



**Catholic Relief Services
United States Catholic Conference of Bishops
(CRS USCCB)**

USTOI Microfinance Project Bulgaria

Sept. 30, 1999 – December 31, 2004

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Final Project Implementation Narrative Report

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List of Acronyms Used

BR MFO	Bankers Realm Microfinance software
CRS BG	Catholic Relief Services Bulgaria
CRS EME	CRS Europe Middle East Region
CRS USCCB	Catholic Relief Services Unites States Catholic Conference of Bishops
CU	Cooperative Union
HQ	Headquarters in Baltimore (CRS)
HR Manual	Human Resources Manual
IMF	International Monetary Fund
JSC	Joint Stock Company
MF	Microfinance
MFI	Microfinance Institution
MIS	Management Information System
PPI	Project Performance Indicators
RTA	Regional Technical Advisor
SME	Small and mendium-sized enterprise
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USTOI	No particular acronym. USTOI means “Foundation “ in Bulgarian language.

Executive Summary

In 1999, Catholic Relief Services United States Catholic Conference of Bishops (CRS USCCB) received a USAID Grant (the Grant) of **\$3,865,142** to support specific microfinance (MF) activities in Bulgaria from 1999-2002. To the Grant, CRS has provided **\$1,181,450¹** of matching funds for both loan capital and operating expenses. The Grant was extended twice at no cost to cover the period ending December 31, 2004. CRS' mission in MF comes from its Catholic social mission: *to serve the poorest clients, to recognize the dignity of their work, to advance their work in the context of their communities and to strengthen their partners who work with them.* CRS' specific goal for its MF activities is to promote social and economic justice by enabling the self-employed poor, especially women, to participate in the formal financial system.

In its problem analysis, the CRS grant proposal identified a lack of access to credit and other financial services to Bulgarian smallest microentrepreneurs as one of the major obstacle to increased economic opportunities of the self-employed Bulgarian population with low income and no asset ownership. In 1998-1998 Bulgaria faced surrounding regional instability, protracted economic transition, rapid increase of unemployment, and movement of former state employees into micro-entrepreneurship activities. Microentrepreneurs and small businesses had no access to the not restructured yet commercial banking system of the country.

The CRS Bulgaria program was designed to be a bridge to the formal financial sector for a large number of potential clients that have been excluded completely from access to formal capital. The capacity and willingness to interact with a "credit culture" was cultivated and strengthened among the clients of the USTOI MF program as clients were paying higher-than-commercial interest rates in order to have access to credit. In addition, the methodology of this project supported reliance on civil society institutions to solve community problems, to address the needs of microentrepreneurs for both financial and non-financial services, and to do so in a sustainable way.

This program followed a five-year general goal: *To increase income and consolidate employment for at least 8,000 micro-entrepreneurs through the creation of a financially sustainable micro-finance infrastructure in Bulgaria.* The project objectives for the first three years were:

- To deliver financial services to at least 3,500 microentrepreneurs in three regions of Bulgaria for investment in ongoing economic activity;
- To ensure financial sustainability of the program following three years of operation;
- To initiate and implement national coordination and advocacy efforts to improve the policy and operational environment for micro-entrepreneurs and service providers in Bulgaria.

At the date of Grant completion, the CRS/USTOI MF program was serving **4,868** active clients, of which **77.12%** women, operating with an active loan portfolio of **\$2,716,975**. For a period of more than 5 years, CRS/USTOI in Bulgaria has provided and continues to provide financial services through legally registered cooperatives at the community level in **15 locations in Bulgaria: Sofia City, Pernik, Samokov, Pleven, Stara Zagora, Nova Zagora, Kazanlak, Veliko Tarnovo, Gabrovo, Svishtov, Haskovo, Plovdiv, Dimitrograd, Blagoevgrad, and Rousse**. In Sofia City alone, CRS USTOI operates via 3 disbursement offices and one central program headquarters office. A realistic growth plan for each field office has been developed by USTOI /CRS that is based on projected net growth target per office, and has allowed the field operations to become a self-sustainable cost units at a general program self-sufficiency (cost recovery) rate of 123%.

¹ Figures as of December 31, 2004

The USTOI Microfinance USAID Grant to CRS Bulgaria and the Modifications Made

Based on its successful global experience implementing microfinance programs, CRS was able to capitalize on its Europe regional MF achievements in Bosnia and Armenia. CRS micro-finance program developed in Bulgaria in April 1998 when CRS hosted a team of its regional staff to conduct a preliminary assessment of the CRS potential niche within the microfinance sector in Bulgaria. The findings were conclusive: 1) the need for financial services by micro-entrepreneurs all over Bulgaria was overwhelming; 2) at the time, only few institutions provided these services in a sustainable way; and 3) microentrepreneurs in general had no savings which may be used to strengthen and expand their business and/or cushion their families from emergency.

As a result of these findings, CRS began implementing a microfinance program with \$50,000 from its own funds. A market research in the project pilot areas was completed in Vidin Rousse and Stara Zagora and a commitment was made by CRS to initiate a microfinance program in Vidin. After extensive local and international training of the CRS microlending methodology, marketing, portfolio/financial management and other related topics, the CRS staff began adapting the systems to the Bulgarian context and transferring the learning to the newly hired Vidin staff. After legal registration of the Cooperative Union, the first micro-loans were disbursed in December 1998.

This pilot of microcredit operations of one year in Vidin and initial establishment of operations in Stara Zagora resulted in decision by CRS to develop and submit a proposal for funding of a 3-year microfinance program to USAID Bulgaria. The proposal was successful, and in November 1999 USAID awarded CRS with grant No 183-G-00-98-00106-00 with a duration of 3 years, and approved funding of **\$3,865,142**, of which **\$1,168,540** were allocated for operating expenses and **\$2,696,602** for loan capital. To the grant, as of December 31, 2004, CRS provided a cost share of **\$1,814,450**, most of it comprising of program income earned that has been used to pay for operating expenses, and funds to supplement the loan capital fund.

Subsequent Grant Modifications:

In the course of program implementation, CRS and USAID have made some significant grant modifications. The most significant are:

Modification No 1: Program description is revised with the following text: Instead of 75% of grant expenditures to be directed to the Danube region in Bulgaria, it is agreed upon that at least \$400,000 of grant expenditures will be directed to the Danube region in the first 18 months of operations.

Modification No 05: Extends the duration of the grant at no cost from September 30, 2002 till September 30, 2002.

Modification No 08: This modification includes provisions for usage of program income and the title of the loan funds under the award.

Modification No 11: Extends the duration of the grant at no cost from September 30, 2004 till December 31, 2004.

Modification No 12: Provides approval of CRS disposition of the loan fund and property to USTOI association

The CRS/USTOI Microcredit Methodology

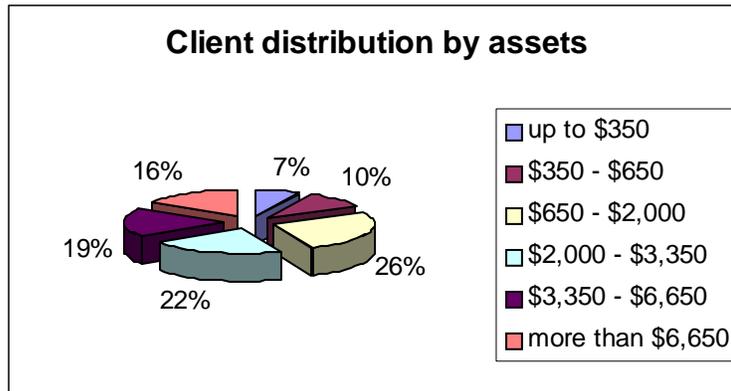
The design of the Bulgaria microfinance program was rooted in seven CRS Agency-wide principles and standards of poverty lending developed in the interest of sustaining program quality and fulfilling the Agency’s broad mission to assist the poor. These principles have been adapted to the Bulgaria context over the past 6 years through extensive market researches, reviews of the existing legal environment, learning and adaptation by action. The principles underpinning the CRS Bulgaria program methodology include:

1. Lending to the poor

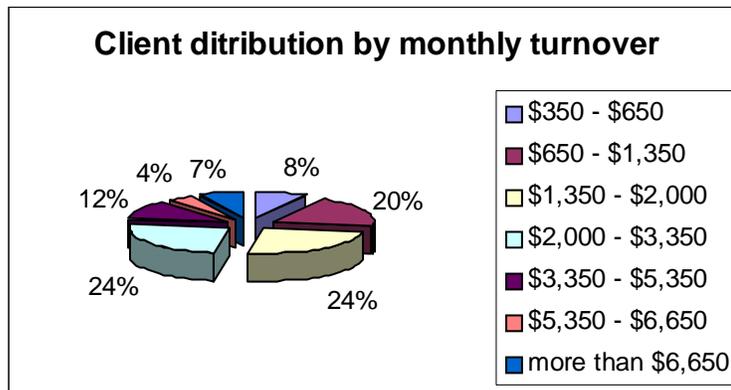
CRS is committed to reaching clients with the least access to formal capital sources by enhancing income generation opportunities for the purpose of improving the quality of their lives and communities. Target clients of the CRS microfinance programs, including the USTOI program in Bulgaria are those requiring the lowest level of financial services, that operate completely outside of the realm of the formal financial sector, but that still implement economically viable activities.

