FINCA/SAMARA
QUARTERLY REPORT
JULY – SEPTEMBER 2001

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FINCA
Small Loans-Big Changes

QUARTERLY PERFORMANCE REPORT (WITH SUMMARY TABLES)
July-September 2001

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INTRODUCTION

This report first outlines the major goals of FINCA Samara, the expected results over the life of the project, and targets for achieving those results. The report then describes results obtained in the current reporting period and the program's accomplishments to date. The report next describes certain problem areas and solutions found to address those problems. Lastly, the administrative section of the report provides information on funding and expenditures as well as summary and numerical data on FINCA/Samara's accomplishments to date.

PROGRESS REPORT

1. Background – FINCA Samara's Major Goals

FINCA/Samara's (F/Samara) mission is to create a regionally focused micro-finance institution serving over 2,300 active clients, 80 percent of whom are women, throughout the Samara Oblast. Using group lending methodology, or Village Banking, and an individualized Small Enterprise Loan product, FINCA plans to disburse $8.8 M while maintaining a portfolio at risk of no more than three percent. Through effective training, close supervision, and active participation, F/Samara will prepare a dedicated cadre of local professionals to assume management of the institution over the course of the project. In addition to the operational component of the program, F/Samara will carry out a policy development component designed to promote an enabling regulatory environment for MFIs and their clients. A further goal of the project is to prepare F/Samara for eventual transformation into a formal financial institution capable of providing small entrepreneurs access to credit for years to come. Ultimately, the goal of the project is to create a locally-managed, self-financing, micro-finance institution that will serve as a model for the Russian Federation.

2. Expected Results Over Life of Project (LOP)

2.1. CREATING / SUSTAINING PRIVATE BUSINESSES AND JOBS

A. Providing Employment Through Working Capital Loans

By providing working capital loans to low-income clients in Samara, F/Samara will play an important role in the creation and sustenance of businesses and employment. These loans enable entrepreneurs to expand their activities and, in some cases, offer employment to others. Over the LOP, F/Samara expects to create or sustain approximately 8,625 jobs through the support of small and medium businesses in the Samara oblast and neighboring oblasts.

2.2. PROVISION OF TRAINING AND CONSULTING TO PRIVATE BUSINESSES

A. Training Clients on Working with Credit

Together with the provision of loans, F/Samara aims to train clients on how to work responsibly work with credit. Over the course of the loan cycle (12-20 weeks), clients receive training in rudimentary accounting skills necessary to track internal savings and FINCA loans. F/Samara also provides training on group management to enable clients to conduct meetings themselves and to make cash flow projections. In turn, these skills are passed from more experienced clients on to new clients.

2.3. TRAINING PROGRAMS IN YOUR ACTIVITY

F/Samara will participate in select conferences, symposia and workshops on the subject of micro-finance in an effort to learn from others and share the experiences of the Samara program. This will strengthen the local management and build bridges to other micro-finance organizations.

In addition, F/Samara will host representatives from other micro-finance organizations in Russia and the NIS (including other FINCA programs), for training and information sharing between programs.

2.4. DEVELOPING FINANCIAL INTERMEDIARIES SUPPORTIVE OF BUSINESS

A. Creating a Model Self-Financing MFI by October 31, 2003

As a revenue-generating and professionally managed affiliate of FINCA International, F/Samara will be positioned to internally finance its local operational requirements. Most importantly, F/Samara will be independent from donor finance and economically self-reliant by covering all local operational costs and local tax burdens. F/Samara will also possess the financial wherewithal to cover the costs of inflation and currency devaluation. The program will be positioned to source commercial lines-of-credit through formal, financial intermediaries. The following tactics will be used to progress towards this goal:

- Offer high-value products at competitive, market-based, interest rates.
- Institutionalize operational systems, policies and procedures.

- Document cost containment processes.
- Institutionalize "portfolio quality plus growth."
- Create a cost/benefit culture among local managers and staff.

B. Developing a Locally Managed Institution.

In order to become economically self-sufficient and financially viable, F/Samara must be locally and professionally managed by Russian employees. Institutionally, F/Samara will benefit from having committed and well-trained local managers who have a vested interest—financial, professional and personal—in the success of F/Samara. The project will be initiated by a team of experts who will train and transfer capacity to local managers over the LOP. The NIS Hub will also offer formal assistance and training to key members of the F/Samara staff. FINCA International and the NIS Hub will continue to offer technical support beyond the LOP as management sophistication and systems upgrades require. The following tactics will be used to progress towards this goal:

- Recruit, hire and offer at- or above-market compensation to qualified employees.
- Implement FINCA formalized training systems and support ongoing development through documentation, manuals and personnel evaluation systems.
- Provide advanced training in accounting and financial management.
- Perform ongoing capacity building through the involvement of key staff members in planning, budgeting, monitoring, evaluation and decision-making processes.
- Implement targeted training and best practices transfer through FINCA rotations and cross training with other FINCA and partner programs.
- Provide local staff with ongoing support from F/I and the NIS Hub after the exit of long term, TA personnel.

C. Building Public Confidence in the MFI Sector Specifically and the Financial Sector in General.

A critical component of F/Samara's success will be the ability to build confidence among clients. Through consistent and unbiased implementation of lending practices, F/Samara will create a reputation of being a safe and sound financial institution that serves ongoing financial needs of target clientele. F/Samara will build regional awareness and maintain flexibility in the marketplace. The project will continually monitor market needs in order to adapt micro-finance products and services. The following tactics will be used to progress towards this goal:

- Train staff on customer service and the clear representation of products and services.
- Ensure consistent implementation of program policies and procedures through continuous oversight.
- Offer higher quality, competitively priced products and services designed to better fulfill client needs.
- Maintain organizational flexibility to adapt to changing market needs.
- Operate efficiently to offer low-cost, high-value products and services.

