Clients of Microcredit Organizations in Bosnia and Herzegovina

REPORT ON BASELINE SURVEY

Impact Assessment Component
Local Initiatives (Microfinance) Project II
—LIP II—

April 2003
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MICROFINANCE CLIENTS IN BOSNIA AND HERZEGOVINA

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—LIP II—

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Presented to

Foundation for Sustainable Development
of the Federation of Bosnia and Herzegovina
and
Republic of Srpska
Development and Employment Foundation

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I. INTRODUCTION

In the past decade, Bosnia and Herzegovina (BiH) experienced an economic transition away from central planning toward a more market-oriented economy. This transition was interrupted and complicated by armed conflict between 1992 and 1995, resulting in a generally weak economy with high levels of unemployment and large numbers of war-displaced and demobilized citizens. In an effort to ease the post-war transition, the first Local Initiatives Project (LIP I) was begun in 1996 to promote economic opportunity for the war-affected population and economically poor BiH citizens.

LIP I supported microfinance institutions (MFIs) that provided business loans for microenterprises. By June 30, 2000, when LIP I officially closed, the supported MFIs had disbursed 50,261 loans, valued at KM 148.37 million. A follow-on project, Local Initiatives (Microfinance) Project II (LIP II), continues the work of LIP I. The MFIs collaborating with the LIPs have achieved a large scale of outreach, serving a total of 26,583 active clients at the end of 2001.

LIP II is managed by the Foundation for Sustainable Development of the Federation of Bosnia and Herzegovina and by the Republic of Srpska Development and Employment Foundation. These project managers, acting on behalf of the two entity governments, are interested in understanding the contribution of microfinance to poverty reduction, income generation, and business development in BiH. Also interested in the results of the evaluation are the MFIs, which are the direct providers of financial services to clients, and the donors that have funded the LIPs.

A. PURPOSE OF THE STUDY

This report is part of a larger research effort to document the impacts of a sustainable microfinance sector in BiH. It describes the initial results from a long-term evaluation of the impacts of LIP I and II on the entrepreneurs who receive program services and on their microenterprises. These initial results come from the first round of a survey.

The long-term evaluation is designed to address four key questions:

1. Do microcredit organizations in BiH reach their target populations?
2. Does microcredit improve the household welfare of borrowers?
3. Does microcredit promote business development?
4. Does microcredit ease or speed the post-conflict transition?

To answer these questions, the evaluation relies on a mixed-method approach, combining a longitudinal survey and case study interviews. The two rounds of the survey will be separated by a two-year interval, resulting in a panel data set that follows the same households over time. The survey is based on a quasi-experimental design, meaning that both clients and non-clients are surveyed so that the outcomes for the two groups can be compared. A more detailed explanation of the research plan is provided as an appendix to this document.
B. ORGANIZATION OF REPORT

This report describes the results of a survey of 3,333 microentrepreneurs. Its purpose is to examine the first round of data to see what it reveals about the characteristics of the entrepreneurs participating in the study, their households, and their enterprises. This report does not attempt to evaluate the impacts of the microfinance sector, which will be done after the second round of the survey and the case study interviews.

Following this introduction, there are four main sections in the report. Section II provides the background for the study, including general information on BiH, the Local Initiatives Projects, and the MFIs participating in the study. Information on the survey respondents is presented in section III, which defines the three types of respondents included in the study, the number of respondents, and their distribution across the regions of the country and across the MFIs. The credit histories for those respondents who are clients of MFI programs are also provided in section III. Sections IV and V describe the survey findings in terms of what is revealed about the entrepreneurs, their households, and their enterprises.

