

The Impact of Microcredit Programs in Alleviating Poverty and Restoring Livelihoods of the Targeted Populations in Bosnia And Herzegovina

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ABSTRACT

The effective design and delivery of micro-credits is difficult under all circumstances. However, in conflict-affected societies, the task of microcredit institutions that seek to provide financial stability to its most impoverished members is more complicated. This paper aims to investigate the role and the impact of the microcredit industry in Bosnia and Herzegovina. Data for this study were gathered from both microcredit institutions and recipients of microcredit funds using both qualitative and quantitative techniques. The research results show that refugees, internally displaced persons and returnees are less likely to get loans compared to those with stable incomes, meaning the population with stable incomes has benefited more from these credits in improving their living conditions. Most of the targeted populations of the interest free microcredit foundation (MCF) that was taken as a case study in this research expressed their satisfactions with the loans and service provided by the particular MCF. From a policy perspective, it is important to focus attention on the most affected population groups, those least able to pull themselves out of poverty. Microcredit foundations should find a balance between being non-profit based and achieving their full sustainability.

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KEYWORDS

Microcredit program, Bosnia and Herzegovina, Microcredit Foundations, Microcredit Institutions, Interest rate, Poverty, Debt, Borrowing.

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Introduction

This paper explores whether microcredit (MC) programs have any effect on alleviating poverty and restoring livelihoods for the targeted populations in Bosnia and Herzegovina (BH). Doyle, who conducted a comprehensive review on the general impact of MC in helping refugees, returnees and IDPs in improving their living conditions and restoring their livelihoods, seems to believe so (Doyle, 1998 & 2008). As a mechanism that has a stated directive and the objective of targeting the most impoverished groups of society, the role of microfinance in BH deserves much more attention and serious exploration.

Bosnia and Herzegovina is a country that endured a devastating war from 1992-1995. The traditional best-practice paradigms of microfinance are inapplicable in war and conflict-affected situations because of the instability of the governmental and financial institutions, and the lack of communal and social trust among individuals. Within these post-war environments, refugees, returnees and internally displaced populations (IDPs) are among the most marginalized and helpless of the affected groups. Providing microfinance to them is then perhaps the most challenging problem facing practitioners and MC institutions engaged in this kind of relief and development work. Various micro-financial institutions have been active in Bosnia-Herzegovina since 1996 and struggle with providing services in such a challenging environment. An insight into their work promises to uncover strategies that may be employed with the problems and successes of such endeavors. Therefore, this paper will shed light on the work of these organizations and their effectiveness.

The following relevant research questions are addressed in this study:

Research question number one: How do micro-credits affect the livelihoods of the targeted groups, and to what extent do refugees, internally displaced persons and returnees have access to micro-credits in Bosnia and Herzegovina?

Research question number two: What are the objectives of the microcredit programs, and what are the most requested loans in Bosnia and Herzegovina?

Research question number three: What are the perspectives of the beneficiaries of micro-credits in Bosnia and Herzegovina regarding this service and its impact on them?

There is a big debate and doubts about the certain impact of the MC industry in BH both at the local and international levels. The reports from the World Bank, Microfinance Information Exchange (MIX) and the Association of Microfinance Institutions in Bosnia and Herzegovina (AMFI) show that; among peers in Kosovo and in the Balkans (Albania, Croatia, Macedonia, Montenegro, Serbia) in general, as well as peers similar in size and market outreach from Eastern Europe and Central Asia (ECA), the Bosnian MFIs are some of the most highly leveraged, more than 70 percent of all funding to MFIs in BH during 2007 came from foreign lenders. In 2007, most Bosnian MFIs showed high growth rates in active borrowers and especially loan portfolio. More than half of the non-bank MFIs grew by more than 50 percent in outreach. On the other hand, others like Karnani (2007a) suggested that governments, businesses and civil society should work together to reallocate their resources away from microfinance and instead support larger enterprises in labour intensive industries. A strong critique comes from Bateman (2007a) 'new wave commercial microfinance' where he asks whether microfinance can actually undermine medium-term economic development because it supports inefficient activities. Bateman found that there is little solid evidence to confirm that commercial microfinance facilitates sustain economic and social development.

However, this paper might provide some evidence as to whether the MCI in BH, with it's both commercial and non-profit institutions, helps in alleviating poverty and promotes economic and social development.