D. Positioning F/Samara for Possible Transformation into a Regulated, Formal, Financial Institution.

To be sustainable, F/Samara must evolve into a private, regulated financial institution possessing high credit quality, deposit safety, advanced financial systems, professional management, and adequate oversight and internal controls while generating an economic surplus. Utilizing the research and policy development conducted by FINCA International and OSU, F/Samara will determine the most effective institutional form to assume in the long-term.

E. Preparing the Model Project for Expansion Into Other Regions of the Russian Federation.

Building on its reputation and high quality operations in Samara Oblast, F/Samara will prepare for possible expansion to neighboring regions of Russia (e.g. Saratov, Orenburg, Ulianovsk). FINCA has followed this same expansion scheme in other countries: experienced management staff from the existing operations initiate and oversee new regional programs; systems and best practices are transferred to the new operation and financial services delivery commences with little development time required. The Samara Oblast office will offer ongoing support to the new regional office to ensure a quality portfolio and sustainable operations.

2.5. TRAINING PROGRAMS FOR FINANCIAL INTERMEDIARIES

A. Training Local Staff in Methodology and Operating Systems.

Throughout the LOP, F/Samara will formally train employees in the theory and application of lending methodology, finance/accounting systems, and human resources management. Drawing on experience, materials, and personnel from Central Asia and the Caucasus, FINCA can provide effective training in the Russian language in an efficient, low-cost manner. After initial system and skills training, employees will continue to develop through close supervision and on-the-job training.

2.6. NEW FINANCING MECHANISMS FOR FINANCIAL INTERMEDIARIES

A. Offering Competitive Products to Fulfill Client Needs.

F/Samara will offer two (2) distinct loan products to clients- group loans or Village Bank loans and Small Enterprise Loans or Individual Loans. The former – Village Banks - are community-based credit and savings associations consisting of a minimum of three clients, mostly women (80 percent). Village banks take short-term loans (12-20 weeks) from FINCA to help grow their businesses and make scheduled weekly payments of principle, interest and savings. Clients qualify for greater loan amounts based on repayment history and accumulated savings. Village bank members pledge support to each other materially and with solidarity through difficult times, thereby decreasing the credit risk to FINCA.

F/Samara will also continue to offer an individual loan product, or Small Enterprise Loan (SEL). In the SEL program, loan terms and conditions are not predetermined; terms and conditions vary according to business need and risk. Over time, terms and conditions can be modified given an individual client's established credit history. Since risk is greater with the SEL product, more due diligence and training is performed before a loan is granted.

In addition to the above-mentioned two main loan products, F/Samara will offer additional loan products, such as: (1) holiday loans, (2) seasonal loans and (3) parallel. It is necessary to continually monitor market needs and adapt the micro-finance products and services to improve program growth and maximize client retention.

2.7. IMPROVING ACCESS TO CREDIT AND FINANCE

A. Disbursing Loans to Clients.

Over the LOP, F/Samara expects to distribute 13,554 loans valued at approximately $11.5 M to Village Banking clients, and 1,180 loans valued at over $1.9 M to individual clients. The portfolio at risk will be no greater than three percent, combined for both aspects of the program.

2.8. BUILDING AN INSTITUTIONAL ENVIRONMENT SUPPORTIVE OF PRIVATE BUSINESSES

A. Building Support for Microfinance.

As F/Samara builds its client base and loan portfolio, it will be in a good position to gather support from other grantees and the local government to help build an environment supportive of MFIs and their clients. A strong operational performance record and professional relations will prove to other institutions and the local government the value of microfinance. FINCA will maintain ties with other grantees and institutions working to support private business and banking in Samara, including Financial Services Volunteer Corps (FSVC), the Morozov Project, CARANA Corporation, and the Eurasia Foundation. Additionally, FINCA will work to coordinate efforts with the Small Business Support Department of the Regional Administration, and the Regional Initiative of the US State Department.

2.9. BUILDING A BETTER REGULATORY AND POLICY ENVIRONMENT

A. Promoting an Enabling Policy and Regulatory Environment for MFIs and Their Clients.

A supportive policy and regulatory environment is critical for the long-term success of micro-finance institutions and their clientele. F/Samara will identify key policy and regulatory issues that influence the safe and sound performance of MFIs, constrain the delivery of financial services to the target clientele, and restrict the development of the target clientele into successful users of those services. Policy and regulatory constraints to the achievement of these goals will be identified and an appropriate policy and regulatory framework will be promoted through training and dialogue with key national and regional authorities. Such policy-related activities will include:

- Identify key policy and regulatory issues to be addressed.
- Document and analyze the consequences of policy and regulatory constraints on the MFI and its clients.
- Engage in policy dialogue with relevant national and regional authorities.
- Develop a framework for modifying the existing regulatory environment to meet the needs of the micro-finance sector.

- Create an action plan with key policy-makers to promote implementation of recommendations
- Coordinate with the U.S. Treasury Department, USAID and the World Bank in advocating for an improved regulatory environment.

Furthermore, FINCA will organize an annual workshop where key findings and issues will be presented. As needed, FINCA shall also organize specialized seminars and workshops on policy-related issues.

3. Current Results in the Reported Period

3.1. CREATING / SUSTAINING PRIVATE BUSINESSES AND JOBS

During the current reporting period, F/Samara employed 55 full-time Russian national employees – 40 in Samara, 6 in Syzran, 5 in Togliatti, and 4 in Otradniy. The Financial Services Department delivered 1,301 working capital loans to small businesses. As a result of these loans, 1,545 jobs were created/sustained.

3.2. PROVISION OF TRAINING AND CONSULTING TO PRIVATE BUSINESSES

During the reporting period, F/Samara accomplished the following:

- Provided 9,504 hours of training to 1,508 clients in business development groups (village banks), and the individual loan program. The training enabled them to analyze their businesses and qualify for loans.