CRS/USTOI specifically targets the economically active poor in Bulgaria by extending small size loans and setting criteria for loan application. Only clients with less than \$5,000 in business assets, who operate from rented premises or home and have not more than 3 employees may apply for a first-time loan. This targeted approach resulted in the following client composition of the USTOI program:

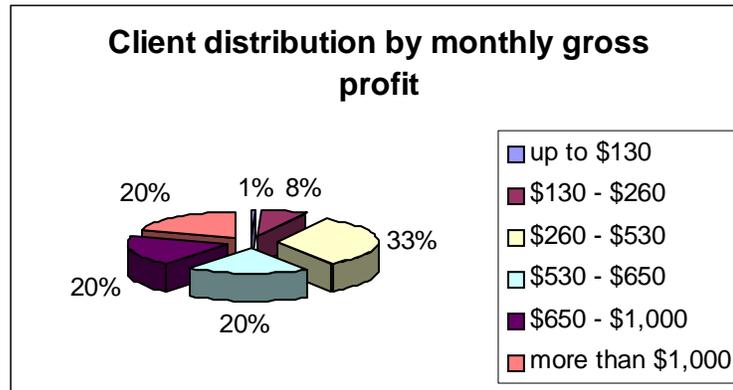
84% with assets of **less than \$6,500** (BGN 10,000):



77% with turnover of **less than \$3,350** (BGN 5,000) per month:



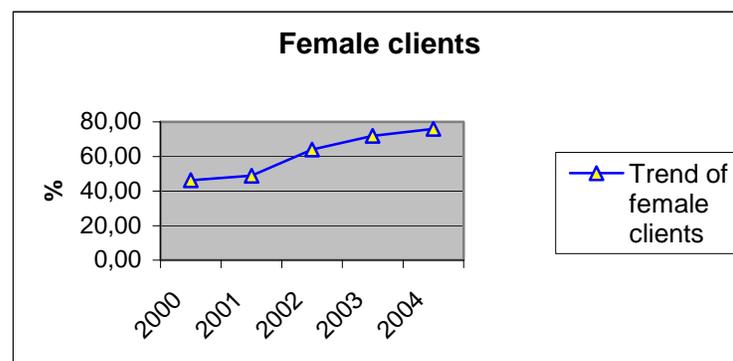
60% with gross profit of less than \$650 (BGN 1,000) per month



2. *Increased focus on women clients*

CRS provided and continues to provide services to both male and female entrepreneurs as they seem to be represented equally in the market, emphasizing however the outreach to female clients in accordance with regional and worldwide experience demonstrating that women tend to be better clients. CRS research has indicated that Bulgaria micro-enterprises tend to be family businesses worked and managed by the husband, wife and children, although registered in the name of any family member.

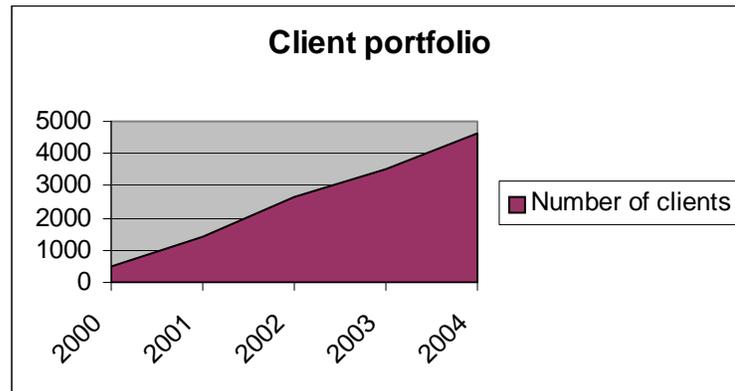
However, as women tend to be represented in greater number among those in abject poverty, and also tend to repay their loans with higher repayment rates, CRS sought to reach **at least 60%** female clients through the USTOI MF program. In addition, the CRS/USTOI microfinance program has been open to both registered and non-registered businesses, although the market researches conducted prior to commencing the program, and subsequently, have indicated that even the smallest, home-based businesses are officially registered with the Bulgarian government.



3. *Start Small, Grow Capacity*

Beginning with small loans and fewer regions of operation, the loan amounts and the program itself grow incrementally, building confidence and decreasing the risk to participants, cooperatives, local partners, and donors alike. Program expansion has then taken place in well-managed and analyzed stages with consolidated methodologies and systems.

The table below shows the CRS/USTOI growth by number of clients from 1999 to the end of the calendar year 2004.



The design of the CRS/USTOI MF program incorporated a step-credit system of loan access, which required each client to begin with a maximum loan size of \$600 (BGN 900), gaining access to larger loans through **five cycles** with proven ability and commitment to repay the prior loan. In addition, clients with proven credit history were provided access to additional USTOI loan products: a seasonal loan for the high season of the business, a parallel loan for planned expansion, an investment loan for the purchase of small scale assets

4. *Employ Solidarity Lending Principle*

Building on shared commitments and loyalties, the solidarity lending principle provides the social collateral that guarantees loan repayment in place of traditional forms of collateral. Solidarity systems also provide important means of social support including the exchange of business skills and ideas, group resolutions of mutual problems, and the promotion of community initiatives.

The CRS/USTOI program required self –selection of clients into registered cooperatives, and a group guarantee mechanisms within these cooperatives to reduce risk, promote mutual reliance, and to ensure program ownership on the part of clients. The group guarantee mechanism means that if one (or more) members of a guarantee group cannot pay back their loan, the other members are held jointly responsible for repaying the delinquent amount. No additional loans are made to the group or cooperative members until the entire group loan has been repaid.

For the almost 6 years of duration of the MF program, CRS/USTOI has successfully adapted the solidarity lending principle to its microfinance activities in Bulgaria to achieve a program average of **less than 1% portfolio at risk rate**, while the **loan loss rate is 0%** for the last 4 years. This well below industry norm rate is due to substantial and careful client selection, extensive credit checks during the group formation stage and group monitoring and mentoring throughout the loan cycle. Although there was an initial skepticism about the appropriateness of the group lending methodology to the Bulgarian context, the project has exceeded expectations in terms of the openness of clients to the solidarity approach and taking next steps in developing joint activities outside of guaranteeing each other's loans.

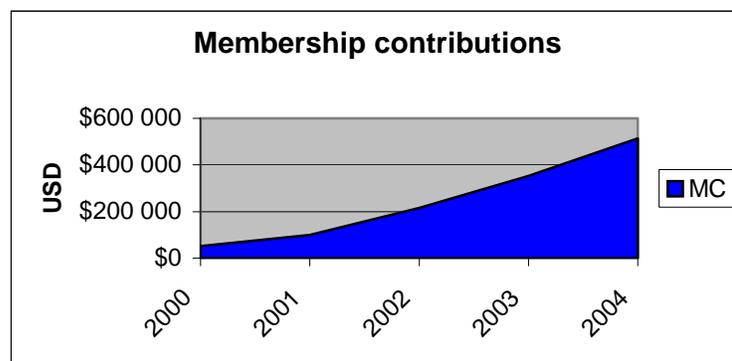
5. *Promotion of local savings*

CRS MF programs worldwide are structured to assist clients to move away from subsistence level activities, characterized by low income, low investment and low productivity. A vital element of this

transition is the opportunity for clients to accumulate and manage their own savings. Linking credit line to savings growth provides incentives to clients to save and helps clients build up a reserve of their own capital.

CRS/USTOI encouraged the implementation of the above principle by using the provisions of the Bulgarian Cooperative Act that requires members of the cooperative to make membership contributions. By contributing at least 10% of the loan size in the form of membership contributions, during each loan cycle individual micro-entrepreneurs not only underwrote their own risk, but also built up their own internal pool of capital within the cooperative.

Initially, group members had the opportunity to use the accumulated membership contributions as internal loans. Lending to members was regulated by the group/cooperative by-laws. Despite of the stringent control over the use of the internal funds conducted by CRS/USTOI, there have been several instances of abuse – repeated loans to one group member, transfer of loans from one to another member, charging higher interest rate than the specified, non-business use of the funds, etc. There have been instances of delinquencies in the internal loans, which resulted in delinquencies in the external (to CRS/USTOI) loans. These instances damaged the group solidarity and in 2003, CRS/USTOI decided to disallow the usage of the group membership contributions (the group internal account) for on-lending to cooperative members.



6. *Promotion of participatory management*

The CRS experience worldwide and in Bulgaria has shown that the utility, strength, and value of a community MFI increase proportionally to the degree of ownership by its members. Emphasizing decentralization of responsibility, delegation of decision-making authority to the lowest possible level, the CRS program has provided the opportunity for both clients and CRS staff to gain the necessary training, experience, and confidence to manage their own cooperatives and to solve their own problems.

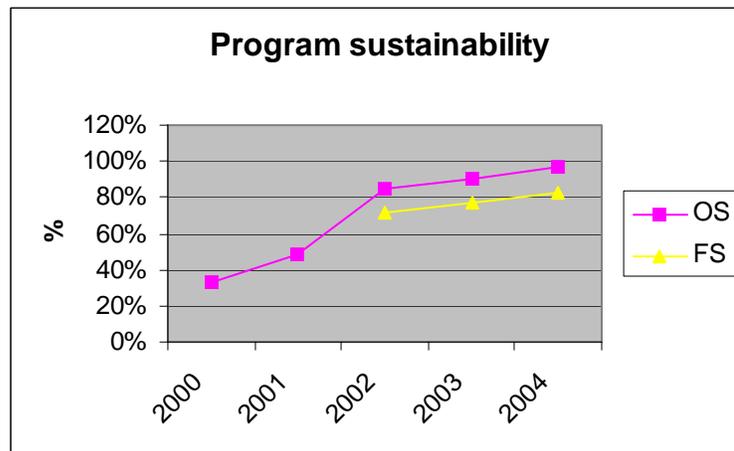
The core of CRS/USTOI lending methodology is the client group. Clients participate in all aspects of loan approval process as well as manage loan repayments. Each group elects a chairman, treasury and a secretary. They form the group management board. Each member of the group board has responsibilities related to the loan application and loan repayment process.