II. MICROFINANCE IN BIH

A. GENERAL BACKGROUND INFORMATION

1. Political and Geographic Information

The official name of the country is Bosnia and Herzegovina (BiH). It is located in the western part of the Balkan Peninsula, with Serbia and Montenegro on its eastern border and the Republic of Croatia on its northern, western, and southern borders. The country has a coastal outlet on the Adriatic Sea. The country is mountainous and has a surface area of 51,209 square kilometers. The two longest rivers are the Drina (346 km) and the Sava (331 km). The highest mountain peaks are Maglić (2386 meters above sea level) in Foča municipality and Volujak (2336 meters above sea level) in Gacko municipality.
The climate of Bosnia and Herzegovina differs according to location. Herzegovina and the southern area have a modified Mediterranean climate with average annual precipitation of 600 to 800 mm (24 to 32 inches), while the central and northern areas of Bosnia have a modified Alpine climate with average annual precipitation of 1,500 to 2,500 mm (59 to 98 inches). The warmest month is July and the coldest is January. Average temperature ranges in the capital city of Sarajevo are from minus 0.5 degrees Celsius (31 degrees Fahrenheit) in January to 19.6 degrees Celsius (67 degrees Fahrenheit) in July.

In the beginning of the 1980s, political changes began occurring rapidly in the Balkan Peninsula. More recent events included a significant armed conflict between 1992 and 1995. By the time the war ended, according to estimates of the UNHCR, there were 1.3 million people who were internally displaced, and another 1.2 million who had become refugees in other countries.

Under the Dayton Peace Accord that ended the war, the country was divided into two entities: the Federation of Bosnia and Herzegovina (FBiH) and the Republic of Srpska (RS). The Federation of Bosnia and Herzegovina is administratively divided into ten cantons (districts), consisting of 84 municipalities. The Republic of Srpska is administratively divided into 64 municipalities. The city of Brčko is administered separately from FBiH and RS, and is known as Brčko District. The map at left indicates the entity boundaries and the cantonal boundaries for FBiH.

Information on the country’s population is subject to considerable error because of population dislocations caused by military action and ethnic cleansing. The last national census was made in 1991. The Agency for Statistics of Bosnia and Herzegovina estimated the country’s population to be 3,798,336 in June 2001. The average population density is 202 people per square mile. The largest city is Sarajevo (387,876 est.), followed by Banja Luka (220,407 est.), Mostar (208,904 est.), and Tuzla (118,500 est.). The population of BiH shares a common language. Information from the 1991 census indicated that the ethnic composition consisted of Bosniacs (44 percent), Serbs (31 percent), Croats (17 percent), and others (eight percent).
2. **Economic Information**

There has been measurable economic recovery following the war, but much remains to be done, particularly in terms of achieving full employment for the country’s labor force. In the two years immediately following the Dayton Peace Accord, per capita gross domestic product (GDP) doubled. After 1997, growth in per capita GDP began to slow. In 2001, per capita GDP was USD 1,263, which places BiH in the group of lower middle-income countries. Table 1 indicates the per capita GDP, population, and currency exchange rates for 1996 through 2001.

### Table 1: GDP, Population, and Currency Exchange Rates, 1996-2001

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product per capita (KM)</td>
<td>836</td>
<td>1695</td>
<td>1982</td>
<td>2310</td>
<td>2542</td>
<td>2759</td>
</tr>
<tr>
<td>Gross domestic product per capita (USD)</td>
<td>556</td>
<td>978</td>
<td>1126</td>
<td>1259</td>
<td>1200</td>
<td>1263</td>
</tr>
<tr>
<td>Population, mid-year estimate (1000 people)</td>
<td>3,169</td>
<td>3,756</td>
<td>3,654</td>
<td>3,725</td>
<td>3,781</td>
<td>3,798</td>
</tr>
<tr>
<td>Average annual exchange rate (KM for 1USD)</td>
<td>1.50</td>
<td>1.73</td>
<td>1.76</td>
<td>1.83</td>
<td>2.12</td>
<td>2.19</td>
</tr>
</tbody>
</table>


Inflation rates have been falling in the past several years, with levels tending to be higher in the RS than in the FBiH. Table 2 indicates the inflation rates in the two entities, beginning in 1998. The recent period has been characterized by a downward trend in inflation. This downward trend appears to be continuing into 2002. A comparison of retail prices in September 2002 to their levels in December of the previous year indicate that the economy was experiencing negative inflation rates: -1.4 percent for the country as a whole, with -1.6 percent in FBiH at and -0.9 percent in the RS (CBBH 2002).

