
**HEKS Assistance for LAM and FAER in their
Transformation from
Development Programmes
to MFIs**

S & K Forum

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Year	Characteristics	Goals
1989-1991	Emergency Phase	Priority: Humanitarian Support for RO-population after the collapse
1992-1997	Rural Development Project for Private Sector Transition: - Vocational training and extension - Financing start-ups	Priority: Development of SME and Civil Society - Start-ups of SME with young people without own fund
1998-2001	First Trial for Transformation LAM -> CU Type Raiffeisen FAER-> Company SA (no specific MFI) Failed due to of supportive legal environment	Priority: Portfolio Sustainability and Development: - Soft and hard investments in SME - Re-shape of credit products - Separation of financial and non-financial services
2002-2005	Reorganisation as Foundation Preparation – Profit Center - Alliance for MFI Law - Up coming competition - strategy for non-financial compon.	Priority: Financial Sustainability within existing fund - Professionalism - Preparation for spin-off
2006-2007	Second Approach for Transformation - Legal Transformation - Performance	Priority: Sustainability and Growth with external Re-financing - Long Term Sustainability

Legal Framework for Microfinance in Romania

1992-1998	No legal Frame for MFIs CU law not adequate at the time
1999	Only one sentences in the law of 99/1999: (law for speeding up economic Transformation) „everyone can give a credit if he does not take a deposit“
1999-2001	Liberalised Law for Credit Union -> coming up of Banca Populara/ pyramid scheme Very Restrictive / Prohibitive
2005	Law for Microcredit (240 / 2005)
2006	NBFI (266/2006)

Basic Characteristics 2000-2005

- 100 % rural (and semi-urban) area
- 60 % agricultural (portfolio, 70-80% clients) – 40% SME
- 95% investments for income generating activities – few operational loans
- no short term loans for trading
- productive (income generating) investments only (in all sectors)
- no consumer loans and non-income related investments
- Material guarantees, 1-5 years duration
- Magre profitability (low interest rate)
- little portfolio growth

New Orientation > 2006

- Growth through external commercial re-financing
- Rural focus but opening for (semi-)urban market
- New market segment with higher profitability
- New products with higher interest rates

Portfolio Indicators LAM

LAM Rural Microfinance SA	2006	2007
Equity (at beginning of year)	210'000	731.370
Equity (end of year)	731.370	844.000
Portfolio end of year	2.519.738	3.000.000
Portfolio growth per year	6 %	20 %
PAR 30	2.5%	2.5%
PAR 90	0%	1 %
Write off %	0%	0.5 %
Portfolio yield	11%	13 %
Operating cost ratio per year	4.8%	5 %
Loans disb. per LO per month	7,9	8
Nr of clients per loan officer	202	170
Portfolio amount per loan officer- EURO	839.912	750.000
Funding expense ratio	2.65%	3 %
Return on assets	3.0%	4.0%

Strategic Advice / Technical Assistance

- Cooperation in strategy development
- technical assistance / Improvement and presentation
- Facilitation of access to external support
- Facilitation of merger procedure

- Subsidisation

- Technical assistance
- LAM since 2004: no other subsidy
- FAER 2005-2006:
 - no subsidy for running cost
 - financial support for MIS
 - external expertise, external audit
 - international travels

- Own Investments

- Since 2002: Total ca. 3 Mio CHF; no grant for re-financing portfolio (long term loans, 3-5 years, 4-5%)
- 2005-2006: 300'000 CH loan

- Linking with potential Investors

- Important task

Phasing out: End 2007

Foundation LAM/FAER

Agricultural Training Programme

- Institutional Sustainability within the Foundation
- return of investments (40-60'000 Euro/year)
- Cooperation with RO state
- Contribution participants
- mandates

Rural Microfinance LAM/FAER SA Credit Services

- Institutional Sustainability
- Financial Sustainability - > further growth needed:
 - External Investors
 - TA from EFSE, EBRD, others
 - HEKS follow up of investment and social project in region financed by interest income
- Long Term Strategy
- Merger

Challenges of Transformation

Strategy, Mission, Identity:

- Change of Strategy
- Development Orientation - > Profit / Businesss Orientation
- Rural Orientation - > rural and urban Orientation

- How can „non-financial services“ (agricultural vocational training) be made sustainable?