Literature Review

Origin and Philosophy of Microcredit

Micro-credits, as a viable tool of development, began in 1976 when Bangladeshi economist and social reformer Muhammad Yunus began lending small amounts of money to rural poor women of Jobra village to start or expand their businesses. That initial and modest foray into microcredit eventually culminated in the formal establishment in 1983 of the Grameen Bank based on principles of group-based lending of small-sized loans with zero collateral. (Yunus, 2004)

Focusing specifically on the agency, entrepreneurial skills and innovation of the marginalized and poverty-stricken populations in developing countries, the “*greatest triumph of microfinance was the demonstration that poor households could be reliable bank customers*” (Cull, 2008). Moreover, Yunus utilized microfinance to directly mitigate a significant and core problem in development economics: that the poor remain poor because they do not have access to productive capital to grow their way out of poverty (Kanishka, 2009).

Historically, microfinance programs have been developed and targeted to address the concerns and needs of poor households that markets and governments fail to adequately confront. More specifically, according to Heen (2004), the client-base of microfinance institutions includes: female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs, each of whom fall into one of four poverty levels: destitute, extreme poor, moderate poor, and vulnerable non-poor. These programs typically offer a wide range of financial services such as: deposits, loans, savings, payment services, money transfers, and insurance to the poor and low-income households and their micro-enterprises who are excluded from the formal financial systems (Swain, Ranjula, Nguyen, & Vo Tuan, 2008). According to Legerwood (1999), microfinance institutions may also provide social intermediation services such as: group formation, development of self confidence, and training in financial literacy and management capabilities among members of a group. Thus, microfinance is more than simple banking; it is a development tool as she asserts (Legerwood, 1999, p. 1). In BH a Center for Financial and Credit Counseling (known by its Bosnian acronym CFKS) opened its doors in Tuzla in 2010 and aims to offer debt mediation and financial education to borrowers.

The most successful of the microfinance development philosophy is evidenced by reports of the top micro lenders which boast repayment rates of 98 percent or higher, all achieved without securing any collateral for the loans. This success is attributed, by Cull, Demirguc-Kunt, & Morduch (2008), to “*new lending practices, especially “group lending” (also called “joint liability” lending)*”. Authors described this model in which customers were typically formed into small groups and required to guarantee each others’ loan repayments, aligning their incentives with those of the bank. This practice was rarely used in Bosnia and Herzegovina, due to lack of the trust between groups and society as a direct consequence of the recent war.

Rhyne (2001) best summarizes the common philosophies and goals driving the current microfinance movement as follows: using the client’s character rather than collateral as the primary loan security, streamlining the administrative processes to lower costs, responding rapidly to late payments, providing positive incentives for repayment, charging interest rates that approach or cover costs, and emphasizing the long-term sustainability of the lending organization (Rhyne, 2001, p. 7).

However, this is not to say that microfinance has been credited as an unprecedented success. Microfinance programs are also weakened by a serious and well-acknowledged lack of comprehensive and tough impact evaluations. Morduch (1998) explained this very fact in his book *The Microfinance Promise*. In his summary of the problems confronting the microfinance industry he argued that the promise of microfinance was founded on innovation: new management structures, new contracts, and new attitudes. The leading programs came about by trial and error. Once the mechanisms worked reasonably well, standardization and replication became top priorities, with continued innovation only around the edges. As a result, most programs are not optimally designed nor necessarily offering the most desirable financial products. Such weaknesses and difficulties facing the MC industry in BH are easily noticed since 2009 till today. Many critics, articles and analysis have been published locally and overseas tackling issues like: indebtedness of MC clients, high profit generated by MCFs, lack in pricing transparency regarding interest rates, skyrocketing salaries and privileges of MCF managers. The harshest criticism came from Milford Bateman during a round table conference in September 2011 when he concluded that the MC industry in BH is a failed experiment.

Microfinance in Post-War/Conflict Environments

The fundamental point according to Doyle (1998, 2008) is that of microfinance being viewed as a tool that can serve multiple goals. Predominantly, it remains an economic development strategy that focuses on rebuilding and restarting local economies by providing needed financial services for enterprise creation, but there is also consideration of its use as a relief and survival strategy in the immediate wake of disaster, and as a tool for peace and reconciliation.

At the same time, Heen (2004) believes that just because microfinance programs focus on marginalized groups in a given society does not mean that microfinance automatically avoids the broader problems and risks of development and that microfinance products and programs may, in fact, create conflicts in a number of ways. According to her, microfinance programs may cause conflicts in two ways; first, by reinforcing or creating new social divisions through client or geographical targeting, and second, by causing conflicts among clients especially if group lending mechanisms are used and one member of the group is unable to repay, and the whole group suffers as a consequence (Heen, 2004, p. 12-13).