### Table 2: Inflation Rates, by Entity, 1998-2001 (percent change)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federation of Bosnia and Herzegovina</td>
<td>5.1</td>
<td>-0.9</td>
<td>1.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Republic of Srpska</td>
<td>---</td>
<td>15.1</td>
<td>13.6</td>
<td>2.2</td>
</tr>
</tbody>
</table>


Unemployment levels in BiH have remained high over the past several years. A number of factors have contributed to the high rates of unemployment. To start with, the country’s structure of employment was still in a transitional phase away from heavy reliance on state sector employment when the transformation was interrupted by the outbreak of the war. Following the war, there have been challenges associated with the employment of repatriated refugees, internally displaced persons, and demobilized soldiers. The two-entity system established under the Dayton Peace Accord probably discourages significant labor mobility within the country.

According to official statistics, there were 624,289 employees and 430,307 unemployed within the country at the end of September 2002. The official unemployment rate was 40.8 percent at that time. Table 3 lists the official unemployment rates for the last five
years, as reported by the Central Bank of BiH. However, actual unemployment rates are probably lower than the figures reported in Table 3.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FBiH</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed</td>
<td>407,047</td>
<td>410,104</td>
<td>411,305</td>
<td>405,689</td>
<td>391,567</td>
</tr>
<tr>
<td>Unemployed</td>
<td>256,487</td>
<td>261,793</td>
<td>267,934</td>
<td>269,004</td>
<td>287,055</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>38.6%</td>
<td>39.0%</td>
<td>39.4%</td>
<td>39.9%</td>
<td>42.3%</td>
</tr>
<tr>
<td>RS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed</td>
<td>244,267</td>
<td>220,786</td>
<td>227,748</td>
<td>219,954</td>
<td>232,722</td>
</tr>
<tr>
<td>Unemployed</td>
<td>142,009</td>
<td>147,497</td>
<td>153,264</td>
<td>147,749</td>
<td>143,252</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>36.8%</td>
<td>40.0%</td>
<td>40.2%</td>
<td>40.2%</td>
<td>38.1%</td>
</tr>
</tbody>
</table>


It is difficult to reach universal agreement on a single measure for the unemployment rate, because there are a number of complicating conditions. First, there is an active “gray market” for labor that has arisen principally to circumvent prohibitive tax and labor laws. Although there is no hard information on gray market employment, it appears that many of these jobs do not provide year-round employment. In addition, some people who are officially employed do not receive their salary on time. There are also a number of people who are officially employed, but are not working because they have been idled and placed on a “waiting list” to return to their jobs. Table 4 provides several alternative estimates for the unemployment rate by taking all of these situations into consideration.

Table 4: Alternative Estimates of Unemployment Rates (August 2001)

<table>
<thead>
<tr>
<th></th>
<th>FBiH</th>
<th>RS</th>
<th>BiH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Estimated population</td>
<td>2,400,000</td>
<td>1,450,000</td>
<td>3,850,000</td>
</tr>
<tr>
<td>2. Estimated population of working age (15 to 64)</td>
<td>1,650,000</td>
<td>970,000</td>
<td>2,620,000</td>
</tr>
<tr>
<td>3. Total work force</td>
<td>940,000</td>
<td>560,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>4. Official employment</td>
<td>412,805</td>
<td>228,834</td>
<td>641,639</td>
</tr>
<tr>
<td>5. Registered unemployment</td>
<td>267,934</td>
<td>153,264</td>
<td>421,198</td>
</tr>
<tr>
<td>6. “Wait-listed Workers”</td>
<td>40,262</td>
<td>32,000</td>
<td>72,262</td>
</tr>
<tr>
<td>7. Workers with salary two or more months in arrears</td>
<td>95,000</td>
<td>65,000</td>
<td>160,000</td>
</tr>
<tr>
<td>8. People working on gray labor market for three or more months</td>
<td>200,000</td>
<td>120,000</td>
<td>320,000</td>
</tr>
<tr>
<td>9. Narrow rate of unemployment (item 5/item 3x100)</td>
<td>28.5%</td>
<td>27.4%</td>
<td>28.1%</td>
</tr>
<tr>
<td>10. Unemployment rate including “wait-listed workers” (item 5 + item 6)/item 3 x 100)</td>
<td>32.4%</td>
<td>33.1%</td>
<td>32.9%</td>
</tr>
<tr>
<td>11. Potential unemployment rate, including workers with salaries in arrears by two or more months (item 5 + item 6 + item 7)/item 3 x 100)</td>
<td>42.9%</td>
<td>44.7%</td>
<td>43.6%</td>
</tr>
<tr>
<td>12. Unemployment rate accounting for gray market employment (item 5 + item 6 + item 7 – item 8)/item 3 x 100)</td>
<td>21.6%</td>
<td>23.3%</td>
<td>22.2%</td>
</tr>
</tbody>
</table>