3.3. TRAINING PROGRAMS IN YOUR ACTIVITY

A. External Training.

During the reporting period, F/Samara staff traveled outside of the Samara region to conduct and/or participate in various training activities and seminars. In particular:

- The Finance Manager traveled to Tomsk to provide training for the F/Tomsk accountant
- The Manager of Financial Services Department and the Chief Accountant participated in a MFI Seminar in St. Petersburg. The following topics were on the agenda: new legislation and its impact on MFIs, accounting principles for MFIs, and financial management.
- The Program Director made a presentation about F/Samara at the MFI seminar: "Modern Microfinance Practices and Implementation in Russian Business and Legal Environment," held in Moscow, September 3-7
- The Business Development Manager attended the 4th Annual Seminar on New Business Development Finance in Frankfurt, Germany, September 3-8
- A supervisor in the Financial Services Department traveled to Tomsk to provide training for the F/Tomsk staff

B. Internal Training.

During the reporting period, F/Samara:

- Provided training for a supervisor from FINCA/Azerbaijan

3.4. DEVELOPING FINANCIAL INTERMEDIARIES SUPPORTIVE OF BUSINESS

A. Creating a Model Self-Financing MFI.

During the reporting period, F/Samara management, lead by the legal department, was active in reviewing and adopting key documents necessary for the development of a sustainable, self-financing MFI. To that end, the following activities were carried out:

- A new performance-based compensation system for financial service officers (FSOs) was developed
- A salary system connected to performance evaluations was approved
- The Financial Services Department revised the plan for loans disbursed for September to accommodate the 'slow season' for traders in early fall
- The Legal Department successfully completed all procedures necessary to extend the registration of the F/Samara Program office
- An audit of the personnel files of F/Samara employees was completed and a checklist designed to ensure that all documents are in each of the files.
- F/Samara's internal personnel evaluation form was revised
- A tax inspection conducted by the local tax authorities was completed
- The first F/Samara Legal Bulletin was issued for the clients.

B. Developing a Locally Managed Institution.

During the reporting period, a number of management training workshops were organized for the department managers of F/Samara. Topics of the trainings included: (1) Strategies for Making Better Decisions; (2) Planning and Reporting Methodology; (3) Most Important Rules for Negotiation; (4) Compliance with Russian Labor Law; and (5) Monitoring. F/Samara will continue to build a strong management team of trained Russian nationals who have a vested interest in the success of the program beyond the LOP.

C. Building Public Confidence in the MFI Sector Specifically and the Financial Sector in General.

During the reporting period, F/Samara continued to implement a comprehensive marketing and public relations program. As part of that process, the following was accomplished:

- Ads were published in the newspapers "Vash Vibor"(Samara), "Dorozhnaja Zvezda"(Samara), "Prezent"(Togliatti), "Vestnik"(Novokuibushevsk).
- Articles were published in the magazine "Volga-Business"(Samara), in the newspaper "Ploshad Svobodi"(Togliatti).
- Information on the FINCA program was placed on the Regional Initiative's (RI) Web-site
- Advertising boards on the program were designed and placed in F/Samara office building

- Three focus group meetings were held to solicit client feedback about the F/Samara program
- Ads were published in Samara/Togliatti local newspapers
- Street boards with ads were placed at market entrances and inside
- Ads about the F/Samara program aired on a local TV channel in Samara for 2 weeks

D. Positioning F/Samara for Possible Transformation into a Formal Financial Institution.

During the reporting period, FINCA management (Regional Director, NIS) continued to gather opinions from legal experts, including the legal counsel in F/Samara, F/Tomsk and FINCA Hub Office in Moscow, regarding the optimal institutional form of registration for FINCA's microfinance institutions in Russia. Based on the information presented, a preliminary decision (emphasize 'preliminary') was made to consider the option of a cooperative. The Regional Director of NIS requested a more formal justification of the decision from the legal counsel in each of the FINCA/Russia offices, which will be forwarded to FINCA International for consideration by senior management there.

E. Preparing the Model Program for Expansion Into Other Regions of the Russian Federation.

During the reporting period a new satellite office in Togliatti was established. A marketing research plan was created to support the expansion of the program to (1) inside the Samara oblast to the raions located on the border with Ulyanovsk, Saratov and Orenburg oblasts, and (2) beyond the Samara oblast. Expansion activities included:

- New office space was rented in Togliatti in July
- New FSOs were hired and started training for Samara (3) and Otradni (1)
- The Program Director traveled to Uljanovsk with the RI Coordinator on August 6-7 to meet with oblast officials regarding possible expansion of the FINCA program to their region
- Representatives of Small Business Supporting Organizations from Uljanovsk visited F/Samara office on August 20 to discuss ways of cooperation
- Market research was conducted to support the expansion to the North of the Samara oblast

3.5. TRAINING PROGRAMS FOR FINANCIAL INTERMEDIARIES

A. Training Local Staff in Methodology and Operating Systems.

During the reporting period, F/Samara conducted staff training for six financial service officers (FSOs) – three for the satellite office in Togliatti, and two for Samara and one for Otradny. F/Samara's Financial Services Manager, Deputy Director, Program Development Manager, Legal Adviser and Office Manager provided the training, which consisted of one week in the classroom discussing FINCA methodology, and one week in the field shadowing experienced FSOs to see how they interact with their clients.

3.6. NEW FINANCING MECHANISMS FOR FINANCIAL INTERMEDIARIES

A. Offering Competitive Products to Fulfill Client Needs.

During the current reporting period, F/Samara has engaged in the following to examine the competitiveness of the products it offers to clients:

- An analysis of client drop-out data was conducted to improve client retention in program
- An analysis of the results from the focus group meetings conducted during the reporting period is being utilized to help improve the products and services being offered
- A revised (expanded) system of client benefits was approved

3.7. IMPROVING ACCESS TO CREDIT AND FINANCE

During the current reporting period, F/Samara improved access to credit by delivering 1,502 working capital loans with $1,070,392 USD to micro-entrepreneurs. In addition, by mobilizing internal savings, approximately $166,479 (4,885,778 roubles) was lent between FINCA clients.