Uvin (1999) argues that a purely economic-technical approach to development may help to lay the groundwork for further inequality and mal-development, as well as structural, and eventually acute, violence. This point is only further underscored by Doyle (2008) when she writes that microfinance professionals in conflict-affected environments must understand the dual imperative of being proactive as well as careful. While, doing nothing or retreating could result in prolonged human suffering and the need for more extensive, costly, and difficult involvement down the road, acting hastily or unwisely could create unintended, potentially severe repercussions (Doyle, 2008, p. 1). Most of the above mentioned unfavorable consequences could occur in BH as well.

Essential and Preferred Conditions of Microfinance in Post-Conflict Areas

Keeping the primacy of good preparation in mind, Doyle lists several essential conditions that must be in place to institute microfinancial activities in a conflict-affected area. She then goes on to list several preferred conditions which while not entirely necessary, are still entirely desirable (Doyle, 2008, p. 7-11).

Essential Conditions include: low intensity of conflict, reopening of markets and long-term displacement (18 months or longer). In the case of BH the long term repatriation process is one of the biggest concerns for both politicians and individuals, so this could be considered an important condition to be taken into consideration by the MC industry.

Preferred Conditions include; relatively dense population, enabling legislation for microfinance (MF) institutions, a skilled and educated workforce, social capital, and trust in the local currency and financial institutions. In the case of BH the legislations for MF started late in 2006 and were officially applied in 2008. This delay could be one of the root causes of current problems that both clients and MC industry have been facing since 2009.

However, keeping in mind the obstacles, and the critical need to be careful as well as proactive, Doyle notes several steps to be undertaken before embarking on microfinance refugee programs. These include; first, investigating the current political situation to learn whether refugees are likely to be repatriated within the next 12 months. Second, ensuring that there are activities that can gradually integrate refugees into the local markets and in a nonthreatening way. Third, asking refugees what sort of financial services or non-financial services they need most now, then building a program around the existing situation. Fourth, instilling confidence in the permanence of the microfinance services as long as refugees are in their current location to ensure repayment, and implement the program with a longer-term vision.

Microfinance for Refugees, Internally Displaced and Returnees

Even before counting the challenges that would be inevitable to the implementation of a microfinance program for refugees, returnees and internally displaced populations, it is valuable to discuss some more general constraints on the economic lives of these groups. Jacobsen (2005), writes in her book that the abilities of refugees and internally displaced persons in camps to engage in viable economic activities that go beyond subsistence is determined by their access to productive assets such as arable land, economic infrastructure such as mills and storage facilities and perhaps most importantly, credit. Jacobsen goes onto list several factors which restrict access to these productive assets, one of which being freedom of movement in and out of camps in order to pursue these economic activities. Moreover, she writes, “refugees in protracted situations must also cope with shifts in attitude from the host community,

which can affect both the willingness of authorities to implement restrictions, and refugees' economic activities" (Jacobsen, 2005, p. 31). This is very true in the case of returnees in BH, as the unwillingness of the dominant majorities and restrictions created by authorities are some of the biggest obstacles facing MCFs in targeting this vulnerable group of the population.

In light of the above, in the world of post-conflict reconstruction and development evaluating, designing and implementing a microfinance program for refugees, returnees and internally displaced populations presents an additional layer of difficulty and complexity. Bartsch (2005) outlines some of these difficulties. First, microfinance is oftentimes founded on the notion of group solidarity to replace the conventional banking requirement of material or monetary collateral. It is exactly this group solidarity which is most absent from refugee populations. Second, microfinance as an industry is more closely related to the principles of banking than to relief and will need to seriously review and also perhaps check its measures of success. Third, while the provision of relief is supposed to benefit the poorest and most affected populations, microfinance in its current form, is bound to benefit only people already endowed with business acumen and, often enough, sufficient resources to sustain themselves. Fourth, to be successful microfinance must be implemented as one strategy among an entire array of relief and development strategies such as business training and, most importantly, an enabling environment.

In post-war countries like BH assuring a smooth approach from relief to development strategies in MC is very crucial in order to avoid or minimize the consequences of immediate shifting or jumping from the relief and emergency phase to the development phase without considering or going through the rehabilitation phase. The MC industry should apply and adopt a rehabilitation strategy before moving further in the development phase, and this could be considered one of the main root causes of the current crisis facing the industry since 2009.