While it is not clear whether the unemployment rate is 20 percent or 40 percent, it is clear that a large number of people in the country lack the opportunity to be productively employed on a full-time, year-round basis. For many of these people, self-employment through a microenterprise may be the only viable employment option. In some cases, microenterprises offer employment not only to the entrepreneur, but also to family members and others who have been adversely affected by high unemployment rates.
B. THE MICROFINANCE SECTOR IN BiH

1. Microenterprises

Microenterprises are private business activities on a small scale. Several measures of size can be used to distinguish microenterprises from small, medium, and large enterprises: number of employees, value of assets, or value of revenues. Microenterprises usually have five or fewer employees, but microenterprises may be defined to include up to ten employees. These businesses are usually organized as sole proprietorships, but microenterprises may also be organized as partnerships.

Microenterprises may be operated on either a formal or informal basis. A microenterprise operated on a formal basis is registered with the municipal and/or tax authorities. Formally operated microenterprises may also register their employees and pay the required labor taxes and contributions. On the other hand, microenterprise owners may choose to operate informally, without registering their enterprises or employees. While this may reduce costs and eliminate the entrepreneur’s contact with the bureaucracy, it also involves the risk of being discovered and penalized.

Self-employment for the entrepreneur is the universal characteristic of microenterprises. Additional employees are most often members of the entrepreneur’s household. Typically, the entrepreneur and other household members do not receive a predetermined, periodic salary for their labor. Instead, they are compensated out of the net returns of the enterprise. Salaries are usually paid only to workers from outside the household who are employed in the enterprise.

Microenterprises can be classified into five sectors:

- **Trade or commercial sector** microenterprises are involved in the purchase of goods for the purpose of resale. Trade sector microenterprises are as varied as the kinds of goods that can be sold, and include general grocery stores, food vending (e.g., meat, vegetables, fruit), apparel, house wares, electronics, and paper goods.
- **Small-scale production sector** enterprises transform raw materials into some finished product, with common types of small-scale production enterprises including tailoring, dressmaking, carpentry, and all types of small manufacturing.
- **Service sector** enterprises include restaurants, the selling of prepared foods, hairdressing, and repair shops of all kinds.
- **Livestock/animal husbandry sector** microenterprises may raise any type of animal, selling either meat or animal products (e.g., eggs, honey, milk). Poultry production is the most common type of enterprise in this sector.
- **Agriculture sector** microenterprises involve the cultivation of crops, including non-conventional crops, such as mushrooms.

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1 The terms *microenterprise, enterprise, business*, and *business activity* are used interchangeably in this report and are not meant to indicate whether the microenterprise is operated formally or informally.
2. Microfinance

Microfinance institutions support microenterprises by providing entrepreneurs with small-scale financial services, such as loans, deposit services, and insurance. The MFIs participating in this study are microcredit organizations, meaning that they are exclusively occupied with providing small loans, either to individuals or solidarity groups. While there are no official data on the number of microcredit organizations in BiH, an unofficial estimate puts the number at 42 registered organizations as of October 2002.