Further, in each month during the reporting period, a marked increase on the value of loans disbursed was reported over the same period in the previous year. Specifically, the values are:

- July 2001 was 269% greater than in July 2000 (8,687,000 roubles vs 2,353,000).
- August 2001 was 225% greater than in August 2000 (7,161,000 roubles vs 2,199,000)
- September 2001 was nearly 524% greater than in September 2000 (11,044,500 roubles vs 1,770,000)

3.8. BUILDING INSTITUTIONAL ENVIRONMENT SUPPORTIVE OF PRIVATE BUSINESSES

A. Building Support for Microfinance.

During the reporting period, F/Samara had numerous meetings with local and oblast government officials, directors of business centers and representatives from other U.S.-Government funded and European organizations. These meetings focused on building an environment supportive of MFIs and their clients and included:

- The Program Director met with USAID/Moscow Mission Director, Carol Peasley, and other members of her delegation during a visit to Samara
- The Program Director and Business Development Manager visited the Togliatti Administration to meet the head of the Business Support Department.
- The Deputy Director visited with the Director of Business Support Center from Krasnoarmeiski raion to discuss future cooperation.
- F/Samara provided information about our program to Counterpart International in Khabarovsk

- F/Samara hosted representatives from Banking for Russian Women to share information about our program
- F/Samara hosted Mr. Esipov – Director of Uljanovsk Small Business Supporting Department of the Regional Administration to discuss possible collaboration

In addition to the above, F/Samara:

- Hosted FINCA's NIS Regional Director to discuss the achievements of the Program and plans for development in August'01
- Participated in a the 5th Annual Small Business Exhibition in Syzran, 7-8 September
- Participated in monthly round-tables for USG-funded contractors and grantees organized by the Regional Initiative
- Attended the Grand Opening Ceremony of KMB Bank

3.9. BUILDING A BETTER REGULATORY AND POLICY ENVIRONMENT

During the current reporting period, F/Samara enhanced its work with the Russian Micro-finance Working Group to promote a more supportive policy and regulatory environment for MFIs and their clients. F/Samara concentrated on strengthening the Russian Micro-finance Working Group as a means to promote the micro-finance movement in Russia and on supporting international and indigenous practitioners through practical trainings, the creation of useful learning materials, and through information dissemination. To that end, the following policy-related activities took place during the reporting period:

- The Fourth Seminar on New Development Finance hosted by the Goethe University of Frankfurt and the Ohio State University took place in Frankfurt, Germany, 3-7 September. This event became a platform for sharing information, experiences and knowledge in the field of development finance. Key experts, academics, state officials and practitioners from more than 60 countries were brought together to discuss crucial issues and future opportunities in this field. The most important issues raised during the seminar included: (1) clientele of MFIs, (2) new micro-finance products, (3) financial incentives loan officers, (4) commercialization of micro-finance business, (5) establishing specialized banks, and (6) mutual finance.
- FINCA International and "Vozmozhnost dlya Vsekh" Nizhny Novgorod organized a seminar titled: "Micro-finance: Financial Management and Law" for indigenous MFIs. Practitioners from more than 10 regions of Russia participated in the seminar. The seminar took place 22-24 August 2001 in St. Petersburg. Topcis for discussion included: (1) passing new laws and their impact on MFIs, (2) accounting in MFIs and (3) financial management.
- The seminar "Modern Micro-finance Technologies and Their Application in Russian Business and Legal Environment" organized by United States Agency for International Development was held in Moscow, 3-7 September. Practitioners and government officials involved with micro-finance development in Russia took part in the seminar.
- FINCA International completed an English translation of the micro-finance conference that was held 6-8 December 2000 in Moscow. The conference documents (1) the current state of micro-finance in Russia and (2) plans to establish a strong micro-finance sector.

- The Micro-finance Center for Central and Eastern Europe and the NIS (MFC) conducted a training course "Financial Analysis for MFIs". The course took place in Dubrovnik, Croatia on 24-27 September 2001.
- The Micro-finance Center for CEE and NIS conducted a training course on "Delinquency Management and Interest Rate Setting". The training course took place in Almaty, Kazakhstan on 24-28 September 2001.
- Development Alternatives, Inc. (DAI) in cooperation with Opportunity International and ATC won the tender announced by the USAID for development Micro-finance Sector Support Program. The main objective of the program is to create the structure for a sustainable micro-finance industry in Russia and to provide Russian micro-finance organizations with financing, training and consultancy services.
- In early August 2001, four important laws were passed that included: (1) "On Credit Consumer cooperatives of Physical Persons," (2) "On State Registration of Legal Entities", (3) "On Licensing of Particular Types of Activities," and (4) "On Protection Rights of Legal Entities and Individual Entrepreneurs in Course of State Inspection." These laws help to facilitate the state registration process, reduce licensing requirements, allow credit consumer cooperatives to grant loans and accept savings, and improve state inspection procedures. In addition, the new laws contain other conditions that liberalize legal and regulatory environment for entrepreneurs.

4. Program Accomplishments: LOP

4.1. CREATING / SUSTAINING PRIVATE BUSINESSES AND JOBS

Cumulatively, F/Samara has created or sustained 5,824 private businesses and 6,342 jobs through direct hiring and small business lending.

4.2. PROVISION OF TRAINING AND CONSULTING TO PRIVATE BUSINESSES

5,379 clients have received a over 8 hours of training in accounting, group management and cash flow management in preparation for delivery of loans.

4.3. TRAINING PROGRAMS IN YOUR ACTIVITY

F/Samara staff has participated in numerous conferences, symposia and workshops, inside and outside Russia, to improve their knowledge about the sphere of micro-finance and to share their experiences about the Samara project. In addition, F/Samara has hosted representatives of several micro-finance organizations in Russia, including (but not limited to): x, x and x, as well as staff from various FINCA programs in the NIS (Tomsk and Azerbaijan).