Clients participate in the management of the cooperatives, created by CRS/USTOI to achieve the program goals. When CRS began planning for the USTOI MF spin off, individual cooperatives were offered and accepted to become minority shareholders in the MF enterprise, participating with a single vote each in the decision-making process. Prior to USTOI spin-off, through the structure of the

Cooperative Union, the individual cooperatives participated in the decision-making process concerning the operation and management of the Cooperative Union.

7. *Building financial self-sufficiency*

The CRS Bulgaria microfinance program has been designed so that financial services to microentrepreneurs will continue to be provided after the five-year span of the USAID grant. As early as June 2003 the program has started to fully utilize program income earned from interest rates to cover operating costs. At end of 2004, the program's financial indicators show that **the operational self-sufficiency is 97%**, while the **financial self-sufficiency is 82%**.



1. Program Implementation

This section reviews CRS/USTOI progress toward the three main objectives of the program.

General Achievements

The USTOI microfinance program began with a pilot project in 1998. Full-range program activities were launched with an award from USAID in 1999. Since Grant inception, CRS/USTOI extended **more than 25,000** micro loans with a total amount of **\$19,6 million**. As of December 31, 2004, USTOI had **4,868 active clients** (of them more than **76% female**) and was supporting **more than 10,500** jobs in **15 locations** in Bulgaria.

USTOI ended calendar year 2004 with **\$2,717 million** in active loan portfolio, **79%** of which had less than \$1,000 average loan size at disbursement. The USTOI loan portfolio has excellent quality – the portfolio at risk rate is under **1%** since 2001 and has a **0%** loan-loss rate.

With the financial support of USAID, CRS/USTOI managed to expand rapidly in various regions of Bulgaria. At present, USTOI operates out of 17 offices providing quality financial support to micro entrepreneurs from both urban and rural areas

Vital part of the USTOI development was program transformation into a joint stock company. The transformation process was carefully planed and managed so that USTOI can continue the activities of the program in Bulgaria in a sustainable way.

In the last 3 years of the USAID Grant, CRS/USTOI advanced its operational and financial sustainability indicators. During the first quarter of FY2005, CRS/USTOI reports **123%** self-sufficiency. This excellent result would enable USTOI to continue develop a sound local operation committed to provide high quality financial services to the most disadvantaged micro-entrepreneurs in Bulgaria

Program Objectives and Program Targets

Objective 1: To deliver financial services to at least 3,500 microentrepreneurs in three regions of Bulgaria for investment in on-going economic activity

Changes made to original objective

As a result of Grant Agreement Modification No 5 made on Sept. 18, 2002, the grant agreement has been extended at no cost through September 30, 2004, and subsequently through Modification No 11 through December 31, 2004.

The original grant proposal states that the intended results from this objective has been that by October 2002 CRS will be serving at least 3,500 active clients in three regions in Bulgaria (Vidin, Rousse and Stara Zagora) with savings and lending services, where the outstanding portfolio of the program will be \$2.8 million. The following table provides a comparison of how the performance indicators, originally set to monitor the achievement of the outlined targets, have changed with the Modification No. 5.

Table 1: Comparison of targets and target changes

Active Clients	Target end of Year 3 (September 30, 2002)	Target end of Year 5 (December 31, 2004)
Number of active clients	3,500	6,392
Number of registered /active credit cooperatives	292	N/A
Percentage of female clients	60%	60%
Financial Services		
Value of outstanding loan portfolio	\$2,800,000	\$2,838,596
Average loan size	\$800	\$445
Value of savings accumulated /managed by clients	\$560,000	

Set-up stage

CRS Pilot MF project preceding the USAID MF USTOI program (1998-1999)

As a result of a MF feasibility assessment conducted in April 1998 by a team of experts, CRS began implementing a microfinance program with \$50,000 of its own funds. CRS increased its own capacity by recruiting a local Project Officer and an Information Specialist in September 1998. As a result of the market research in the potential pilot areas of Vidin, Rousse and Stara Zagora, CRS commenced a MF program in Vidin. CRS staff began adapting the village banking methodology to the Bulgarian context and transferring the learning to newly hired staff in Vidin. Subsequently, a marketing campaign and information meetings with micro-entrepreneurs were organized in Vidin, which resulted in the registration of two client cooperatives. The first micro-loans in Vidin were disbursed in 1998.

Building upon subsequent market research, CRS signed a contract with a second partner, expanding the program in Stara Zagora in February 1999. Following a similar development as in Vidin, staff was hired, and trained. The first loans in Stara Zagora were disbursed on June 2, 1999. By the end of September 1999 there were 156 active clients in Vidin and Stara Zagora .

The USAID USTOI Microfinance Grant (1999-2004)

Building on its one-year pilot experience, CRS solicited from USAID additional funding for its starting micro-credit activities in Bulgaria. The USAID Microfinance grant 183-G-00-98-00106-00 was signed on September 30, 1999 leading to subsequent fast expansion of the ongoing micro-lending operations in the country.

CRS/USTOI Clients

In microfinance, the average disbursed loan size as a percentage of GDP per capita is used as a proxy for the poverty level of the client, assuming that the lower the loan size, the poorer the borrower. Based on the criteria of average disbursed loan size, USTOI targets the poorest microentrepreneurs as compared with the rest of the financial intermediaries in Bulgaria.

CRS/USTOI program targeted both male and female micro-entrepreneurs with the following characteristics:

- Male and female micro-entrepreneurs with existing income-generating activity, with the emphasis on businesses run by women (at least 60% of total clients)
- Those that have no access to commercial sources of credit
- Trade, service and small production sectors
- Average daily gross income between \$10-\$200
- Business assets valued from \$0 to \$5,000
- Family business or sole proprietorships with three or less employees, including family members
- Place of business activity is rented, or occurs from home, and
- Financial requirements range from \$500 to \$3,000 for working capital and small asset investments.

CRS/USTOI clients are typically from the following market sectors:

- Trade - vendors of food, clothes and household items
- Small production – bakers, food packaging, production of household items from metal and wood, craftsmanship
- Services – food distribution, transportation, hairdressers, shoemakers, taxi drivers

Minority outreach

CRS/USTOI made every effort to reach micro entrepreneurs, representatives of the minorities living in the regions of program operations. The program targeted not only minorities living in closed communities – e.g. the Roma boroughs of Faculteta, Filipovci and Hristo Botev in Sofia, but also members of minority populations in all regions. The prime effort was to facilitate the interaction and networking of native Bulgarians with members of the minority communities in the same lending group.

There is a description of the businesses of several clients of CRS/USTOI in ***Attachments C***.

Geographic expansion

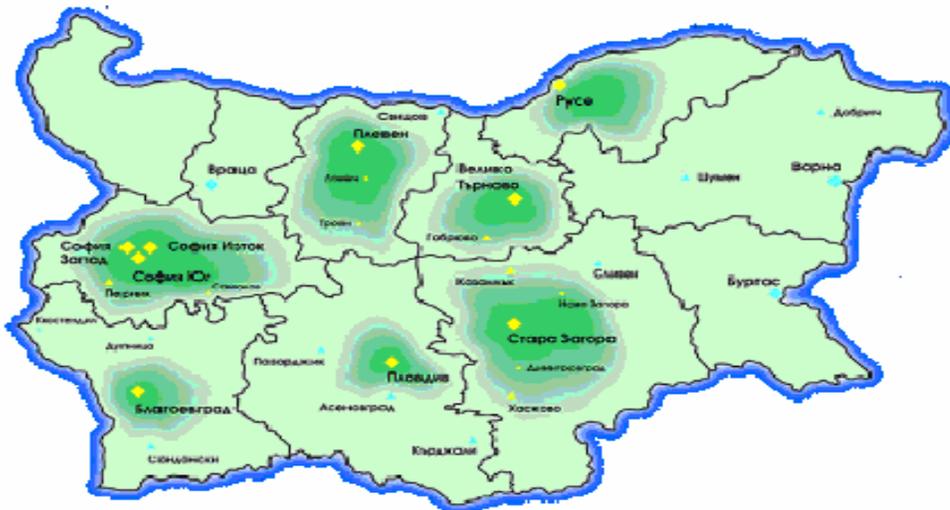
Initially the program started in cooperation of the Business center in Vidin, where the lending methodology was defined as according to the context in Bulgaria. During the pilot phase, CRS/USTOI developed the basis set of lending rules and procedures, the MIS, reporting and performance standards.

In the early days of operations branches were set up in those regions where poverty and unemployment were highest. Nowadays, USTOI approaches branch expansion more systematically. Not only are poverty and unemployment criteria are taken into consideration, but more important, in order for a

branch to be sustainable it will need at least 1,000 active clients of whom 600 live in the main regional center. The potential market in a certain district is determined through quite thorough market research where at least 25 percent of potential clients will be interviewed by USTOI staff.

