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**Legal and Regulatory Obstacles for Scaling Up Microfinance in Serbia**

**Activity Report for the 2004/2005 fellowship year**

During the IPF fellowship year 2004/2005, activities of the project have been performed as initially planned. Also, a number of new activities have been added, which have not decreased the budget.

**I. Conferences, seminars, round tables and workshops**

The initial training was held at three *IPF seminars* in March and September 2004 and April 2005. Venue: Budapest, Hungary.

In *April 2004*, the Serbian Ministry of Economy has hosted the “Conference on SME Financing”, where Microfinancing has played an important role. This was a good occasion for networking and lobbying for Microcredit in Serbia. One of the conclusions from the Conference was the necessity of creating a legal framework for microfinance. Venue: Belgrade, Serbia.

Beginning of *May*, ILO has hosted the Conference on: “Social Finance for Support to Self-Employment” pointing out microfinance as the vehicle to support self-employment. Venue: Belgrade, Serbia.

In *May*, have attended the 7<sup>th</sup> Annual Conference of the Microfinance Institute in Warsaw, Poland. This conference was attended by speakers and participants from all over the world, and we have discussed different options for MFIs having in mind their social mission.

In *June*, had a presentation on microfinance, results achieved so far and some preliminary recommendations in the SDC/seco “Private Sector Development Workshop” held in Budva, Montenegro. The title of the presentation was: “Alternatives for Swiss Involvement into Microfinance Programs in Serbia”.

End of *June*, the Serbian Ministry of Economy has organized a conference on the: “National Report of the Republic of Serbia on Small Enterprises”, where microfinance was mentioned as an important developmental tool for Serbia. Venue: Belgrade, Serbia.

In *September*, I have attended a Regional Seminar organized by the ILO training center from Turin, Italy, under the title: “Making Microfinance Work”. This was an excellent opportunity to gain some hands-on experience and interact with colleagues from the Region. Venue: Ohrid, Macedonia

In *November*, as a follow-up from the April event, the Serbian Ministry of Economy has hosted the Conference: “SMEs as drivers of economic development” (Nov). This was an opportunity to cross-check the plans from the beginning of the year. The importance of microfinance for economic growth, employment and social integration was reiterated. Venue: Belgrade, Serbia.

Also in November, the Center for Liberal Democratic Studies organized a series of round tables on “FDI, SMEs and Employment Creation”. The discussions between the participants have created the following policy recommendations for facilitating the microfinance industry: 1. Continue with the reform of the banking sector, 2. Support the Government’s Draft Action Plan, which stipulates legal and regulatory change which would facilitate SME and microfinancing etc. Venue: Belgrade, Serbia.

In **December**, I have attended the legal Conference: “Kopaonik School of Natural Law”. This is the biggest gathering of lawyers in the Region where approximately 2.000 to 3.000 lawyers attend each year. During the event, I have presented the legal and regulatory obstacles which impede microfinance development in Serbia. Venue: Kopaonik, Serbia.

In **January 2005**, the NGO “HELP” held a training on perspectives for microfinance in Serbia. It was lectures from ProCredit Bank and lawyers from the Serbian Agency for SME Development. Venue: Kopaonik, Serbia.

**March** the Foreign Investors Council held a Conference at the occasion of the “Inauguration of the White Book”. Representatives from the Government were present and this was an occasion to hear first hand about the Governments’ plans in the monetary policy, restructuring of state owned enterprises, financial prognosis, inflation and other macroeconomic indicators which have influence on microfinance development. Venue: Belgrade, Serbia.

## **II. Governmental authorities and bodies**

### ***In Serbia***

In **April 2004**, the World Bank in Belgrade has hosted a series of round tables with the Serbian authorities and international donors. The meetings were attended by the Ministry of Finance, Ministry of Economy, National Bank of Serbia and others. During the meetings issues of concern for international donors relating to economic development were discussed, as well as issues relating to microfinance.

In April have met the Assistant Minister for Economy and during the occasion have discussed future developments of microfinance regulation and supervision in Serbia. During the meetings we have exchanged ideas about possible cooperation, and I have offered help for supporting microfinance development.

In **May**, had a discussion with the Vice Governor of the National Bank of Serbia (NBS) regarding the current standpoint of NBS towards microcredit, as well as regulatory and legal constraints that are impeding microfinance development.

In **June** had a follow-up meeting with the senior staff management of NBS to discuss possible microfinance programs that NBS would support.

Also, in June had a follow-up meeting with the Assistant Minister for Economy to cross-check the Governments’ plans on supporting microfinance.

In **July**, a meeting with the Assistant Minister for Labor and Employment on the topic of microfinancing for supporting employment and self-employment was held.

Also in July, have met the Serbian Agency for Small and Medium-sized Enterprises Development collecting ideas, exchanging opinions and discussing potential cooperation.