4.4. DEVELOPING FINANCIAL INTERMEDIARIES SUPPORTIVE OF BUSINESS

F/Samara has created a micro-finance program in the Samara oblast. The first loans were delivered 21 June 1999. Currently, the program operates as an affiliate of FINCA International. Other registration options are being examined to ascertain the best possible legal form for the program over the long-term. The program is demand-driven, but continues to market to women, providing them with working capital loans to micro-entrepreneurs. The staff and systems are dedicated to this goal through close supervision, incentive pay schemes, and training.

4.5. TRAINING PROGRAMS FOR FINANCIAL INTERMEDIARIES

During the LOP, F/Samara conducted staff training to over thirty Financial Service Officers (FSOs). F/Samara's Financial Services Manager, Deputy Director, Program Development Manager, Legal Adviser and Office Manager facilitated training on FINCA's methodology (one week), and FSO client interaction (one week), conducted in the field. Four of the FSOs were appointed for the positions of supervisors, one for the position of the Financial Services Manger; and one for the position of Internal Auditor. They received additional training to develop and improve management skills.

4.6. NEW FINANCING MECHANISMS FOR FINANCIAL INTERMEDIARIES

F/Samara has introduced two products: (1) "Village Bank", or group lending methodology –April 1999, and (2) Small Enterprise Loans (SEL) or an individual loan product – June 2000. Both loan products have been well received by our clients. Group lending is generally applicable to those clients who do not possess the necessary collateral for an individual loan, while the latter is for those clients who have more developed businesses, need larger loan sizes and can guarantee their loans with collateral.

4.7. IMPROVING ACCESS TO CREDIT AND FINANCE

F/Samara has delivered 5,824 loans in the amount of $3,464,084 to entrepreneurs. The successful outreach and expansion has been the result of geographic expansion, product diversification, client-satisfaction surveys and targeted marketing.

4.8. BUILDING INSTITUTIONAL ENVIRONMENT SUPPORTIVE OF PRIVATE BUSINESSES

A. Building Support for Micro-finance.

During the LOP, F/Samara developed close working relations with the Small Business Department in the Samara Oblast Administration, as well as the individual Business Support Centers located throughout the oblast. In addition, F/Samara participates in the monthly roundtable meetings sponsored by the U.S. State Department's Regional Initiative. These meetings allow F/Samara build support for micro-finance with the help of the various U.S. Government-funded and European organizations that attend such meetings and work throughout the oblast.

4.9. BUILDING A BETTER REGULATORY AND POLICY ENVIRONMENT

F/Samara initially partnered with the Ohio State University (OSU) to develop a better understanding of the Russian policy and regulatory environment and to promote an environment supportive of MFIs and their clients. In the second year of the grant, F/Samara has shifted direction and focus. F/Samara concentrated on strengthening the Russian Micro-finance Working Group as a means to promote the micro-finance movement in Russia. In addition, management focused on supporting international and indigenous practitioners through practical trainings, the creation of useful learning

materials, and through information dissemination. Thus far, highlights of the Policy Component include:

- Working together with OSU, F/Samara produced a seminal report on the state of micro-finance regulation in Russia. A second report was prepared on the legal and regulatory environment for SME in Russia, based on survey results from Samara.
- F/Samara has worked together with Victoria Tagirova to sponsor a series of training seminars for MF practitioners in Russia. These seminars have focused on: tax regulation, registration, marketing, advocacy efforts, and delinquency issues. These seminars aimed at increasing the professionalism of MFIs in Russia and are open to all practitioners.
- F/Samara has worked with the SME Resource Center to produce a survey of "Supply and Demand for Micro-finance in Russia." The SME Center has also undertaken an effort to catalog all MFIs in Russia.
- F/Samara has sponsored two conferences on Micro-finance in Russia (August 1999 in Samara and December 2000 in Moscow). The conferences have brought together MF practitioners, donors and Russian government officials to engage in a dialogue on the state of micro-finance and on ways to improve the legal and regulatory environment.
- F/Samara has worked closely with the nascent Russia Micro-finance Working Group to strengthen ties among leading MF practitioners in Russia. The Working Group acts to coordinate efforts on advocacy, information exchange and best practices in Russia.
- F/Samara, in the context of the Working Group, began to release a monthly bulletin highlighting pertinent issues and upcoming events as well as legal issues.

5. Problem Areas and Achievements

A. Unbalanced client base.

Problem: Over 90% of our clients are petty traders, trading on the local markets. This is risky, as the local government has been threatening for some time to crack down on, or even close, the local markets. Should this occur, a significant percentage of our clients could be left with no place to work.

Solution: Diversify our client base. Increase the number of non-traders in our portfolio (ex. food processors and other types of small businesses), whose businesses are less susceptible to seasonal fluctuations and would not be impacted if the local government closed the local markets.

Results:
During the reporting period, F/Samara decreased the amount of petty traders from 94% to 87%. This lowered overall risk to the project. In addition, F/Samara increased the number of clients involved in small food processing operations and in the services industry. Their businesses are less susceptible to seasonal fluctuation and therefore would not be affected by a local government decision to close the local markets.

B. Unregistered Clients

Problem: Clients whose businesses are unregistered are risky as the police can confiscate their goods at anytime.

Solution: Current clients who have unregistered businesses are required to register them before the end of their current loan cycle. Unregistered clients can participate in our program, but their loan size is limited to a maximum of 10,000 roubles and they must register by the end of the first cycle.

Results:
Currently we do not face this problem as the most part of our clients followed our requirement to register their businesses. Only a very small number of clients left the program because of this requirement.

C. New Procedures at Sberbank

Problem: Effective 1 June, Sberbank required that our clients, when making payments to F/Samara, first deposit their payments to F/Samara in their personal bank accounts, before requesting that the funds be wired to our account. This process proved to be cumbersome, requiring an inordinate amount of time. Furthermore, our clients are required to send separate wires to our account for their principle payment, interest payment and affiliation fee. This is also cumbersome, time consuming and increases the likelihood of making an error as there is a lot of paperwork to fill out. If one number is incorrect, the wire does not go through and the money is returned, resulting in fines and penalties.