Pilot phase of the program in Vidin	1998-2000
Regional offices / sub-offices:	Opened in:
STARA ZAGORA	03. 1999
/ Nova Zagora	02. 2000
/ Kazanlak	03. 2001
PLEVEN	06. 2000
/ Troyan	12. 2001
/ Lovetch	10. 2003
VELIKO TARNOVO	02. 2001
/ Gabrovo	03. 2001
/ Svishtov	10. 2003
SOFIA	03. 2002
/ Pernik	05. 2003
/ Samokov	12. 2002
PLOVDIV	06. 2003
/ Haskovo	12. 2001
/ Dimitrovgrad	02. 2003
BLAGOEVGRAD	10. 2003
RUSSE	10. 2003

CRS USTOI geographic outreach by regions



Operational structure prior to localization

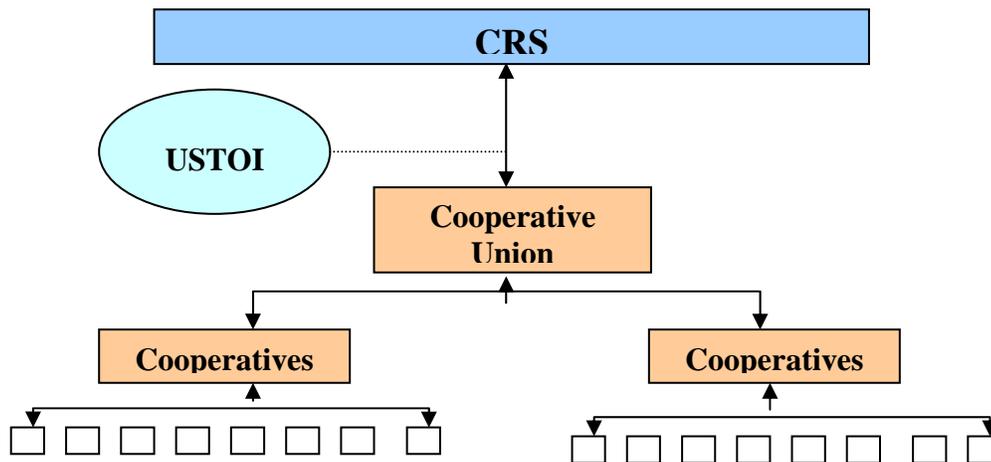
Initially client groups were registered as individual cooperatives in the local court. More than 40 cooperatives were registered in Vidin and Stara Zagora. This approach gave legal form of the client group, but led to numerous legal and reporting challenges for program staff. The cooperatives need to submit audited financial reports, as well as report the changes in their management boards to the court every time they happen. These activities became very expensive and time consuming. A consolidation process was initiated which resulted in the effective merger of all client cooperatives into a single one.

Currently, there are seven cooperatives registered in the regions of operations. Clients of the respective regions become members of the cooperative, while client groups are informal within the cooperative. As a result the reporting requirements were simplified while the number of changes that need reporting to the court decreased.

In order to facilitate the provision of loan capital to these cooperatives making use of the USAID Grant funds and within the legal limitations of the cooperatives to borrow, a ‘Cooperative Union’ was created to act as the interface between CRS and the separate cooperatives. Each of the cooperatives participating in the program became a member of the Cooperative Union “Baven Napredak”.

This two-tier structure enabled CRS to channel loan funds to the cooperatives via the Cooperative Union. This was done as a revolving loan facility provided by CRS to the cooperative union, which in turn loans the funds to the cooperatives for use as loans to their members.

Operational Structure 1 – Prior to Localization



Operational structure after the localization

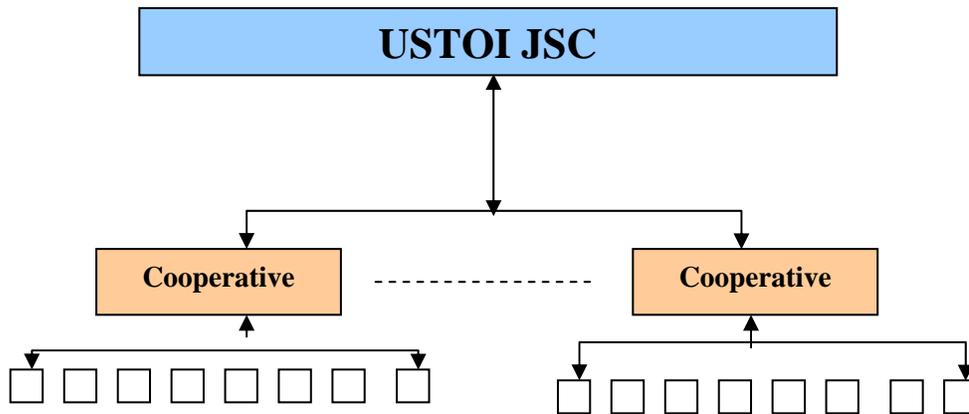
After almost two years of development and internal and external approval processes, a new operational structure was developed that enabled USTOI to continue the delivery of sustainable financial services in Bulgaria. In November 2004, the USTOI Joint Stock Company was formed to replace the Cooperative Union in the wholesale lending to the individual cooperatives. The existing seven cooperatives in Bulgaria continued to be the primary mechanism for client participation and borrowing. Each cooperative became a minority shareholder in the JSC with ownership of one nominal share per cooperative.

In addition, a non-profit legal entity (association) was created with CRS/USA, CRS/Bulgaria, and the CU being the three founding members. The creation of that legal entity (USTOI Association) was

needed primarily to facilitate the transfer of assets from CRS to the USTOI JSC. The USTOI Association is the majority shareholder in the JSC.

The shareholders of the JSC are: the USTOI Association (majority shareholder), the individual cooperatives (minority shareholders), and the CU for the limited time until liquidation.

Operational Structure 2 – Post-localization



The overall structure of the spin off USTOI network is fully in line with CRS Preferred Strategies for Ownership and Governance of MFIs which state: “When CRS is directly ending from its country offices and has plans to spin off operations into an independent stockholding institution, the role of CRS in governance is one which seeks to minimize CRS liability and transfer as much ownership to local entities and individuals”. In those instances, the policy highlights the importance of preserving sufficient oversight in the initial stages of localization that will safeguard CRS and donor resources. This oversight is provided by performance monitoring and by the performance-based progressive transfer of ownership.

The Lending Methodology

In order to receive loans from CRS/USTOI, entrepreneurs must set up a guarantee group with no less than 7 members. CRS/USTOI uses a group lending methodology. The group lending methodology requires that the loan requestor can receive financing only if he /she becomes or is a member of a solidarity group. The group members mutually guarantee the loans for each other. Clients self-select and organize themselves in solidarity groups, based on the principles of mutual trust. The process is thoroughly facilitated and monitored by CRS/USTOI. The group lending approach helps USTOI become more efficient in loan disbursement and repayment, as it decreases transaction cost.

USTOI tries to create incentives for prospective clients for forming larger groups: groups with over 7 members have access to larger first-time loans than the smaller groups with less than 7 members. The maximum group size is 15.

Clients have access to larger loans on a “step-increase scale” based on the increased financial needs of the business and the repayment capacity. Progress in the business activities of each individual client as

well as the group dynamics are closely monitored by loan officers in order to determine the increase in the loan amounts.

The members of each guarantee group also become members of a cooperative that is registered in the respective region. The cooperative extends loans to the whole group based on a lending agreement, which specifies the loan terms and the rights and responsibilities of both parties.

USTOI Products

The CRS/USTOI program offered short-term micro loans (an average of \$400 at disbursement) to entrepreneurs using group guarantees instead of collateral. This regular loan product continues to be the main product provided by USTOI JSC. The loans are used for operating capital or small fixed assets investments. Entrepreneurs are offered the opportunity for a permanent access to financial resources.

USTOI experience shows that group lending has proven to be an appropriate and efficient lending technique for providing our target clients with financial services. Although USTOI developed additional products and services to address the needs of long-term clients, group lending is the main product to be offered to first-time borrowers.

At present, USTOI JSC offers three new products to existing clients with excellent repayment history:

- a. *USTOI – Season* – an additional loan has been introduced to meet the increased financial needs of existing clients in periods that are strong for the businesses - Easter and Christmas periods or other periods of high business turnover.
- b. *USTOI – Plus* – an additional loan is made available to clients who plan expansion during the repayment of the standard loan. This loan product is particularly useful, when clients plan to purchase additional stock and inventory for their business
- c. *USTOI – Invest* – clients willing to purchase fixed assets or undertake refurbishment of their business premises have the opportunity to apply for a longer term loan at competitive interest rates.

The new loan products have been developed after research and analysis of the client needs, as well as thorough competition analysis. USTOI plans to reduce the attrition rates by providing the additional loan products.

Financial Services Delivery - Results

The following growth of program financial service delivery key indicators have occurred in the lifespan of the CRS/USTOI MF program:

Table 2: Financial services delivery

<i>Indicator</i>	<i>Year ending September 30</i>					<i>Oct - Dec 31, 2004</i>
	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	
Number of clients	515	1396	2627	3526	4643	4868
<i>Yearly growth in number of clients</i>		<i>171,07%</i>	<i>88,18%</i>	<i>34,22%</i>	<i>31,68%</i>	<i>4,85%</i>
Percentage of female clients	46.20%	48.90%	64.00%	71.84%	75.96%	77.12%
Outstanding loan portfolio	\$137 099	\$439 660	\$905 874	\$1 357 816	\$1 980 282	\$2 716 975
<i>Yearly growth in portfolio</i>		<i>221%</i>	<i>106%</i>	<i>50%</i>	<i>46%</i>	<i>37%</i>
Average Loan Size	\$266	\$315	\$345	\$385	\$426	\$795

Number of clients per loan officer	94	155	138	141	150	148
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Lessons learned

'Client graduation' vs. sustainability

In microfinance, often 'client graduation' is considered as a good result for the development agency – clients are “trained” by the MFIs to manage borrowed funds and when their businesses grow they leave the MFI to use the services of commercial banks. That excellent from development perspective has negative financial impact on the MFI.