Debt Capacity and Repayment Suspension

One of the reasons for the popularity of micro-credits is the performance on loan recovery where anything below 95 percent is considered unsatisfactory by donor organizations (Harper, 2007a, p. 39). However, loan recovery does not give any indication of whether people are able to pay back the loans without suffering additional destitution, something that has become much clearer during the current global economic crisis

which has affected the debt recovery of large number of borrowers in Bosnia and Herzegovina. In other words, debt recovery relies heavily on the debt capacity of the borrowers which was defined by Von Pischke (1991, p. 177) as follows; lenders are able to recover loans on schedule only when the repayment capacity of the borrower equals or exceeds debt services which consist of principal and interest due for payment. Borrowers are able to repay their loans on time without suffering hardship only when their repayment capacity equals or exceeds the debt service due according to the loan contract. In order to be consistent with the Microcredit Foundations (MCFs) aim to serve as a catalyst for economic development, the repayment capacity should exceed the debt service by a considerable margin. However, according to the available data on most of MCFs' websites and reports in BH, this is commonly not the case. And early warning signals sent by a few local practitioners as a result of their internal surveys and observations were not taken seriously nor could they prevent the sudden explosion of the current crisis that the industry is facing since 2009.

In spite of this, the lack of debt capacity, repayment suspension is granted only in very exceptional circumstances as Rutherford (2002) stated. As Mareen (2008, p. 402) state: "*Even during major disasters, such as the 1998 and 2004 floods in Bangladesh, payments were at best postponed until flood waters had receded*". While in Bosnia and Herzegovina since the 2009 global economic crises, the loans reconstructing (rescheduling) technique was used to overcome the delay on repayments, such approach guaranteed borrowers longer periods but loaded them with extra interest charges.

MCFs Organizational Structures and Loan Recycling

Organizational Structure; According to Wood and Sharif (1997), and Hulme and Moseley (1996), in many MCFs the "discretionary power" to grant a stay of payment does not rest with the fieldworker or the branch manager but rather with managers higher up in the hierarchy. This is important as hierarchical decision making and operational autonomy notably affects the ability of borrowers to cope with and recover from emergencies both in positive and negative terms. The same could be said for the MCF that will be used as a case study in this paper as well as all other MCFs in Bosnia and Herzegovina.

Loan Recycling; According to Yunus (2002); "*once half the outstanding loan is repaid, clients are allowed to take out a second loan to help pay off the previous loan*". Loan recycling has become a common practice in many MCFs in Bosnia and Her-

zegovina, as this has been approved by the Federal Banking Agency (FBA) which controls the activities of all MCFs since June 2008. But in the case of Bosnia and Herzegovina, the practice of loan recycling has been applied regardless of the above condition mentioned by Yunus. MCFs varied in initiating conditions to secure getting back their money from borrowers; some of them asked borrowers to only have guarantors who are working in governmental sectors, while others asked for additional interest or offered larger loans and longer repayment periods with conditions to close the whole amount of the previous loan immediately.

Alleviating Poverty and Pricing Transparency

The extra liquidity was intended for daily expenses during the crisis, as well as for productive investment. However, handing out more money on credit should never be a solution in itself as over time it can change attitudes and erode cautiousness according to Nagarajan (1998), Dichter (2007) and Allen (2007). Microcredit is generally most appropriate where ongoing economic activity and sufficient household cash flow already exist as explained by (CGAP, 2005, p. 8). In spite of MCFs having long been highly transparent in some areas, due to the complications of market conditions and lack of regulation, the true price of loan products has never been accurately measured or reported. This is a serious weakness in the industry, although there has been a serious effort made since 2008 regarding the transparent pricing issue, even though this still listed prominently in all consumer protection efforts currently underway. Elizabeth Littlefield (2009), the former CEO of CGAP, stated: *“MF Transparency aims at giving microfinance institutions information to offer better value to customers. And it will give investors and others the information they need to put pressure on those institutions that may be charging unreasonably high fees or hiding the full cost of their services. We applaud the effort.”*

Social and Economic Stagnation in Bosnia and Herzegovina

The social and economic situation of many people living in Bosnia and Herzegovina is difficult, particularly for the IDPs and returnees. Many IDPs still live in collective accommodation, while the returnees are suffering from an extremely high unemployment rate in majority dominated areas, the loss of a social assurance system, poor health care, education and infrastructure facilities. Furthermore many families lost their main breadwinner and are therefore being confronted with poverty that they did

not know before the war. Bosnia and Herzegovina has not yet managed to overcome economic stagnation. The market is still split because of a federal fragmentation and non-standardized regulations; there is no uniform economic, tax or legal policy. The transformation from a socialist to capitalist economy has exacerbated the social situation, which is already precarious in the aftermath of the war. Fifteen years after the war, many young people are leaving the country to search for work and better living conditions as they can no longer see their future in Bosnia and Herzegovina.