Solution: The F/Samara lawyer and Chief Accountant are in constant contact with bank officials at the main Sberbank office in Samara to regulate the new processes and procedures with their branches throughout the oblast. In some branches, the F/Samara clients simply have to tell the bank representative in their branch that they are paying F/Samara, and the blanks that need to be filled in pop up on their computers with all the relevant info. This saves our clients time and results in fewer mistakes.

Results:
During the reported period, F/Samara management was able to establish working relationships with a number of Sberbank branches. Program Director and Financial Manager met with Sberbank/Samara representatives to regulate loan disbursement/payment transactions through the bank.

B. ADMINISTRATIVE INFORMATION

Note: Contract Data not currently available.

Contract Data:
1. Estimated Cost (LOP) USAID Funds: $5,300,000
2. Expenditure of USAID Funds During Reported Period: $355,352 (thru June'01)
3. Cumulative Expenditure of USAID Funds including the reported period: $3,610,582 (thru June'01)
4. Average Expenditure Rate of USAID funds ($/month): $106,194 (Sept '98 – June '01)

Number of U.S. employees receiving salaries from USAID grant funds: 1
Number of Russian employees receiving salaries from USAID grant funds: 59

Schedule of Positions:

No.	Position Title	Position Description	U.S. or Russian
1.	Jeff D. Ferry	Program Director, Chief of Party	US
2.	Olga P.Sedykh	Deputy Program Director	Rus
3.	Irina Fradkova	Program Development Manager	Rus
4.	Svetlana Bakshutova	Office Manager	Rus
5.	Valeriy Chernov	Lawyer	Rus
6.	Lyubov Kozlova	Internal Auditor	Rus
7.	Tatiana Vostrova	Finance Manager	Rus
8.	Tatyana Smagina	Chief Accountant	Rus
9.	Ekaterina Semykina	Finance Assistant	Rus
10.	Irina Vasilieva	Finance Assistant	Rus
11.	Elena Melsitova	Accountant	Rus
12.	Olesya Fomina	Accountant/cashier	Rus
13.	Alexander Golovanov	MIS Specialist	Rus
14.	Elena Shumlina	FS Manager	Rus
15.	Natalia Katalnikova	Database Operator	Rus
16.	Tatyana Teretieva	Financial Services (FS) Supervisor	Rus
17.	Anna Zatsepena	FS Supervisor	Rus
18.	Ludmilla Vasyakan	FS Supervisor	Rus
19.	Oleg Plaksin	FS Supervisor	Rus
20.	Daneliya Semenova	Financial Services Officer (FSO)	Rus
21.	Irina Ermolaeva	FSO	Rus
22.	Svetlana Agafonova	FSO	Rus
23.	Natalia Karsakova	FSO	Rus
24.	Natalia Koledenkova	FSO	Rus
25.	Nadezhda Ostapchuk	FSO	Rus
26.	Svetlana Konovalova	FSO	Rus
27.	Oksana Chobanu	FSO	Rus
28.	Vera Bryantseva	FSO	Rus
29.	Nadezhda Shaber	FSO	Rus

30.	Lyuba Starkova	FSO	Rus
31.	Gulnar Mustafina	FSO	Rus
32.	Marina Karpova	FSO	Rus
33.	Roman Averyakov	FSO	Rus
34.	Konstantin Davydov	FSO	Rus
35.	Lidia Sarayeva	FSO	Rus
36.	Lyudmila Ushakova	FSO	Rus
37.	Svetlana Darienko	FSO	Rus
38.	Svetlana Shelukhina	FSO	Rus
39.	Evgenia Afonicheva	FSO	Rus
40.	Irina Suslova	FSO	Rus
41.	Andrey Kornilov	FSO	Rus
42.	Khabibyan Murdashev	FSO	Rus
43.	Olga Sablina	FSO	Rus
44.	Andrey Sedykin	FSO	Rus
45.	Rinat Dinukov	Driver	Rus
46.	Evgenyi Kurnosenko	Driver	Rus
47.	Victor Bozhko	Driver	Rus
48.	Igor Kerzhenzev	Driver	Rus
49.	Andrey Nasledov	Driver	Rus
50.	Sergei Tolkushkin	Security	Rus
51.	Alexander Filotov	Security	Rus
52.	Galina Medvedeva	Secretary	Rus
53.	Julia Shishova	Office Manager (Syzran)	Rus
54.	Yelena Azarochkina	Office Manager (Togliatti)	Rus
55.	Yelena Biryukova	Custodian (Samara)	Rus
56.	Galina Nesheret	Custodian (Otradny) /part-time	Rus
57.	Maria Semenova	Custodian (Syzran) / part-time	Rus
58.	Alsu Gubaidulina	Custodian (Togliatti) / part-time	Rus
59.	Galina Solovieva	Custodian (Samara) / part-time	Rus

SUMMARY TABLES FOR QUARTERLY REPORT

All numbers in the Summary Tables should represent summary & numerical data in support of information provided in the textual description of your activities. These tables show what you have accomplished before this quarter, during this quarter and to-date (including this quarter) and, for comparison , what you aim to accomplish over the Life of Project (LOP). Please, use exactly the format provided below. If you do not do some of the activities reflected in the Tables, just leave the respective cells blank. After each Table you may add any explanations which you think may help understand the tables and eliminate ambiguity in interpreting the numbers. Please, do not delete auxiliary text as it helps to understand the content of tables.

TABLE 1. PROGRESS IN CREATING/SUSTAINING PRIVATE BUSINESSES AND JOBS

Please, give explanations under the table as to how you track/estimate numbers in this table.

Category	Cum. Previously	This Period	Cum. To Date	Life of Project Goal
# New Businesses Created	3	-	3	-
# Businesses Sustained	4,319	1,502	5,821	8,625
TOTAL # Businesses Created and/or Sustained	4,322	1,502	5,824	8,625
# New Jobs Created	498	20	518	278
# Jobs Sustained	4,322	1,502	5,824	8,625
TOTAL # Jobs Created and/or Sustained	4,820	1,522	6,342	8,903

Note: -Businesses sustained calculated as total number of clients (active and departed) over LOP.
-Jobs created based on organizational employment and estimate of employment created as a result of lending.
-Jobs sutained is total clients over LOP.