Since 2002, CRS/USTOI monitors closely client attrition. From January 2003 onwards, the attrition rate increased drastically – the average numbers of clients from the oldest branches, who left the program per month increased by more than twice. The increase in the number attritions, especially among long-term clients, has negative impact over the CRS/USTOI active client portfolio growth.

The slower client portfolio growth influences negatively the growth in the loan portfolio. The composition of the loan portfolio changes from approximately equal distribution among all loan cycles into a loan portfolio where the first and second cycle loans have the highest weight. That results into a smaller loan portfolio that projected, which yields less than projected return.

The main factor, which led to the increase in client attrition rates, is the increased credit activity of commercial banks in Bulgaria in the last two years, especially in the field of consumer lending. CRS/USTOI responded to competition by diversifying the product portfolio. Thus, USTOI currently offers loan products which reward client loyalty and provide incentives for clients to stay. Another dimension in dealing with the attrition issues is to provide continuing efforts to improve loan officer training and motivation in an attempt to improve the services to the clients.

Outreach vs. efficiency

One of the main goals of MFIs is to achieve maximum outreach. The outreach is characterized by both extensive geographical coverage and further penetration in the chosen market segment. In order to achieve that goal, many MFIs compromise with other indicators such as sustainability and efficiency.

CRS/USTOI implemented “step-by-step” approach in the outreach strategy. The program started initially in two regions and later expanded in new areas, coinciding with the increased staff capacity in the field of MF operations management. This approach follows one of the main CRS principles in microfinance – “Start small, grow with capacity”.

The outreach strategy included expansion initially in areas with high unemployment and depressed local economy. The market potential in such areas is limited, which led to changes in the outreach strategy, in order to increase the efficiency. CRS/Us moved in more urban areas where the market potential is higher and led to decrease the per client cost. The rapid expansion in 2003, characterized with building branch office operations, recruitment and training of staff influenced the efficiency indicators, which improved in 2004 with the further consolidation of operations.

CRS/USTOI reports stable increase in the efficiency indicators – both the number of clients per loan officer and average portfolio per loan officer increased in 2004. The cost per USD lent remained the same as compared to the previous year of 2003.

Program growth linked with product diversification

During the last year of operations, the net growth pace in client portfolio slowed down compared to the previous years. This trend provoked careful analysis in order to uncover the underlying reasons. The main reason for slower growth pace was the increase in number of clients left. Most of the clients who left the program were long-term clients borrowing in the upper cycles.

CRS/Ustoi introduced new loan products in order to satisfy the constantly changing client needs. The new products correspond to the client needs for additional funds for business expansion and investment in fixed assets.

The newly introduced loan products provide positive motivation for clients in the lower cycles to remain with the program in order to apply for additional funds in near-by future.

Retail operations vs. operations through a partner

In the pilot stage of the program, CRS/USTOI began operations through partners – the local Business Development Centers in Vidin and Stara Zagora. The strategy was to build the capacity of the Bulgarian Business Centers in order to provide sustainable financial services to micro-entrepreneurs in the local communities. The MF services provided by the Business Centers had to complement the other services offered.

CRS/USTOI carefully analyzed the partnership results and made the following conclusions:

- Partnership for retail operations should be attempted only after the two organizations analyze the mission and vision of each individual organization and determine that there is complementarity. The lack of such analysis may further jeopardize joint operations.
- Partner MF staff should not be asked to implement other than MF tasks. Alternatively, staff may lose focus on MF goals and targets and will compromise with quality.
- Partner MF staff should report directly to the dedicated MF Program Officer. Partner staff performance should be rigorously evaluated against concrete and measurable program targets.
- Financial support to the partner should be provided only based on evaluation of performance. Any other principles would lead to non-compliance with standards and will result in poor quality of operations.
- Sound MF operations are possible only if the MF service provider is specialized in micro-finance. Provision of other business-related services result in dual targets and compromise with quality.

Objective 2: To ensure financial sustainability of the program following three years of operation

Changes made to the original objective:

Implementation Approach and Results

Sustainability can be defined at several levels: (i) financial sustainability; (ii) institutional sustainability; and (iii) legal sustainability. Only if an institution is sustainable *or willing to become sustainable* at all three levels, can we speak of sustainability.

The CRS-established Microfinance programs worldwide plan to provide sustainable, long-term services to their clients, because:

- a. Microfinance addresses a structural gap in society, not a short-term resource gap that can be addressed with a finite project;
- b. Engaging in microfinance entails building a relationship with clients;
- c. Both savings and lending clients need long-term services.

Financial sustainability

Financial sustainability is the ability of the institution or program to cover all costs from its interest and fee income. If an institution is financially sustainable it would not require subsidies or grants for on lending or to cover operational costs. It would not be dependent on donors and would be able to mobilize funds by itself.

Table 3: Program quality

<i>Indicator</i>	<i>Target</i>	<i>Year ending September 30</i>					<i>Oct - Dec 31, 2004</i>
		<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	
Arrears Rate (> 1 day late)	< 3%	2.30%	0.00%	0.07%	0.06%	0.29%	0.48%
Portfolio at risk	< 5%	2.30%	0.00%	0.07%	0.06%	0.44%	0.58%
Loan Loss Rate	< 2%	0.2%	0.00%	0.00%	0.00%	0.00%	0.00%

Achieving high program quality is a strategic goal of the program. CRS/USTOI developed “zero percent tolerance” approach towards delinquencies, which was translated in the training and management of loan officers, as well as in their compensation and bonus schemes. For the duration of the grant, program staff maintained very low levels of arrears and portfolio at risk. That achievement is due to the extensive training of loan officers especially in the field of credit analysis, loan monitoring, and delinquency prevention.

Table 4: Program sustainability²

<i>Indicator</i>	<i>Year ending December 31</i>				
	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Operational sustainability	33%	48%	85%	90%	97%
Financial sustainability			72%	77%	82%

² Sustainability indicators are calculated, using data from the financial reports of CRS/Bulgaria, the Cooperative Union, USTOI JSC and the seven client cooperatives. All reports are consolidated at the calendar year end.

The operational sustainability increased to 85 percent in 2002 (compared to 48 percent in 2001) while the increase is smaller in 2003. This is mainly due to an increase in USTOI operating expenses in 2003, especially personnel expenses (with approximately 50 percent compared to 2001). The increase in personnel costs is mainly due to the increased hiring of staff in order to be ready for the predicted growth.

Projections show that with the current loan ceiling USTOI will reach operational and financial sustainability very soon after the transformation into a local MFI. Sustainability can be maintained if USTOI diversifies its lending products - for instance introducing loans with a higher ceiling for those borrowers who have developed an excellent track record and who are in need of larger loans than the current ceiling.

Lessons Learned

Growth is linked with sustainable operations:

In order to achieve maximum outreach, the MF program must be institutionally sustainable – with efficient operational structure, clear model of management, trained and skilled personnel, clear internal rules, internal controls, standards and systems in place and operational on a daily basis. Simple operational structure with usage of the most efficient model, clear management model with definitions of roles and responsibilities from the very beginning of the program are key factors for the achievement of institutional sustainability sooner in the process. Investment in building staff skills, production of written manuals and appropriate MIS in place are the other factors without which program expansion with quality cannot be achieved.

Sustainability vs. social impact

MFI's constantly balance the two goals – to be sustainable and maximize the social impact. Often one or the other goal dominates in the operations - the MFI targets sustainability, provides bigger loans, targets not the poorest population which affects the achievement of sound social impact; or vice-versa, the MFI targets the poorest entrepreneurs, providing them with smaller loans, which yield smaller return and increase the period, in which the MFI reaches sustainability. The choice of which goal would be dominant is based on the mission and the corporate values of the MFI, as well as is strongly influenced by the ownership and governance of the institution.

Objective 3: To initiate and implement national coordination and advocacy efforts to improve the policy and operational environment for micro-entrepreneurs and service providers in Bulgaria.

Implementation approach and results

The institutional sustainability of microfinance services in Bulgaria demands the development and application of appropriate legislation that would allow for unobstructed and structured micro-credit activities of non-bank institutions. Although the CRS/USTOI program operates within the existing legal framework, this framework is not very clear concerning the microfinance activities in Bulgaria.

CRS Bulgaria strategy since program inception has been to demonstrate the impact of high quality programming in order to influence the legal environment which in turn will facilitate large-scale and permanent access to financial services on the part of the 90-95% of small businesses in Bulgaria that are, in fact, micro-entrepreneurs.

In the project proposal, CRS committed to establishment of cooperative flora among NGOs and government entities involved in advocacy efforts and public policy transformation that concern microenterprise development in Bulgaria. CRS proposed to liaise with bi-lateral and multi-lateral agencies such as USAID, the World Bank, the IMF and UNDP in search of their support and expertise in promotion of a more favorable legislation for MFIs in Bulgaria.

From the very beginning of its microfinance project activities, the CRS team established contacts with key Bulgarian NGOs working in the area of small business development with a proven track record of success in influencing Bulgarian government public policy related to SME development. The CRS micro-finance team cooperated with BAP (the Bulgarian Association for Partnerships), and the Association for Agricultural Law Reform in an attempt to influence the draft Law on Cooperatives.