End of *February 2005* have contacted the Ministry of Finance to learn more about the Governments' initiative on creating the Serbian Microfinance Fund, which was announced in the public. So far the feedback was scarce.

### ***Abroad***

End of April 2004 have met the Local Initiatives Program – LIP, which is the implementing body of the Federation of B/H (one of the existing two entities in B/H) in charge of microfinance programs. This is an apex institution having the role of steering activities, promoting new legislation, communicating MFIs requirements to the Government etc. During the occasion, I have received very useful insight regarding the possible inter-linkages between MFIs and the formal banking sector from the Bosnian perspective. This perspective is very useful having in mind that Bosnia was an example of the microfinance boom in the beginning of this century having 42 MFIs on the population of 3.5 million (as a comparison, Serbia has 4 MFIs on the population of 8 million).

### **III. Serbian Microfinance Policy Working Group**

In the first half of 2004, have regularly attended meetings of the Serbian Microfinance Policy Working Group. They were hosted by UNHCR on a bi-monthly basis and the most important microfinance stakeholders participated: representatives of MFIs, international donors, consultants seconded to the Government etc. The working group was an occasion to share information about the current state of microfinance and also to discuss policy issues which would boost the microfinance industry. Towards the end of 2004, the group has stopped meeting, but I have kept formal and informal contacts with the members of the group.

### **IV. Micro Finance Institutions**

During the reporting period, I have continuously met with the existing MFIs in Serbia, Microfins, Micro Development Fund and World Vision, and once with Integra. We have discussed constraints in their operations, requirements for legislative changes and plans for the future.

In Bosnia, the Federation of B/H, have met several MFIs: LOK, EKI, Sunrise, Micra etc. This was the opportunity to learn about their operations and plans for the future. Most of them have expressed their wish to expand into other fields such as micro-leasing, micro-insurance, micro-housing loans, even into deposits to which all have agreed to be hardly possible. The visit and discussions were made in the midst of preparing the new Microfinance law which was expected to introduce new actors in the field of microfinance, such as financial companies.

## **V. International donors**

Throughout the fellowship year, I have established continuous contacts with the international donors which are involved or are thinking of becoming involved in some kind of microfinance activity. I have contacted:

ILO - who is establishing a microfinance project which will support self-employment;

SIDA - (Swedish International Development Agency) which has been the donor in two (out of four existing) MFIs in Serbia, Microfins and World Vision. SIDA has conducted an evaluation of three Serbian MFIs and their report was valuable for my project;

CIDA - who was initially a donor for microfinance projects in Serbia and have pulled out now;

seco – (Swiss State Secretariat for Economic Affairs) who is the co-investor in the planned Balkan Financial Equity Fund, which will make equity investments into microfinance banks and non-banking MFIs;

World Bank – which have expressed their interest in microfinance and were interested in study on legal and regulatory obstacles;

SDC, UNHCR and others

## **VI. Banks**

Throughout the fellowship year, I have exchanged opinions with Greenfield microfinance banks, as well as banks involved in the process of commercial downscaling. This was an opportunity to learn about their views of developing the microfinance industry, as well as about legal and regulatory issues that concern microcredit issuing through the mainstream formal financial sector. The banks were: ProCredit Bank, which is the first and for the time being only Greenfield microfinance bank in Serbia and which is operating sound economic success; the Opportunity International Savings Bank from Novi Sad, so far the only example of a Savings Bank in Serbia with the aim to scale-up into a commercial bank; Opportunity Bank from Montenegro, the first and only Greenfield bank in Montenegro so far; mainstream commercial banks involved in the process of commercial downscaling - Kulska, Komercijalna and Eksim bank, to learn more about the experience from the downscaling process in Serbia.

## **VII. Other Stakeholders**

Also, throughout the year I have contacted other stakeholders relevant for microfinance:

LFS Financial Systems (LFS) - who is involved in the process of commercial downscaling in Serbia;

Consultants and experts – from SDC, seco, UNHCR, EAR, independent consultants;

SEED (South-East European Enterprises Development) – on their proposal for a microfinance project for supporting start-ups;

European Movement for Serbia – currently conducting a research on microfinance in Serbia on behalf of the World Bank.

### **VIII. Mentors**

During the fellowship period, I have had continuous contact with my mentors, Mr. Ira Lieberman and Mr. Timothy Lyman (meetings in person, video-conference, e-mail and telephone exchange). Their guidance and input has decisively directed the outcome of my project and I am very thankful to them. In this sense, the existence of international mentoring and networking has proven to be a core asset of the IPF program.

### **IX. Research paper and Policy brief**

As an outcome of the IPF program, I have produced a research paper and a policy brief. They are published on a website created especially for this purpose.

Arminio Rosic  
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