Table 1 and table 2 show general statistics on Bosnia and Herzegovina that reflects the multi-ethnic composition of the country, and how much it is crucial for those who offer such services to be very sensitive and careful in regards to neutrality and impartiality. It is also crucial to target the host community in addition to returnees, refugees and IDPs. In order for the host community not to feel disadvantaged by the presence of these vulnerable groups, and in order not to obstruct the services that are offered to them, it is very crucial that the host community, in one way or another, gets benefits from the same services that the other target groups are enjoying. The table also shows that almost more than one million IDPs and refugees have been resettled in their prewar houses, something which is very important to remember when comparing this (in the next sections of this study) to the accessibility of these groups to micro-credits.

Table 1. General statistics on BOSNIA AND HERZEGOVINA according to 1991 census

Indicators	FBH	RS	BD	Total
Surface area in km ² / %	26.110,5 (%51)	24.605,7 (%48,0)	493 (%1,0)	51.209,2
% of population by territory	%62,1	%35,9	%2,0	%100

Source: **Statistics on BOSNIA AND HERZEGOVINA** (ISSN 1512-5106)

Table 2. General statistics on BOSNIA AND HERZEGOVINA according to 1991 census

Ethic Population	Bosniaks	Croats	Serbs	Yugoslavs	Others	Total
Population by ethnicity/%	1.902.956 (%43,5)	760.852 (%17,4)	1.366.104 (%31,2)	242.682 (%5,5)	104439 (%2,4)	4.377.03 (%100)
Returnees from1996-2006	630.730	129.612	249.020	-	8.071	1.017.43

Source: **Statistics on BOSNIA AND HERZEGOVINA** (ISSN 1512-5106)

Table 3 shows different human development indicators taken from the UNDP 2009 annual report, which reflects the need for more efforts to improve the quality people's lives. Around 20% of the population of Bosnia and Herzegovina are definitely poor or on the edge of poverty, while Bosnia and Herzegovina is ranked 76th out of 177 countries in human development index. The encouraging figures coming from life expectancy where Bosnia and Herzegovina is ranked 51st and in adult literacy is ranked 39th with rate of 96.7%.

Table 3. Human Development Indicators of BOSNIA AND HERZEGOVINA

Human Development Index "HDI" (rank/rate),	76. (out of 182) / %81,2
Life expectancy at birth (rank/year)	51./ 75,1 years
Under 5 mortality rate (per 1,000 live births)	18
Adult literacy for ages 15 and above (rank/rate)	39. / %96,7
People not using an improved water source (rank/rate)	27. / %1
GDP per capita (rank/PPP US\$)	92. / 7,764
% of Poverty level - definitely poor, on the edge of poverty, not definitely poor	%11,3, %7,8, %73,9
Population below poverty line during 2009, 2010, 2011(rank/rate)	88. 86. 106 (%25, %25, %18,6)

Conflict Background and History

The signing of the Dayton Peace Agreement (DPA) in December 1995 ended the conflict and established Bosnia and Herzegovina as a federal state made up of two entities: the (mainly Bosnian Serb) Republic of Srpska (RS) and the (mainly Bosniak and Croat) Federation of Bosnia and Herzegovina (FBH). According to the DPA each entity has its own government, president, parliament and police, and until 2005, each had its own army. The north-eastern Brčko district (BD) is a self-governing administrative unit with territory in both (FBH) and (RS). In the aftermath of the war, the international community set out to establish a peaceful, multi-ethnic state by: stabilizing the country militarily, promoting the return of displaced people and by reforming national institutions. The DPA provided for a strong internation-

al presence including a North Atlantic Treaty Organization (NATO)-led military force, and the Office of the High Representative (OHR) to oversee the civil implementation of the DPA. Specific to refugees and internally displaced people, the DPA focused on the right of the displaced to return to their homes and reclaim their properties. As of June 2008, the number of internally displaced persons estimated by United Nations High Commissioner for Refugees (UNHCR) and the Ministry of Human Rights and Refugees (MHRR) had dropped from 1,200,000 to around 125,000 (UNHCR, June 2008 citing government figures), indicating that over one million refugees and IDPs had returned to their pre-war residences.