The cooperative effort of the micro-finance practitioners led to the development of a draft law on credit and savings cooperatives. The law contained provisions concerning the registration and by-laws of the entity, membership, governing bodies – rights and responsibilities, special rules concerning credits, deposits and membership contributions, rules for financial management, regulation and supervision. This draft has been presented to the MFIs in Bulgaria, MPs and government officials at a specially organized conference and individual meetings.

Despite the efforts, the draft law on credit and savings cooperatives did not receive the required support by the Bulgarian National Bank and did not provoke sufficient governmental interest. MFIs in Bulgaria, among which is USTOI, continue with the advocacy efforts to obtain wider support for the draft legislation. Planned events for 2005, include two round tables and a seminar devoted on the issues related to micro-finance in Bulgaria, with a special emphasis on required legislation.

Lessons learned

Changes in legislation require wide alliances among MFIs and donors

MFIs can successfully grow in countries where the legal environment is favorable concerning their activities. The process to make these changes is lengthy and very much country specific. In post-war countries, where the economy is rebuilt, legislative changes concerning the activities of MFIs happen faster. The process of introducing changes in legislation of the transition economies in the CEE is much slower mainly due to the existing of strong bank lobby groups and the lack of widespread micro-finance activities.

MFIs have little capacity to lobby for legislative changes. Their primary goal is to provide quality financial services. Nevertheless, they need to be an active partner in the alliance, since MFIs' activities are affected much by the legal environment. Donors have the political influence, based on the various projects they fund. They also have important connections with government officials and MPs, which can further facilitate the process for introduction of new legislation. In conclusion, changes in the legal environment can be introduced successfully, if an alliance of MFIs and donors is formed and all participants in one direction.

2. Progress toward sustainability and transformation

In addition to the Objective 2, CRS/USTOI worked towards achieving the three elements of sustainability – **financial, institutional and legal**.

CRS approach to sustainability — establishment of an independent and self-sustainable MFI

CRS worldwide seeks to establish micro-finance institutions that are legally empowered to provide financial services, are able to ensure program quality and are committed to providing target clients with permanent access to the services they require. Such institutions are locally managed and have committed Boards with clear guiding vision.

Since the commencement of the USAID/ CRS/USTOI program in 1999, one of the primary program objectives has been to work toward the establishment of a local micro-finance institution, locally managed, that will continue to provide permanent access to micro-credit to the Bulgarian micro-entrepreneurs after USAID and CRS discontinue operations in the country.

Institutional Sustainability

Managing a loan fund is not the same as managing a micro finance institution. Some micro finance organizations are very good at making loans and getting these loans repaid. However, they can be considered programs or projects, but not institutions.

CRS/USTOI made a strategic choice to transform the program into an institution. The transformation process was initiated when CRS/USTOI via the Cooperative Union became the retail service provider for the MF activities in Bulgaria. The creation of solid organizational structure, building staff capacity and the adoption of appropriate MIS were the main goals towards achieving institutional sustainability.

Management and Staff

A program manager, two regional managers, finance and administration manager and IT manager are the current members of the senior management team. In addition, the Internal Control Officer performs regular checks to verify the program quality and compliance with the internal rules and standards.

CRS/USTOI has long ago acknowledged the importance of staff training and capacity building. Several key staff have received comprehensive microfinance training from well-known micro finance training providers such as the Economics Institute in Boulder, Colorado and the New Hampshire Institute in the USA, the Bankademie in Frankfurt and the Microfinance Centre in Warsaw. Staff member who attended the respective training is usually asked to deliver an overview of the training to the rest and to incorporate changes in his daily work.

There is a continuing effort to build a strong organizational culture throughout USTOI. A set of corporate values has been developed by the whole team, while management constantly tries to ensure adherence to them. Teambuilding events are regular all staff meetings every year. The purpose of the meetings is not only to improve the corporate communication, but also to build common sense of understanding towards the main goals and objectives.

Business planning

The operations of CRS/USTOI are directed based on extensive business planning. All senior managers take part in the process of developing the USTOI business plan. Other staff is also involved by executing market surveys and developing branch forecasts.

Currently, USTOI follows its 2003 – 2007 Business Plan, in which the main goals are:

1. *To provide vulnerable micro-entrepreneurs with constant access to high quality financial services;*

Main objectives: a. Serve at least 10,000 micro entrepreneurs by 2007; b. Ensure program localization, formalization and financial sustainability by 2005; c. Design and provide financial products and services adequate to target clients' needs

2. *To implement co-ordination and advocacy efforts to improve the policy and operational environment for micro-finance providers in Bulgaria*

Main objectives: a. Initiate and support legislative initiatives in the field of micro finance; b. Participate with other micro finance providers in joint projects and activities to positively change the legal and regulatory framework for MFIs in Bulgaria

3. *To support the development and growth of micro businesses*

Main objectives: a. Provide micro entrepreneurs with training courses and consultations; b. Promote for local community development by providing appropriate environment for networking and mutual assistance among micro entrepreneurs

Rules and procedures:

Well-defined rules and procedures are necessary precondition for any successful MFI. CRS/USTOI developed various manuals and internal rules, which help employees to perform abiding the standards. The most important document is the Internal manual, which defines the rights and responsibilities of all employees. All other manuals describe different parts of the whole operations – (1) the Operations manuals defines the rules and procedures concerning the lending activities; (2) the Financial manual describes the back office activities and sets standards for financial discipline and reporting; (3) the Administrative manual defines the rules and procedures concerning the purchase of goods and services; (4) the HR manual describes the processes concerning the recruitment, orientation, training, appraisal, promotion and dismissal of staff.

The Internal Controls Officer monitors the adherence operations staff to the rules and procedures, outlined in the Operations manual. He performs regular monthly visits to all branches in order to compile sample data and meet with clients. A Senior Accountant, based in the USTOI Head Office, checks the accuracy of the financial information again through monthly branch visits.

Management Information System (MIS)

CRS/USTOI has developed its own MIS to correspond with the needs for retail operations and daily loan administration. The current system is Excel based and is able to generate all different kind of reports in user-friendly manner. Although the security of the system is relatively weak, the room for fraud is very limited: loan repayments are reconciled daily through online access to the bank accounts. Funds for loan disbursements are transferred on a daily basis from the Sofia head-office to the branches bank accounts based on branch cash-flow projections.

After extensive research, CRS/USTOI selected to acquire a specialized microfinance software, named Bankers Realm MFO (BR MFO) , from the Craft Silicon, a software company registered in the US. Craft Silicon and the associated group have been in the business of developing and installing banking systems across the globe for the last ten years. The company is an information technology company providing the complete systems solutions from conception to implementation and maintenance. The software has been installed in over 30 bank and non-bank micro finance institutions including K-REP in Kenya and Xacbank in Mongolia.

Given the fact that the BR software is developed for a bank, USTOI will be able – over time – to add other modules, once it expands its range of financial services such as wire transfers, and potentially deposit services to clients.

Legal Sustainability

Creation of a local legal entity

Legal sustainability means that the institution is legally recognized, regulated and supervised. Legal sustainability also means that the institution is governed in a transparent way with accountable owners and clear governance structure. Most important, legal sustainability means that the institution is secure and free from interference. Finally, as an independent legal entity, a MFI should also be able to independently engage in legal financial obligations.

CRS/USTOI implemented a plan, which allowed the microfinance operations to comply with the legal framework. Clients receive loans through regionally registered cooperatives, which activities are governed by the Bulgarian Law on Cooperatives . In order to preserve the mission and protect the investment, CRS/USTOI localized the program operation by transferring the Cooperative Union enterprise into a Bulgarian joint stock company, whose operations are governed by the Bulgarian Commercial Law. This legal framework represents a secure legal environment for growth. The cooperatives are minority shareholders in the company, which preserves the type of the lending operations at the retail end.

Board development

During the localization process, CRS/USTOI created and developed two boards – the advisory board of the USTOI Association and the management board of USTOI JSC. The candidates for these positions have been carefully selected based on specially developed criteria. Four professionals, with strong commitment and clear vision and capacities in different fields have been chosen for the advisory board of the USTOI Association, while one of them became member of the USTOI JSC Board of Directors as well. The other two members of the Board of Directors are the CRS Head of Office in Bulgaria and the USTOI Managing Director and former CRS/USTOI lead program manager.

Lessons learned concerning transformation

The transformation from a MF program into a local MFI is a lengthy process, which has to be planned at the very stages of program development and built into the strategy. Senior program managers need to be trained in institutional development and most importantly have to accept and believe in the positive effects of the transformation.

The transformation process requires completion of researches – a) a research of the local legal environment should be conducted in order to analyze different legal options and chose the best one; b) a competent legal advice should be obtained concerning the local taxation laws; c) financial implications, including liquidity issues, should be examined in order to complete the transfer of assets and liabilities.

During the transformation process, the transforming entity should a have clear strategy, goals and objectives, so progress can be appropriately measured. A team of external experts should assist the senior managers in different activities concerning the transformation. A special “transformation” funds pool should be allocated to cover the experts’ assistance.