Microcredit organizations are registered as non-deposit taking, non-profit, non-governmental organizations whose basic activity is the provision of microcredit to socially vulnerable populations for the purpose of developing entrepreneurship. In the FBiH, microcredit organizations register with the Federal Ministry of Social Affairs, Displaced Persons, and Refugees. In RS, Court registers microcredit organizations, and the register is maintained at the Ministry of Finance. The Law on Microcredit Organizations, adopted separately in FBiH and RS, regulates some of the conditions under which credit can be offered. Harmonization of these two entity laws is expected during the year 2003.

In the FBiH, the Law on Microcredit Organizations was published in the Official Gazette of the Federation of BiH (24/00). Instructions on the documentation needed for opening representative offices and bureaus in the FBiH for microcredit organizations from BiH with headquarters outside of the FBiH were published later in the Official Gazette of the Federation of BiH (13/02).

In the RS, the Law on Microcredit Organizations was published in the Official Gazette of the Republic of Srpska (19/01). Sub-regulations published in the Official Gazette of the Republic of Srpska (38/01) describe the documentation needed 1) to issue a permit for the founding of a microcredit organization and 2) to open a representative office in RS of a microcredit organization whose main office is located in the FBiH. In addition, the sub-regulations provide a definition of microcredit that includes the following characteristics: 1) first loan no higher than KM 5,000; 2) the maximum for any loan no higher than KM 30,000; 3) loan length no longer than 36 months; and 4) loans must be for the purpose of financing business activities that generate income.

3. The Local Initiatives Projects

The first Local Initiatives Project (LIP I) operated for 3.5 years, from the beginning of 1996 to June 30, 2000. It was financed by the World Bank and a number of other bilateral and multilateral donors at a total cost of USD 21.8 million (see box at right). The project was implemented through Local Initiatives Departments (LIDs) in Employment and Training Foundations in both the FBiH and the RS.

<table>
<thead>
<tr>
<th>Source</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>6,296,208</td>
</tr>
<tr>
<td>Italy</td>
<td>3,223,262</td>
</tr>
<tr>
<td>Holland</td>
<td>4,590,000</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,320,170</td>
</tr>
<tr>
<td>Austria</td>
<td>584,857</td>
</tr>
<tr>
<td>Japan</td>
<td>2,999,600</td>
</tr>
<tr>
<td>UNHCR</td>
<td>3,538,063</td>
</tr>
<tr>
<td>UNDP</td>
<td>51,669</td>
</tr>
<tr>
<td>TOTAL</td>
<td>21,894,599</td>
</tr>
</tbody>
</table>
The development objectives for LIP I were to

1. Provide access to credit to the economically disadvantaged and war-affected, especially low-income microentrepreneurs who have no access to credit from the commercial banking sector;
2. Facilitate the development of independent, financially viable microfinance institutions that will continue to provide credit to low-income entrepreneurs over the long-term period; and
3. Create an appropriate legal and regulatory environment for the provision of credit and savings services to low-income entrepreneurs.

LIP I was successful in meeting all three of these objectives. By the closing date of the project (June 30, 2000) over 50,000 loans to microenterprises had been disbursed, with an average loan size of about KM 2,952. This number far exceeded the original project goal of extending 10,000 loans. Half of these loans went to women and one-fifth went to people who were displaced from their homes as a result of the war. On the project closing date, the partner MFIs had a combined total of 19,361 active clients.

A total of 17 MFIs were originally funded under LIP I. Based on the recommendations of a mid-term review, which examined key institutional and financial indicators for all partner institutions, the number of partners was reduced to eight MFIs. This event precipitated a series of consolidations within the industry that resulted in a strengthening of the microfinance sector. Of the original 17 MFIs, seven reached full financial sustainability over the course of the project. In addition, LIP I succeeded in initiating the adoption of a legal framework for the operation of microcredit organizations in both FBiH and RS (the “Law on Microcredit Organizations,” discussed above).

