large start-off sum enabled a nationwide market entry and the opening of a large number of outlets. This kept process costs rather low in the following years, as FM's organisational structure was already rather developed.

- b) *Inicjatywa Mikro (IM)* was established in 1996 with the help of Opportunity International (OI) to support enterprise development and job creation in Southern Poland. In the beginning of 2000 it received around USD3.7m from the Polish government, allowing it to significantly extend its lending activities. The typical borrower of IM is an owner of a local store, a kiosk in an open-air market, a small restaurant, or a construction company. IM hopes that some of those companies will prosper to successfully move to the banking sector, which will be one of the indicators of the success of the program. As of September 2007, slightly less than 6,000 loans have been disbursed since inception with an average loan size of around USD 3,500, which is roughly twice FM's average.

In the following, six strategies will be presented that have made these two institutions successful. When selecting these strategies it was paid attention that they were also applicable within the Western European (especially German) institutional framework, taking into account the differences laid out in the previous chapter.

### ***3.1 Effective Stakeholder Management***

No MFI can act in isolation. It needs a network of supportive stakeholders that are committed to the MFI's cause and operate as multipliers for its mission:

- Natural partners for MFIs are local development agencies and labour offices. Both of them are interested in fostering local employment and will be more than willing to support its cause. It is advisable to use these institutions as entry points for future customers. Many people planning to start an own business are often not aware of the offers of MFIs (and of the differences between MFIs and classical banks, if there are any) and need to be informed on this issue.
- Key to every successful microlending operation is adequate funding in the start-up stage. It is therefore indispensable for MFIs to identify supporters in private or public sector organisations that are able to provide the necessary financial means. Possible examples are foundations (the USD 20m grant for FM by the Polish-American Enterprise Fund is a rather extreme example), or public bodies (IM received a 10m zloty loan by the federal government). The

question who is the ‘right’ supporter will strongly depend on the specific mission that the MFI serves and the target groups that are related to this mission. The milestone-driven approach for the case of FM (see above) is a good example for a long-term funding strategy that demanded the completion of certain tasks from the MFI’s management.<sup>7</sup>

- Last but not least, banks can be valuable cooperating partners. For example, FM realised that, as is the case with any MFI, it is extremely difficult to retain the top 10% of customers, as they tend to move on to the formalised banking sector. The management therefore decided to cooperate with commercial banks in terms of product range: in the near future, FM clients can obtain for example credit and debit cards and thereby access mainstream financial services. This strategy reduces attrition of these clients that are most valuable to MFIs, and banks also profit by selling more of their products – a classical win-win proposition.

### ***3.2 Marketing Strategy***

A well-targeted marketing strategy as well as a thorough market research was considered an essential success factor by both MFIs. Both interview partners pointed out that a traditional approach towards marketing by ways of an indiscriminate all-round distribution would not deliver the desired results. Instead of spending the marketing budget on expensive ad campaigns, three rather simple recommendations were made:

- ***Move branches from the floors to the street level.*** A common mistake of young MFIs is to choose a location that might be a nice place to work for the staff, but is not visible for walk-in customers. The client base is thereby automatically restricted to those that are well-informed about the institution (and take the hassle to search for it). Being more accessible sounds like a very simplistic recommendation, but has been neglected by many MFIs in the past.
- ***Set up shop in residential areas and close to traffic hubs.*** Even if the inner cities are more crowded and therefore might seem to be a better location at first sight, they are not necessarily the best location for MFIs. People need

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<sup>7</sup> Experiences from the UK have shown that being oriented towards the client market as opposed to the funder market is a crucial success factor for MFIs (Kneiding and Tracey, 2007). The milestone-driven funding approach is a good agent to control for this client orientation of MFIs.

some time to become aware of the branch office and understand the concept of the offering. Residential areas and traffic hubs are ideal places for this, because people tend to stroll and wait at these places, which makes them more amenable to these signals.

- ***Incentivise loan officers to ‘go out on the streets’.*** Remunerating loan officers with a performance-based salary scheme will animate them to leave their comfort zone and go out on the streets to acquire new customers. Their contribution to the MFI’s reputation cannot be estimated highly enough, and is a pivotal element in any marketing strategy.