3. Performance Monitoring

CRS/USTOI program performance has been monitored on an on-going basis via a system of performance indicators and the PPI reports, provided on monthly basis to MF regional staff in Europe and to HQ staff in Baltimore. The indicators provide information concerning portfolio quality, growth, operational productivity and financial performance. The indicators are important tools for analysis and decision-making, especially when compared to previously determined standards. USTOI performance standards are in agreement with the CRS/Europe MF performance standards:

Table 5: Performance targets

Indicator	CRS Europe Regional Standards	USTOI target
<i>Portfolio Quality</i>		
▪ Arrears rate	≤ 3%	≤ 3%
▪ Portfolio at risk	≤ 5%	≤ 5%
▪ Loan loss rate	≤ 2%	≤ 2%
<i>Growth</i>		
▪ Overall growth in portfolio	Per targets	> 150% years 2003 – 2005
▪ Overall growth in borrowers	Per targets	> 150% years 2003 – 2005
▪ Client drop-out rate	< 10 %	< 10 %
<i>Operational productivity and efficiency</i>		
▪ Clients per loan officer	300	300
▪ Operating cost ratio	Years 3 + ≤ 25%	≤ 25% year 2005
▪ Yield on portfolio	N/a	≥ 40%
▪ Loan officers as % of total staff	60-70%	60%
<i>Financial performance</i>		
▪ Operational sustainability	100% by year 4	100% by year 2004
▪ Financial sustainability	100% by year 6	100% by year 2005

Portfolio quality indicators are monitored on an on-going basis and reported to the CRS Micro-finance Unit in Baltimore. Portfolio performance is compared not only with the previously set targets/standards, but also with the output from last periods. USTOI is committed to keep the arrears and portfolio at risk rates at very low levels by maintaining high operational discipline and tight internal controls.

In the last four years, external audits have been performed on the client cooperatives and the Cooperative Union within the USTOI network. The audits have been performed as according to the legislation in Bulgaria and the standards for an independent audit. There have been no significant findings, which testifies for the excellent management of funds achieved by the CRS/USTOI team.

Such annual external audits will be performed in the future and USTOI is prepared to undertake even more extensive audits, in case of request expressed by a donor or investor. USTOI will also take part in the development of systems and procedures for monitoring and evaluation of activities as according to the future partnership agreement with CRS.

Performance Indicators

Monitoring of MF statistics is done through the PPI. The PPI consists of an Excel spreadsheet in which CRS MFIs enter statistics on client information, Portfolio information, Savings information, Income and Expense information and Performance indicators. For this particular microfinance program, CRS/USTOI has used the same PPI method to track project performance. In this system, CRS and partner institutions report performance, based on standard indicators, monthly to the CRS country office. The CRS country office then reports to the CRS Regional office, which reports to HQ on a quarterly basis. These quarterly statistics are analyzed at the HQ. On a semi-annual basis, these statistics are compiled into a publication, the *Microfinance Status Report*.

For the country office, the PPI report have been used primarily to track progress toward grant indicators (financial service delivery and sustainability). The trends and econometric analyzes provided in this report are based on the monthly PPIs for USTOI as well.

Quarterly Reports

CRS/USTOI submitted quarterly reports to report the main achievements and challenges faced by the program. These reports provide continuing evidence about the progress made by the program with regard to reaching the pre-determined goals and objectives. Plans for the next quarter are part of the report, describing the main program activities.

Technical Assistance visits

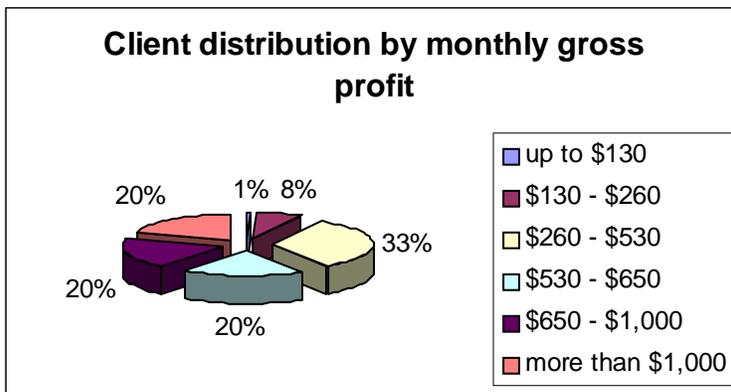
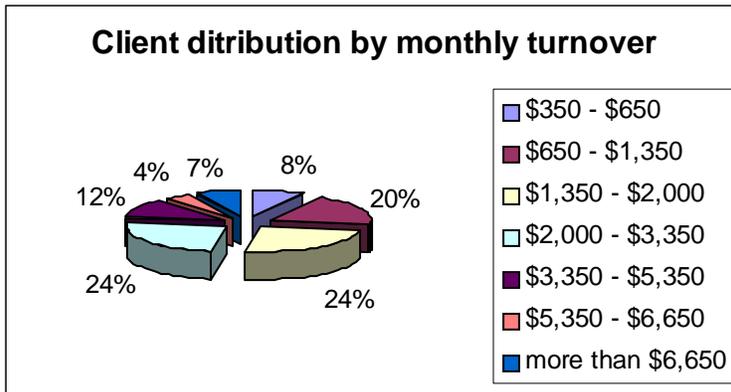
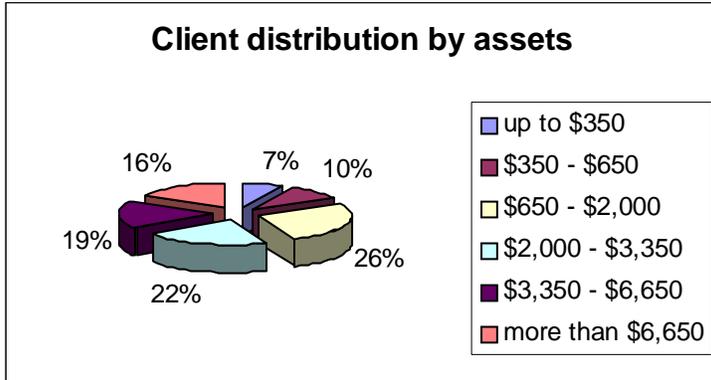
In addition to the PPI, CRS has relied on site visits to monitor and evaluate the USTOI performance. These visits have been conducted primarily by the CRS EME RTA in Microfinance Greg Pirie. For the total duration of the USAID grant, RTA has conducted reportedly over 20 monitoring and TA visits with CRS/USTOI in Bulgaria, with additional focus on providing capacity building to USTOI key staff.

Other Monitoring Techniques

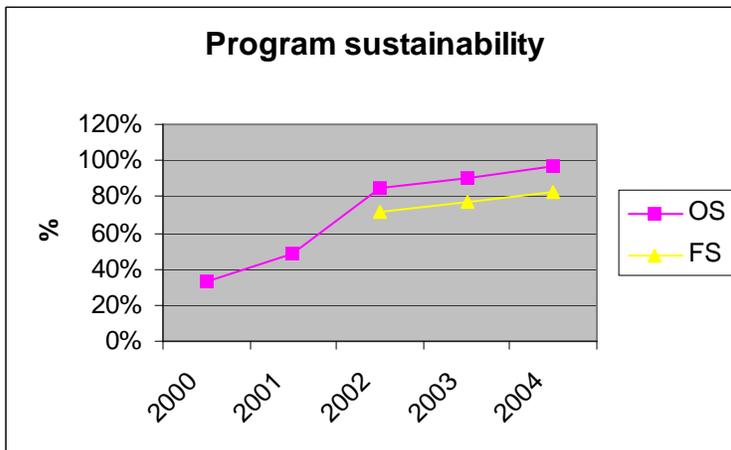
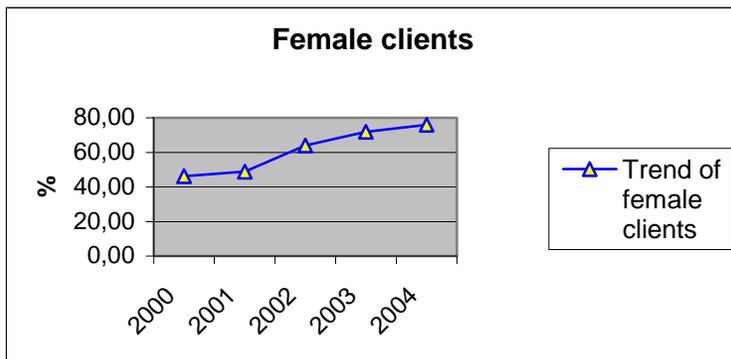
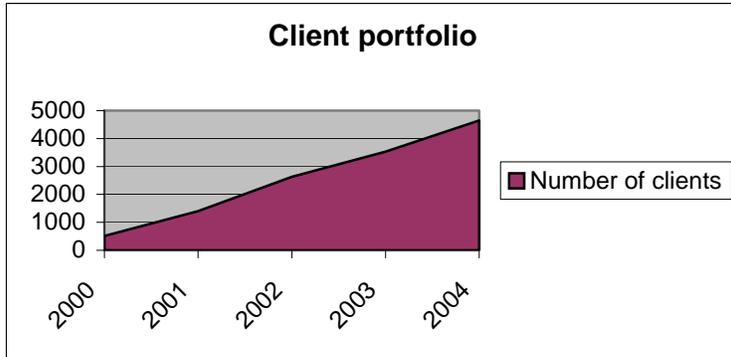
CRS MF programs worldwide fall under the review of regular audits and A-133 audits, both internal and external. CRS audits are conducted based on a country program's size and perceived risk and are focused on country compliance. There are no special procedures to audit country programs with MF projects. CRS Bulgaria has had an internal CRS audit in 2002 that has included the microfinance program. Audit findings covering the overall CRS Bulgaria program portfolio, have been closed with HQ Internal Audit department by 2003.