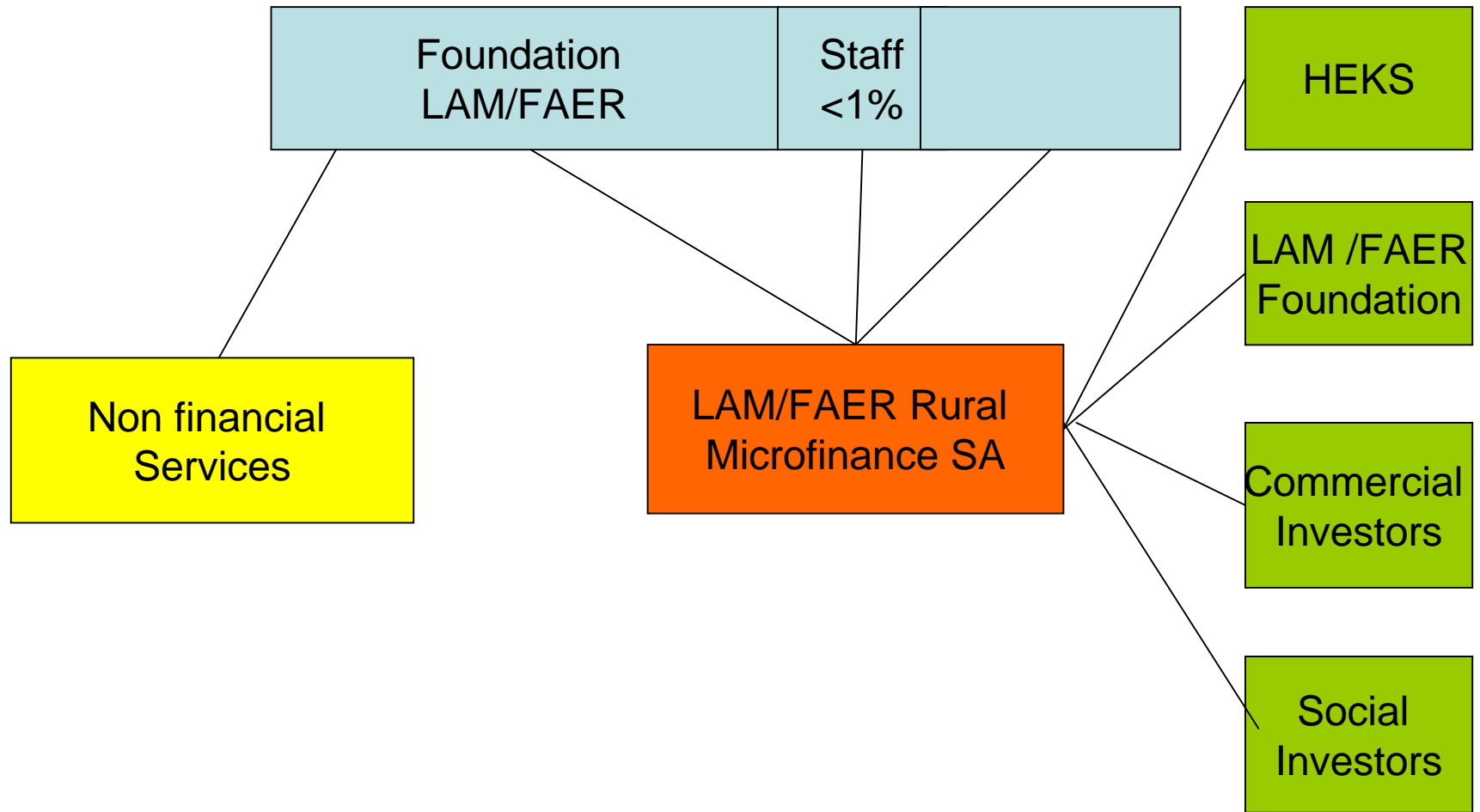
Institutional Issues:

- How can a Foundation change into a Company?
- Financial structure base – what’s the optimum?
- NGO staff – SA staff?
- Missing NBR standards / permanent changing

Performance, Quality & Growth:

- Investors‘ requirements and how to meet these
- Higher re-financing costs - > new strategy and product prices
- Competitors (Banks, other MFIs)
- Growth & Efficiency

Shareholders and Investors



- HEKS from Donor to Investor
- Early start / use time for preparation of Transformation
- Increased TA input for 6-12 months in the Transformation phase
- Anticipate changes on the market
- Early contacts with potential investors
- Importance of human factors
- Assessment of all options – Transformation is only one option