### ***3.3 Usage of Advanced Technology***

Internal processes can be accelerated immensely by using state-of-the-art technology. One prominent example are PDAs for loan officers that operate on wireless technology. PDAs are small, handheld digital computers that can run specialized programs to manage MFI and client data and perform financial calculations. Using PDAs, loan officers can consult an electronic list of borrowers in arrears to plan collection visits, review clients ready to apply for their next loans, and refer to historical client information – all while working in the field. Loan officers can even fill out loan application forms on the PDA and calculate the indicators used for loan review and approval. Virtually all client data and client visit records are stored electronically and are immediately available in a device small enough to fit into a shirt pocket. This makes the loan approval process far quicker and helps to cut process costs. FM recently introduced this technology, and its management is highly satisfied with the resulting efficiency gains.

### ***3.4 Comprehensive Product Range***

Microlenders in Poland are more and more competing with (national and international) banks. For this reason, it has become indispensable for them to offer a comprehensive product range that is tailored to clients’ needs. Only then they will be able to retain these clients that are moving upwards into the formal banking system and thereby secure their most profitable client group. One example is FM’s strategy of cooperating with banks, which has already been presented above (see also Chapter 3.1). Another strategy that Polish MFIs consider is to use the loan extended as collateral for a bigger bank loan that the client might need. An important part of a

bank's credit scoring is the applicant's equity ratio, which needs to exceed a certain quota. The MFI's loan can therefore be used as an equity surrogate, acting as a quality guarantee issued by the MFI.

### ***3.5 Effective Screening Mechanisms***

Screening technologies of MFIs have come a long way in Poland during the past 15 years. In the early beginnings, loan officers used to walk from door to door and conducted interviews with each individual customer. This rather cumbersome process was then gradually replaced by a paper-based system that is based on a small set of standardised questions concerning the applicant's business as well as his or her personal circumstances. This development was rather haphazard, guided by the loan officers' desire to streamline operations and still avoid snap judgements that might boost arrears in the future. By now, FM as well as IM possesses a highly standardised application procedure that does not take longer than 20 minutes. For example, FM calculates an honesty indicator by comparing the business figures indicated by the applicant to the statistical average (based on size and location of the business). If the discrepancy between these two numbers is considered too high, the application is rejected. Generally, there are four main factors that play a role for credit assessments:

- ***Confidence*** in the person;
- ***entrepreneurial skills*** of the applicant;
- ***market knowledge*** of the applicant;
- ***collateral*** available for the loan.

At the moment, both institutions consider a credit scoring based on statistical methods. Scoring is a rather new (to microcredit) way to judge repayment risk. It detects historical links between repayment performance and the quantified characteristics of loan applications, assumes those links will persist over time, and then – based on the characteristics of current applications - forecasts future repayment risk. In high-income countries, scoring (through credit cards) has been the biggest breakthrough ever in terms of providing millions of people of modest means with access to small, short, unsecured, low-transaction cost loans (Schreiner, 2003). The greatest benefit of scoring results from loan officers' spending less time in

collections and more time generating new business. At this point in time, there has been no experience with statistical credit scoring models in neither institution.

### ***3.6 Staffing***

Hiring – and retaining – skilled and motivated staff is probably one of the main challenges for any MFI around the world. This applies not only to the loan officers, but equally to middle and top management positions. These people can generally earn a lot more in private institutions and are sometimes actively recruited by these. This underlines the importance of a mission-driven and open working environment that is clearly set apart from the pure profit-driven structures of the private sector. Only these ‘soft’ aspects will motivate the right people to stay in the organisation. As regards to staff selection, FM offers some very concrete recommendations:

- Don't set any special requirements in terms of age and formal education;
- the main characteristics of new hires should be a good common sense and friendliness;
- applicants should have a sound small and micro business experience as well as local market expertise and should be open to the character-based approach (past experiences with former bankers revealed that loan officers being trained on the document-oriented approach are less open to approaches more focussing on persons than on documents);
- new employees receive on the job training that is supervised by experienced associates and superiors.

## **4. Recommendations for Western European MFIs**

In a last step, we propose an action plan which should serve as a guideline for MFIs planning to set up operations in Western Europe, and especially in Germany. The timeframe we consider is the first year of operation, sub-divided into quarters. Figure 2 depicts the main points of action and defines four central milestones that should be achieved within that year.