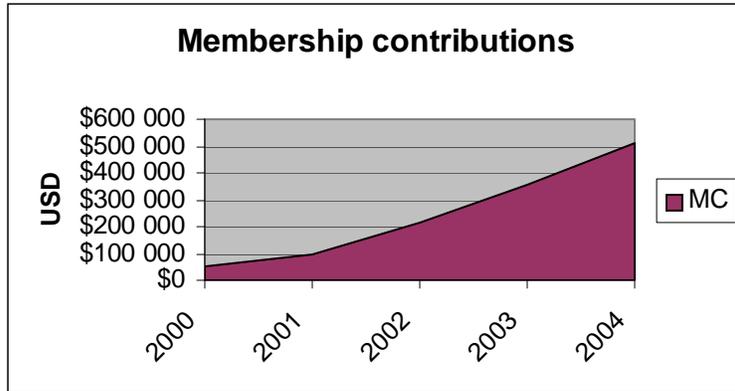
GAO audited the CRS/USTOI program in June 2003. The objectives of the audit were to determine (1) the specific objectives of micro-enterprise assistance, (2) what have objective evaluations, academic literature and other studies found to be the results of this assistance, (3) what criteria has USAID used in determining how these programs should be targeted to different groups; i.e., the "poorest of the poor" or "the non-poorest of the poor", (4) whether USAID has managed these programs in accordance with congressional mandates and directives and (5) what are the common characteristics of successful and unsuccessful programs

Attachment A: Client Distribution by Assets, Monthly Turnover, and Monthly Gross Profit



Attachment B: Client Portfolio, Growth in Female Clients, Program Sustainability and Membership Contributions Growth.





Attachment C: Client Success Stories

CRS/USTOI Branch Office in Stara Zagora

The story of Hristina Slavova Atanasova

Hristina was born in the town of Nova Zagora, a city located 30 km on the east of Stara Zagora. Her major work experience is in the sales, after that she worked in a warehouse. Eight years ago she decided to take the risk to manage her own business opened a small food store with a few goods. A lot of hard work and some luck helped her cope with initial difficulties. She heard about the USTOI program by chance. With her first loan she bought more goods for her store. Six months later she bought shelves, two refrigerators and a fridge showcase. Two years later, Hristina rented a store with two premises. She used the loans from USTOI to divide the store in two parts – one section for food products, another for fruits and vegetables. Later, in 2003, she started to sell women-cloths at a third stand.

In 2004, Hristina decided to rent another store near the first one – just across the street. She opened it at Christmas time and started to sell children's and baby's clothes and toys. Now this store is full of goods making large daily turnover.



Today Hristina is happy with her large stores with wide variety of goods. She says she owes all that to USTOI, because she hasn't used loans from other institutions. She is really happy with the service she receives from USTOI. Thanks to joining the guarantee group together with other people - a producer of soft drinks, a producer of bread and a wholesaler, she learned the main values within USTOI – solidarity and mutual aid. Today she is a client of USTOI at in her eight loan cycle. Her shops are one of the most popular and well stocked in the city.

“Now I'm going to apply to USTOI Invest, because I want to repair the second floor of my shop and to open cafe in the basement and shop for men's and women's cloths”, says Hristina.

She is great supporter of USTOI and refers many new clients to the program.

CRS/USTOI Branch Office Veliko Tarnovo

The story of Dimitrina Dimitrova - the 1,000th client in Veliko Tarnovo

Dimitrina Dimitrova is a 33 year-old woman from Veliko Turnovo. Currently she owns a stand at the municipal market and two buses for delivery. Dimitrina rents and grows 7,000 square meters of a vegetable garden and 3,000 square meters cherry orchard garden as well. She is a single woman and works together with her boyfriend. Dimitrina maintains positive attitude and tries to cope with all difficulties. She has started her business without any help and now she earns money on her own for more than 11 years. She loves her business and is totally devoted to it because it's the meaning of her life. *"If I have to stay locked in an office, even getting 1,000 leva salary, I'd run away. I love to see the lettuce and tomatoes grow!"* she says.

After she finished high school in 1990 she started working as a vendor at the municipal market. In 1994 she decided to register a company and to start business - *"I wanted to be my own boss"*, Dimitrina recalls. In the beginning, she started purchasing goods directly from producers, which later she re-sold at the market. She always keeps high-quality goods and that is why her clients prefer to buy from her. She gets along with her colleagues well, too. She doesn't have any problems with them although they are competitors. Sometimes when she goes to buy goods, she takes a colleague with her, so that they can have higher discount. Dimitrina is not afraid of competition – *"there is enough work for all of us at the market as long as we do our job well"*. Through selling fruits and vegetables she gradually began the business for growing them, too.

Dimitrina is self –educated. In 2001 she decided to start growing vegetables so that *"to close the circle"* in an attempt to increase her income. She decided to rent a garden and grow lettuce but she needed money for seeds and cultivation. At the time, USTOI opened an office in Veliko Turnovo and Dimitrina decided that with our help she could fulfill her dream for own vegetable production. Before that she had never received a loan from another institution. She has lent and borrowed money from friends and colleagues.

Dimitrina decided to take a loan from USTOI and became a member of the first group in the town. She became **the 1000th client of the program** in Veliko Tarnovo. In the beginning most of her colleagues at the market were skeptical but she decided that *"the risk of 60 leva is worth compared to what I could receive"*. Since then she is a regular client of USTOI and participates at almost every meeting of the group. She has used the services of the program many times and she has received additional "parallel" loans. She invests all the money she has received in her business, e.g. she has bought goods, paid for cultivation and sowing, bought a minibus. Dimitrina considers USTOI as a friend who is helping her develop her business. She is willing to continue working with USTOI and her next target is to purchase her own vegetable garden and to build a modern greenhouse with systems for heating, ventilation and watering.

"I am grateful to USTOI for the nice and loyal attitude towards me and the support I received from them", smiles Dimitrina.

CRS/USTOI Branch Office – Sofia-West

The story of Maria Simeonova, member of guarantee group “Nadejda”

Maria Simeonova is a client of USTOI since May 2002. At that time, she had a little stand for shoes in bazaar “Universiada” in Sofia. Her business was underdeveloped and she needed more merchandise.

Maria heard about the CRS/USTOI program from one of the USTOI loan officers. She liked the terms of the loan and decided to try this opportunity.

She joined the first guarantee group in Sofia named “Nadejda” (“Hope”) together with 6 other women. With her first loan of 600 leva Maria bought women’s shirts. They were sold well and very quickly. The second loan of 1 000 leva, Maria used for purchasing of shoes.

At the beginning of 2003 she opened a second stand in the same bazaar for selling imported jewelry from Turkey.

The third and the fourth loans at the amount of 1 300 and 1 700 leva were used for stocking her two stands with goods. In December 2003 she took additional loan for Christmas Holidays at the amount of 800 leva. With this money she supplied mainly jewellery.



Maria at her stand in the “Universiada” bazaar

Maria has been satisfied with the program and in January 2004 requested and received 2 200 leva. She opened a Café in the March the same year.

At present Maria has an outstanding loan of 2 900 leva for one year along with an additional loan of 1 500 leva. In addition, Maria is applying for an investment loan with USTOI. She wants to use the loan to buy machines for manufacturing of knitwear.

Today, her guarantee group is in the seventh loan cycle and still keeps its members. They all are helping each other in need.

CRS/USTOI Branch Office – Sofia-East

The story of Irena Petkova

Irena Petkova is a client of guarantee group “NOE”. The group is about to receive the fourth loan in USTOI Sofia East’s office.

Irena is a specialist in hair extension and reconstruction. According to her, her work is a kind of art.

Three years ago Irena was working as a hairdresser in a beauty parlor. Soon she bought the parlor from its owner and started her own business.



Very soon after she started with her own business, Irena heard about the USTOI program, and came to the USTOI Sofia East office. She described her business idea, but couldn’t meet the conditions for receiving a loan. A few months later she had her own firm, clients and well-known name among her colleagues, and she came back. Together with six other women they formed a group named “NOE”. She received her first loan, rented her own premises, and bought the basic equipment she needed. With the second loan she repaired the parlor (the other women from the group say it looks like a “baby-doll house”) and she bought one computer as well. With the third loan she bought new and modern beauty products.

At the moment she applies for a fourth loan with which she plans to organize a course for hairdressers and to teach them how to help the clients take care for their hair. In her opinion the clients gradually start to pay more attention to the quality of work and she wants to help her colleagues improve their skills in this direction. She plans to introduce to them modern and various innovations in her profession. Meanwhile she has prepared a textbook and now awaits the Ministry of Education to approve its publication.

Since few weeks ago Irena has opened an Internet site of her center: <http://www.devacenter.net>. There she explains that her major task is to help her clients receive extensive information, competent consultation and freedom to make a choice. These are also the things she found at USTOI.



CRS/USTOI Branch Office Gabrovo

The story of Tzenka Tzanova

Tzenka Tzanova is a 40-year old woman. At the moment she has a bakery for snacks. She has run this business for five years.

Previously, Tzenka and her husband had a pizza-restaurant. After she divorced in 2000, she decided to continue with her own private business. She decided to rent a place for a bakery shop together with her son – a student at the High School for Cuisine and Cookery at the time. With their savings, they bought equipment for the bakery and started production. Business was going well and they expanded the volume of the production and diversified the services.

Tzenka has tried to receive a loan before, but all commercial banks have refused her. In August 2001 she heard about the USTOI program from a friend. She came to an information meeting and there she met other people with whom they formed a guarantee group. Some of them are still together in the group.

In September 2001 the group received its first loan. She used the money for purchasing one more bakery oven. Tzenka used the subsequent loans for new equipment to increase the baking capacity of the shop.

At present, Tzenka is supplying the Regional Hospital of Gabrovo and two local schools with baked snacks. A month ago, she signed a contract with three more schools for supplying free snacks, program sponsored by the Gabrovo's Municipality.