TABLE 2. PROGRESS IN PROVIDING TRAINING AND CONSULTING TO PRIVATE BUSINESSES

Please, list training programs developed within your activity in Table 3. If some positions are not applicable to your Program, leave respective cells blank.

	Cum. Previously	This Period	Cum. To Date	Life of Project Goal
TRAINING (also, list training programs in Table 3)				
In-country based training				
Technical (other)				
Training Programs held (# of programs)	4	3	4	3
Person-hours (hours)	33 988	9 504	43 492	99 304
Total # of participants	3 871	1 508	5 379	9 062
Total # of women participants	3 510	1 195	4 705	7 250
% of women participants	91%	79%	87%	80%

Note: . -Village bank client training at 4 hours per person for recycled clients,6 hours per person for new clients
-Credit personnel training at minimum 320 hours per person
-SEL client training at 6 hours per person for recycled clients,10hours per person for new clients

TOTAL TRAINING				
Training Programs held (# of programs)	4	3	4	3
Person-hours (hours)	33 988	9 504	43 492	99 304
Total # of participants	3 871	1 508	5 379	9 062
Total # of women participants	3 510	1 195	4 705	7 250
% of women participants	91%	79%	87%	80%
CONSULTING				
TOTAL TRAINING AND CONSULTING				
Programs / consulting sessions (# of them)	4	3	4	3
Person-hours (hours)	33 988	9 504	43 492	99 304
Total # of participants	3 871	1 508	5 379	9 062
Total # of women participants	3 510	1 195	4 705	7 250
% of women participants	91%	79%	87%	80%
TRAINERS / CONSULTANTS				
US Trainers/Consultants				
Long-term (>, = 12 mo. in host-country with program)	2	0	2	2
Short-term (< 12 mo. in host-country with program)	1	0	1	0
Third-country Trainers/Consultants				
Long-term (>, = 12 mo. in host-country with program)	0	0	0	0
Short-term (< 12 mo. in host-country with program)	5	0	5	5

Note: -Methodology and system experts from Central Asia and Caucasus.

TOTAL TRAINERS / CONSULTANTS				
Long-term (>, = 12 mo. in host-country with program)	2	0	2	2
Short-term (< 12 mo. in host-country with program)	5	0	5	5
Long-term + Short-term	7	0	7	7

TABLE 3. TRAINING PROGRAMS DEVELOPED WITHIN YOUR ACTIVITY

List training programs developed within your program in the following table. Keep updating this table on a cumulative basis - keep all past programs developed and available in it.

No.	Training Program Title	Program Length (days)	Program Length (hours)	Expected Number of Listeners	Training Manual (Yes/No)	Program Cost Est. ($)
1	Village Bank Client Training	1		8,003	yes	371,000
2	SEL client training/preparation	2.5		1,012	yes	110,000

Note: -Training program costs calculated as percentage of staff time spent on training clients and is on-going through LOP.

TABLE 4. DEVELOPING FINANCIAL INTERMEDIARIES SUPPORTIVE OF BUSINESS (if applicable)

Category	Cum. Previously	This Period	Cum. To Date	Life of Project Goal
Created/Strengthened organizations providing training/consulting to private business financing institutions (# of such organizations)	1	0	1	1

TABLE 5. TRAINING PROGRAMS DEVELOPED FOR FINANCIAL INTERMEDIARIES

List training programs developed for financial intermediaries in the following table. Keep updating this table on a cumulative basis - keep all past training programs developed and available in it.

No.	Course Title	Course Length (days)	Course Length (hours)	Expected Number of Listeners	Training Manual (Yes/No)	Program Cost Est.. ($)
1	Financial Service Officer Training (internal)	60	480	47	yes	no

TABLE 6. MANUALS DESCRIBING NEW FINANCING MECHANISMS

List manuals describing new financing mechanisms developed by your program in the following table. Keep updating this table on a cumulative basis - keep all past mechanisms developed and available in it.

No.	Manual Title	Manual Size (pages)	Date of Issuance	Available in English (Yes/No)	Available in Russian (Yes/No)	Manual Cost Est.. ($)
1	VB manuals	44	Dec 2000	No	Yes	67.68
2						
3						

TABLE 7. PROGRESS IN IMPROVING ACCESS TO CREDIT AND FINANCE (if applicable)

If the program has several branches in different locations, such a table should be provided for each location, and a summary table should be provided for all locations.

Note: No lending activity in current reporting period.

Category	Cum. Previously	This Period	Cum. To Date	Life of Project Goal
FINANCING PROGRAMS (micro lending programs, lending programs, lease programs, direct investment programs, etc.)				
# of micro lending programs	1	1	1	1
# of lending programs	1	1	1	1
# of lease programs	-	-	-	-
# of direct investment programs	-	-	-	-
Total # of financing programs (sum of above)	2	2	2	2
CAPITAL IN FINANCING PROGRAMS				
$ capital in micro lending programs	336,941	458,267	458,267	3,140,140
$ capital in lending programs	143,067	367,625	367,625	1,345,774
$ capital in leasing programs	-	-	-	-
$ capital in direct investment programs	-	-	-	-
Total $ capital in financing programs (sum of above)	480,008	825,892	825,892	4,485,914
MICRO LENDING				
Micro lending annual interest rate used (%)	48%	48%	48%	60%
# of micro loans (< $300)	829	442	1,271	-
# of micro loans ($300 through $1,000)	3,139	703	3,842	13,554
# micro loans (> $1,000)	252	156	408	-
Total # micro loans (sum of above)	4,220	1,301	5,521	13,554
Total # micro loans to women	3,849	1,140	4,989	10,843
% of # micro loans to women (%)	91%	88%	90%	80%
$ value of micro loans	2,200,332	688,197	2,888,529	11,563,000
$ value of micro loans to women	2,012,958	605,613	2,618,571	9,250,400
% of $ value of microloans to women (%)	91%	88%	91%	80%
$ min size of micro loan made	103	102	102	-
$ max. size of micro loan made	1,780	1,701	1,780	-
$ average size of micro loan made	474	529	529	-
LENDING				
Lending annual interest rate used (%)	48%	48%	48%	60%
# of loans (< $1,000)	43	75	118	-
# of loans ($1,000 through $10,000)	59	124	183	1,186
# loans (> $10,000)	0	2	2	-
Total # loans (sum of above)	102	201	303	1,186
Total # loans to women	65	123	188	-
% of # loans to women (%)	64%	61%	62%	-
$ value of loans	193,360	382,195	575,555	1,915,847
$ value of loans to women	108,377	230,138	338,515	-
% of $ value of loans to women (%)	56%	60%	59%	-
$ min size of loan	172	340	340	-
$ max. size of loan	5,203	13,605	13,605	-
$ average size of loan	1,953	1,901	1,901	-