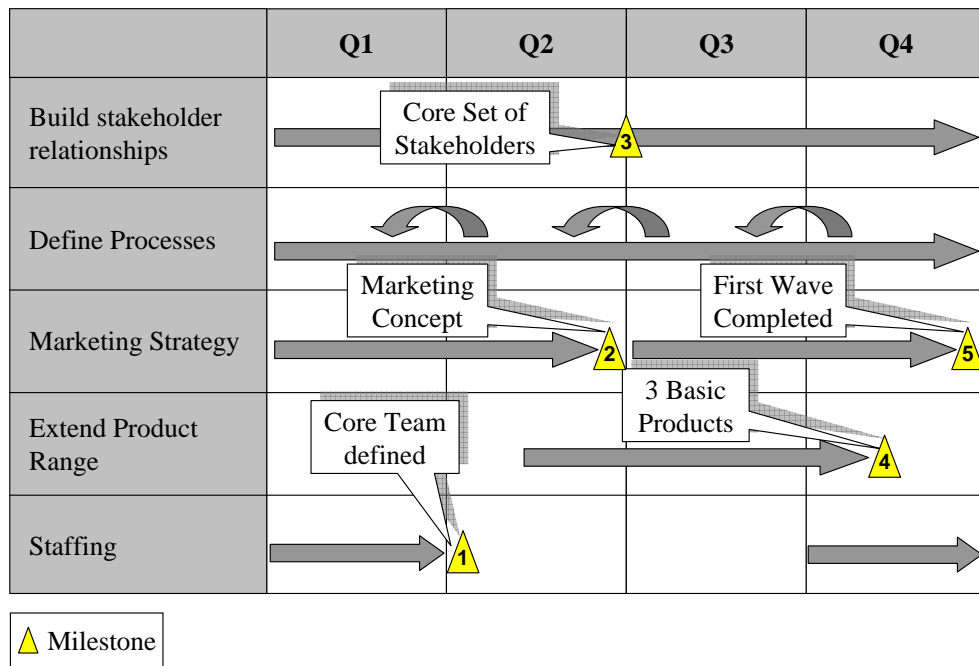


Figure 2: Action plan for the first year including main milestones.

**Building stakeholder relationships** is a constant process that starts on the first day of operations and never ceases. FM’s CEO explicitly suggests maintaining good relations with local authorities and microfinance organizations outside the country. The rationale behind the former recommendation has already been detailed in Chapter 3.1: local authorities like development agencies or labour offices can act as mission multipliers and distribution channels for an MFI’s products. The latter argument concerning international cooperation is less straightforward and based on a long-term perspective: on the one hand, good relations to foreign MFIs are important to generate learning effects and drive the own institution’s development forward. On the other hand, cross-border collaboration is often necessary to access public funds and should therefore be cultivated at an early stage. Milestone 3 in Figure 2 assumes that a core set of stakeholders should have been created by the end of Q2. It is impossible to define who these stakeholders should be, as this is highly specific to each MFI, its mission, its geographical reach, etc. Basically, the selection process of core stakeholders should be based on two questions:

- Are they able to further our mission by providing us with new customers?  
and/or
- Can they provide funding or help us to secure funding?
- Can they support the necessary change of the institutional framework?

Equally, *processes* have to be constantly defined in a consecutive manner. The feedback arrows indicate that experiences in process definitions which have been made so far have to be integrated into a constant update procedure. It is important to listen to market signals, clients' feedback and regularly review the own experiences in the light of process effectiveness. One central aspect of this topic is the design of client screening mechanisms. FM's experience indicates that it is advisable to start working out methods and documents as you go, then test it and make corrections as you expand. The central client features that separate good from bad risks should be identified as early as possible<sup>8</sup> and tests on the effectiveness of these rules should be run. Generally, it is better to move fast and implement corrections with hindsight than starting off an over-regulated institution that lacks the ability to quickly adapt to changes that are typical for these markets.