Research Methodology

The research methodology of this paper considered a combination of qualitative and quantitative research methods and identified the use of content analysis and questionnaires as the most appropriate. The primary data mostly from the questionnaires is complemented by secondary data from the reports of various institutions in Bosnia and Herzegovina.

The primary was data collected in March 2010 by an interest-free MCF in Bosnia and Herzegovina that was chosen as a case study in this paper and kept anonymous upon the request of the organization. In one questionnaire, 458 borrowers expressed their perspectives about the impact of microcredit on their lives, while 50 borrowers in another questionnaire expressed their perspectives about interest-free and interest-based loans. The surveys covered 40 towns within five Cantons in the FBH, RS and BD. The breakdown of these towns according to identities and Cantons is given in Table 4.

Table 4. Survey Region and Towns in Bosnia and Herzegovina

Regions	Towns
<i>Central Bosnia Canton</i>	Vitiz, Travnik, Novi Travnik, Gornji Vakuf, Donji Vakuf Fojnica
<i>Tuzla Canton</i>	Tuzla, Gradacac, Srebrenik, Sapna, Teocak, Ugljevik, Zevinica, Teslic, Kalesija, Celic, Gracanica, Lukavac, Banovic
<i>Zenica-Doboj Canton</i>	Doboj-Istok, Tesanj, Kakanj, Zenica, Vares, Visoko, Zavidovic, Zepce
<i>Podrinje Canton:</i>	Gorazde, Ustikolina
<i>Brcko District:</i>	Brcko
<i>Republic of Srpska:</i>	Bijelina, Milici, Zvornic, Bratunac, Srebrenica, Voca, Visegrad, Zepa.

The primary data also includes: five one-to-one interviews with senior managers of MCFs and a number of borrowers, many field visits and meetings with loan officers and the general population, and observations on the microcredit industry in Bosnia and Herzegovina over the past five years.

Secondary data includes the data and reports of the Association of Microfinance Institutions (AMFI) in Bosnia and Herzegovina, statistics from the “Bureau of Statistics of the Federation of Bosnia and Herzegovina”, websites of MCFs in Bosnia and Herzegovina, and the 2009 annual report of the MCF that has been taken as a case study.

Analysis of Results

This analysis aims to outline what has been compiled from data and information related to the three questions that this paper is addressing. The findings below in table 5 are related to the first research question and show that only 3% of employment has been created, 89% of borrowers were willing to get another loan, 96% solved their problems through getting loans, while 41% of them have problems in making their repayments.

Table 5. Borrowers perspectives about the impact of MICROCREDIT on their lives

Items	Yes (Number/%)	No (Number/%)
Solved problem with loan	441/ 96%	17 / 4%
Improved life standard	443 / 97%	15 / 3%
Created new employment	15 / 3%	443 / 97%
Have problems with repayment	186 / 41%	272 / 59%
Willing to get another loan	406 / 89%	52 / 11%
Total number of questionnaires	458	

The findings in the table below (Table 6) related to the second part of the first research question show that only 3% of returnees and 2% of IDPs have access to microcredit, despite the fact that more than one million refugees and IDPs have managed to return and settle to their pre-war houses.

Table 6. The accessibility of returnees, refugees, and IDPs to microcredit in Bosnia and Herzegovina

% of loans disbursed to IDPs	% of loans disbursed to returnees	% of loans disbursed to refugees
2%	3%	No evidence

The results of both primary and secondary data show that overall objective of microcredit organizations in Bosnia and Herzegovina is alleviating poverty by improving the livelihoods of the poorest people. Microcredit organizations state that the following are objectively verifiable indicators of achievements: increase in the income of borrowers; improvements in the standards of living; improvements in housing standards; improvements in family health; improvements in the overall quality of life and improvements in the quality of education.

Research results further state that the main purpose of microcredit programs in Bosnia and Herzegovina is to empower and assist returnees and IDPs to return to their pre-war houses. Other objectives include reconstructing destroyed houses, starting small businesses, assisting socially disadvantaged persons, improving the living conditions of the poor and assisting poor students to afford a good education.

Microcredit organizations use a number of indicators to measure their achievements. These include: the number of businesses started and expanded through microcredit programs, the sustainability and profit level of these businesses, the decline in the poverty level of beneficiaries, the number of people moving into proper houses, the number of returnees settled in their pre-war houses, the number of returnees employed, the number of jobs created, and the number of children that continue their education in communities.