Note: . The Lending program is not gender-based. FINCA will track gender numbers, but has set no such targets

TOTAL FINANCING				
Total # of clients in all financing programs	889	1,184	1,184	2,263
Total # of women clients in all financing programs	787	1,037	1,037	1,810
% of # of women clients (%)	89%	88%	88%	80%
Total $ value provided to clients in all financing programs	2,393,692	1,070,392	3,464,084	13,478,847
Total $ value provided to women clients in all financing programs	2,122,235	835,751	2,957,986	-
% of $ value provided to women in all financing programs (%)	89%	78%	85%	-
$ min size of financing per client in all financing programs	103	102	102	-
$ max. size of financing per client in all financing programs	5,203	13,605	13,605	-
$ average size of financing per client in all financing programs	580	713	713	-

Category	Cum. Previously	This Period	Cum. To Date	Life of Project Goal
QUALITY OF FINANCING PORTFOLIO				
micro lending - # of loans outstanding	798	930	930	
micro lending - $ portfolio outstanding	336,941	458,267	458,267	1,373,845
micro lending - $ portion of portfolio delinquent	2,421	4,209	4,209	-
micro lending - % of $ delinquent in $ outstanding (non-paym. rate)	0.7%	0.9%	0.9%	3%
lending - # of loans outstanding	91	254	254	1186
lending - $ portfolio outstanding	143,067	367,625	367,625	457,948
lending - $ portion of portfolio delinquent	1,869	9,654	9,654	-
lending - % of $ delinquent in $ outstanding (non-payment rate)	1.3%	2.6%	2.6%	3%
REFERRALS TO OTHER SOURCES OF FINANCING				
# of businesses just referred to financing institutions	0	8	8	350
# of women-led businesses among them	0	8	8	280
% of women-led businesses among them	0	100%	100%	80%
# of businesses given TA and referred to financial institutions				690
# of women-led businesses among them				552
% of women-led businesses among them				80%
# of businesses financed through referrals				69
# of women-led businesses among them				55
% of women-led businesses among them				80%
$ amount of finance received through referrals				-
$ amount of finance received by women-led businesses				-
% of $ amount of financed received by women-led businesses				-

Note: -FINCA will track referrals and any financing resulting from such referrals. LOP estimates are percentages of client figures.

TABLE 8. BUILDING INSTITUTIONAL ENVIRONMENT SUPPORTING OF PRIVATE BUSINESSES

If you have created/strengthened business associations, professional associations, business incubators, business centers, training institutions, or other business support organizations, list them and summarize information about them. Indicate how close each is to being self-sustaining by placing the appropriate letter in the column "Self Sustaining Status": A - Already self-sustaining, C - Close to becoming self-sustaining (anticipated within next quarter), N - Not yet self-sustaining, but well on its way, F - Far from self-sustainability. In this Table also provide the figure that applies: the number of active association members, or the number of micro businesses in the incubator, etc.

No.	Name of Organization	Time of Major Assistance (mo.yr)	No. of employees	No. of Members (entities or persons)	Self Sustaining Status (A, C, N, or F)
1	Business Center / Kinel	2+yrs	7	50	C
2	Business Center / Novokuibechevsk	"	8	50	N
3	Business Center / Otradniy	"	3	50	N
4	Business Center/ Kinel-Cherkassi	"	3	30	N
5	Business Center/ Krasniy Yar	"	2	30	F
6	Business Center /Syzran	"	3	30	F
7	Business Center/ Pokvistnevo	"	3	30	N
8	Business Center/ Togliatti	4 mons	6	50	N
9	Mozorov Training Institute	2+yrs	10		
10	Business Incubator / Kinel	"	2	30	N
11	Povolzhe Business Women's Association	4 mons	5		
12	Fund 'Sovdeistvie'/ Kinel	2+yrs	2	33	N
13	Business Services Center / Sergeivsk and Novokuibechevsk	3 mons	3		F
14	Business Consulting Services Center / Samara	3 mons	3		F
Etc.					

TABLE 9. PROGRESS IN BUILDING A BETTER REGULATORY AND POLICY ENVIRONMENT

Show any positive new regulatory or policy changes that you have influenced (show such changes cumulatively - add any new entries in the table without deleting previous entries). Indicate the type of regulatory or policy change by the appropriate letter in the column "Type of Change":

A - Government Funds for Business Growth: regional oblast, or city governments set aside a larger portion of their budgets to run Private Business development offices or programs to attract foreign investment. They start or expand regional / local funds that support private business development

B - Legal and Regulatory Environment: Tax laws are simplified. Incentives are established that encourage Private business formation. Procedures or requirements for registering new businesses with legal authorities are simplified or improved.

C - Access to Information. More useful information that benefits private businesses is gathered and is made available to private businesses.

D - Other (describe)

No.	Description of Change	Date Change effected (mo.yr)	Type of Change (A,B,C, or D)
1	Creation of an enabling regulatory environment for MFIs and their clients.	LOP	B,C