Last but not least, a further interview with the Microfinance Centre (MFC) in Warsaw indicated that *marketing* should be of top priority during the start-up phase. Accordingly, we propose a two-tier approach. First, a market research has to be conducted in order to define the target group of any future marketing effort. This step should be accomplished within the first six months and result in a marketing strategy which accounts for a marketing budget and identifies the concrete steps to be taken during the coming term (see milestone 2 in Figure 2). The subsequent two quarters should be used to penetrate a variety of marketing channels which seem to be appropriate for reaching the target group identified in the marketing concept (e.g. newspaper ads, radio spots, leaflets in public places). The success of this "first wave" should be evaluated very accurately in order to narrow down future marketing efforts to the most effective channels. At the same time, building strong branches as described in Chapter 3.2 should not be neglected. This will set in motion the MFI's most important marketing asset: word-of-mouth.

Retaining the top customers is essential for the profitability of the MFI and hence improves the sustainability of operations. It is therefore an inalienable precondition to provide a comprehensive set of *products* that reflect the clients' different needs and stages of business development. The process of defining these products should be guided by three leading questions:

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<sup>8</sup> Not by means of a statistical procedure, but rather in terms of a qualitative analysis.

- What do our clients use our products for?
- What is the typical loan amount they need?
- What kind of treatment do they expect from their loan officers?

For instance, traders, due to the nature of their cyclical business, will probably be interested in a loan that is quickly accessible and can be repaid flexibly, with average loan amounts being rather low (see also Kritikos et al., 2006). Craftsmen, in turn, might show a preference for long-term investments with comparably high loan amounts and a fixed repayment schedule. These considerations will probably lead to a set of three basic products (which are possibly again sub-divided into specific categories) that should be defined during Q4 (see milestone 4 in Figure 4).

Chapter 3.6 already emphasized the importance of good *staffing*. There is no doubt that qualified personnel are a sine qua non for the market acceptance of an MFI's products. Two aspects emerge: first, a skilled front office team is essential. This 'core team' should be defined as early as by the end of Q1 (milestone 1 in Figure 2). Unlike in traditional banks where several employees administer one loan, MFI loan officers are owners of the complete credit cycle, i.e. from screening of customers, monitoring of repayments to the arrear management. Therefore, it is important to create professional methods of staff training and sharing of experience with a specific focus on customer service. Second, the management has to be dedicated to the mission, while at the same time pragmatic in its approach. There is no sense in sticking to the mission at all prices if this could mean the peril of the institution. The management team has to be existent from day one of operations. This sounds like an obvious statement, but many MFIs have started with a purely operational team that simultaneously tried to decide on strategic issues. In most of the cases, this has not worked out, because these two tasks have to be tackled by two different mindsets.

## **5. Conclusions**

The market environments for MFIs in Eastern and Western Europe differ to a great extent. Nevertheless, our analysis has shown that a set of propositions can be derived from Eastern European MFIs which provides some insightful recommendations for their Western European peers:

1. Activate stakeholders that support the MFI's mission in terms of financial and non-financial means;
2. A successful marketing strategy is primarily driven by two factors: location of the MFI based on market research, and quality of the loan officers;
3. The usage of (wireless) technology can greatly contribute to process efficiency;
4. Cooperate with banks to create a competitive product range and thereby retain the most valuable customers;
5. Develop effective screening mechanisms as soon as possible in order to reduce costs during the loan application phase;
6. Skilled staff is crucial for success – focus more on common sense and friendliness than on specific knowledge of the loan officers.

In order to substantiate these statements we developed a concrete action plan that is based on four pivotal milestones:

1. Set up a core team of qualified staff as soon as the end of the first quarter.
2. Gather a core set of stakeholders that are able to secure funding and/or attract new customers within the first six months of operations.
3. Develop first pilot-products based on the market analysis within the first ten months that cover the typical funding needs and loan sizes of those customers with the highest needs;
4. Marketing is developed within of a two-tier approach: (i) develop an elaborated marketing concept on the basis of thorough research; (ii) test different marketing channels and identify the most successful ones.
5. Redesign of pilot-products after first experiences.

It is up to MFIs in Western Europe to incorporate the lessons that their Eastern European peers can offer them. Our recommendations should not be understood as a heuristic panacea, though. Each MFI independently has to decide which of these lessons are applicable to the own environment. We believe that they have the potential to significantly move the sector development forward.

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