The findings in Table 7 are related to the second part of research question number two, showing that the following percentages of types of loans have been disbursed: 32% housing loans; provided to help rebuilding and renovating destroyed homes; 37% business loans, helping in establishing of small businesses; 5% orphans loans, given to families carrying for an orphan; 18% social loans, provided in most cases to socially endangered population and 8% educational loans, provided to students in order to assist them to continue their education.

Table 7. Percentage of the type of loans disbursed in Bosnia and Herzegovina

Business loans	Housing loans	Social loans	Educational loans	Orphans loans
37%	32%	18%	8%	5%

In regards to the interest issue, the findings from the secondary data show that there are two kinds of loans;

Interest-Based and Interest-Free Loans: There are 25 MCFs in BH, from which 13 are members of the Association of Microfinance Institutions in Bosnia and Herzegovina (AMFI). Only one of them is interest-free and the others are interest-based.

Interest-Based Loan: Most of the interest based MCFs began their activities in 1996. According to the 2010 first quarterly report of the AMFI these MCFs have a portfolio of around 825 million BAM, around 325.000 active loans, a gained amount of 95.535.126 BAM net profit in 2009, while their annual interest rates differ from 15% up to 36%.

Interest-Free Loans: The interest-free MCFs began their activities in 2001. According to their annual report in 2009 they have portfolio in the amount of around three million BAM, less than 1800 active loans, gained no profit but did have losses, and charged up to 7.5% as admin fees for their services.

Finally, the findings from Table 8 show that 88% of borrowers expressed their readiness to seek loans from interest-free MCFs even if they are more expensive than interest-based ones. When answering the question “Why did you seek a loan from an interest-free MCF rather than any other MCFs?” 52% said that it was due to its compliance with Shariah, while 48% said it was due to cheaper cost.

Table 8. Borrowers’ perspectives about interest-free and interest-based loans

Questions	Yes Number (%)	No Number (%)	Other answers Number (%)
1. Were there any other loans available to you when you received the loan from the interest-free MCF?	45 (90%)	1 (2%)	4 no answer (8%)
2. Why did you seek a loan from interest-free rather than any other MCFs?	-	-	26 Compliance with shariah (52%) 24 Low admin costs (48%)
3. Would you seek loans from interest-free MCF even if it is more expensive than interest-based loans?	44(88%)	6 (12%)	
4. Do you feel there is an extra obligation to repay because Interest-free is in compliance with Shariah?	34 (68%)	14(28%)	2 no answer (4%)
Total number of questionnaires	50		

Discussion

This section of the paper discusses the overall findings of this study, and determines the answer to each of the three research questions. In regards to the first question (How does microcredit affect the livelihoods of the targeted groups, and to what extent do refugees, internally displaced persons and returnees have access to microcredits in Bosnia and Herzegovina?) the findings are very modest: only 3% of jobs have been created, the reason could be better understood if one realizes that only 37% of loans were taken for creating or developing businesses, this means that most of the taken business loans were used for self employment and improving the living conditions of borrowers, but not for expanding businesses and creating new jobs.

The findings also show that only 3% of returnees and only 2% of IDPs had access to MC, although more than one million of refugees and IDPs have managed to return and settle. Obviously, it could be understood that this vulnerable group has benefited the least from MC programs in Bosnia and Herzegovina. Regarding the second question (What are the objectives of the microcredit programs, and what are the most requested loans in Bosnia and Herzegovina?) the findings from the case study carried by one MCFs (interest-free) operating in more than 64 municipalities in Bosnia and Herzegovina during 2009, concluded that only 37% of the disbursed loans were used in a productive manner (business loans), such as livestock/poultry rearing, trading and farming, agriculture, handicrafts, etc, while 32% have been used for renovating and reconstructing houses (housing loans), 18% have been used to cover social needs such as food, medication, etc (social loans), 8% have been used for educational purposes, such as paying university fees, buying books, computers, etc, (educational loans), and 5% have been used to support families caring for orphans (orphans loans). This shows that despite the fact that 15 years have passed since the war ended in Bosnia and Herzegovina, there is still a need for reconstruction and renovation of devastated houses.

The findings also show that enough funds, from different donors and investors including the World Bank, are available for the interest-based MCFs, as they have portfolios of around 825 million BAM and around 325.000 BAM in active loans. While the interest-free ones have limited funds with a portfolio of around 3 million BAM, as they have no access to banks and international funds and investors due to Shariah restrictions that forbid taking or giving interest under any circumstances. On the other hand, the interest-free MCFs seem to have two advantages; the first one is that they are much cheaper than other MCFs, and the second advantage is the willingness of the majority of the target population, who are Muslims, to comply with Shariah in regards to the issue of the interest.

In relation to the third question (What are the perspectives of the beneficiaries of micro-credits in Bosnia and Herzegovina regarding this service and its impact on them?) the findings from the previously mentioned case study reflect the need of MCFs to continue operating in Bosnia and Herzegovina, as more than 95% expressed that MCs solved their problems and improved their living standards. On the other hand, by analyzing the figures of at risk portfolios (9,7%) and write offs loans (9,8%), and the 41% of borrowers who expressed having problems with their repayments, it seems that MCFs, in one way or another, had encouraged borrowers to get more loans, thus burdening them with more debts. Another meaningful finding from the same case study is that even though 41% of borrowers have problems with repayment, 89% expressed their willingness to get more loans, something that has a positive side and a negative side. The positive side reflects the feeling of people that, with the passing of time, they can rely on getting more loans to develop their business and solve their financial problems, while the negative side is that they might become overloaded with loans and find themselves sinking deeper and deeper into poverty.

Conclusion

As a conclusion, the findings reflect the meaningful objectives that were set out by MCFs in Bosnia and Herzegovina, and the direct impact of MC on the population's life, as most of them expressed their satisfaction with getting loans as a solution to their daily problems. In practice, it seems that MC in Bosnia and Herzegovina has contributed mostly by helping people who have regular income to cover their loans, more than helping those without stable income. The findings also suggest that despite the long existence and wide availability of micro-credits in Bosnia and Herzegovina, many people do not generate enough income to become self-sufficient, and the number of jobs created is very modest. The statement of a senior manager in one MCF is insightful in this respect: "Even though microfinance may meet the varied and immediate needs of many people, meeting those needs does not mean that microfinance is lifting them out of poverty". Therefore many clients often fail to break out of income poverty and many even get caught up in an increasing debt-burden syndrome and slide further into poverty. While interviewing a number of borrowers, many of them stated that they had been encouraged and facilitated to get many loans from same MCF; one of them admitted that he/she got more than 20 active loans from only one MCF.

The demographic of returnees, refugees, and IDPs have the least access to MC, and those who do have access are those who have the greatest difficulties with their

repayments. This emphasizes that these categories should be much more targeted, with much better facilities, which current MCFs in Bosnia and Herzegovina may not be able to offer. Most of MCFs in Bosnia and Herzegovina are interest-based and have qualified human resources and adequate financial resources as well, something that led some of them to consider transitioning to banking institutions. Also, some of them have won international awards, confirming that it is possible for MC in Bosnia to record its contribution to the development of this industry at the international level. In contrast, there are very few interest-free MCFs, with very limited human and financial resources. However, this study has shown that these types of institutions have the acceptance of a large segment of the Bosnian Muslim society, as the findings affirm the willingness of the target population to adhere to Islamic rules related to the interest issue. But in order for these kinds of institutions to attract more donors and investors and to deliver a better service, they should: allocate much more funds, advocate on behalf of the poorest population and initiate new techniques to reach and target them, end suspicions as whether charging administration fees on a percentage basis is compliant with Shariah or not, have a qualified shariah board, or shariah consultant to supervise and give directions to the work in the field, and adopt new techniques “even if they are not fully lawful by shariah” to secure their funds and to avoid the delay issue in repayments. It is wise to remember and adopt the Shariah principle that rules: Choosing the lesser of two evils.

The findings also show that the MC industry in Bosnia and Herzegovina seems to not be cheap enough, as the interest rates in most of MCFs are pretty high and might not be transparent enough; while advertizing relatively lower rates, extra expenses will be paid by the client in many other forms, such as: application fees, loan monitoring, etc. During one-to-one interviews and discussions with several senior managers of MCFs, one of them admitted that the annual interest rate comes up to 36%. Another senior manager explained the success of his/her organization, where the annual net profit exceeded one million Euros. The findings also reflect that despite the fact that more than 15 years have passed since the war ended, there is still a need for the reconstruction and renovation of devastated houses, as large scale of loans have been taken for this purpose.

Finally, the limitation of this paper is that it mostly reflects the perceptions of the clients of only one interest free MCF which was taken as a case study in this research. This confirms the need for more comprehensive future studies on the MC industry in Bosnia and Herzegovina; particularly the interest based ones, in order to explore the real impact of these institutions on the local economy and peoples' lives, and to serve as a guide and reference for the industry.

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