The second Local Initiatives (Microfinance) Project (LIP II) became effective on March 26, 2002, and is expected to last for 3.5 years. The total budget for LIP II is estimated at USD 27 million, with World Bank/IDA financing the equivalent of USD 20 million and another USD 7 million co-financed by the Entity Governments and other donors. The overall development objective of the project is to meet the urgent needs for raising income levels and developing employment in BiH by providing loans and other financial services to low-income people. More specifically, LIP II will concentrate on

1. The financial growth and institutional development of efficient microfinance institutions that provide significant outreach to low-income clients; and
2. Supporting the transition of the microfinance sector toward sustainable sources of financing.

---

2 Of the eight MFIs that continued to receive funding after the mid-term review, five were from FBiH [AMK – Posušje, BOSPO – Tuzla, LOK – Sarajevo, MCI/SEA – Tuzla (today PARTNER), and SUNRISE – Sarajevo] and three were from the RS [BENEFIT – Lukavica, MIKROFIN – Banja Luka, and SINERGIJA – Banja Luka].
LIP II is administered by the Foundation for Sustainable Development in the Federation of Bosnia and Herzegovina, Microfinance Unit, and by the Republic of Srpska Development and Employment Foundation, Microfinance Sector. Despite the fact that these two management units are administratively separate, they cooperate daily on project implementation and share the common goal of creating a strong, sustainable microfinance sector in BiH.

As part of the planning for LIP II, potential partner MFIs underwent an independent assessment of their institutional and financial characteristics. This assessment was completed by Shorebank Advisory Services (Chicago). As a result of this process, nine MFIs were selected as eligible to receive funds through LIP II. Of these nine MFIs, six operate within the FBiH and three operate within the RS. The MFIs that are eligible for funding under LIP II are listed in the box at left.

The Local Initiatives Projects have had a major influence on the growth and development of an efficient and sustainable microfinance sector in BiH. Whether measured in terms of outreach or in terms of operational and financial sustainability, the LIPs have played an important role in strengthening MFIs that, in turn, extend loans to microentrepreneurs who would not normally qualify for business loans from banks.

4. MFIs Participating in the Study

There are eleven MFIs participating in this study. All of them are registered microcredit organizations, organized as non-profit, non-deposit taking, and non-governmental organizations. Some of the organizations are registered to operate in the FBiH, some in the RS, and some are registered to operate in both entities.

All nine MFIs that are eligible for funding under LIP II are participating in the study. Two additional MFIs are also participating in the study: PRIZMA Mikro Mostar and Mikro ALDI Gorazde. Table 5 lists the eleven MFIs participating in the study and provides some information on their backgrounds and target populations.

All of the MFIs in the study offer microenterprise credit. In other words, they all provide one or more types of loans for specific types of small-scale businesses and enterprises. LOK micro also provides technical, non-financial assistance, such as business planning. In addition to microenterprise loans, PRIZMA provides basic needs loans and loans for housing repairs. However, only the PRIZMA clients who have received microenterprise loans are included in this study.

The majority of the MFIs participating in the study offer microenterprise credit both in the form of individual loans and in the form of solidarity group loans, although a few offer only individual loans. Some of the MFIs evolved from local citizens’ associations or humanitarian organizations. Others evolved in partnership with international NGOs.
Table 5: Background on MFIs Participating in the Study

<table>
<thead>
<tr>
<th>Name and Location</th>
<th>Year Lending Started</th>
<th>Original Affiliation</th>
<th>Loan Types</th>
<th>Target Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIKRO ALDI Goražde</td>
<td>1996</td>
<td>citizens assn. group, indiv.</td>
<td>economically active, low-income population; existing businesses and start-ups; war affected population</td>
<td></td>
</tr>
<tr>
<td>BENEFIT Lukavica</td>
<td>1997</td>
<td>citizens assn. indiv.</td>
<td>persons with income under KM 500/mo./person; firms with capital under KM 30,000 and under 10 employees; existing businesses</td>
<td></td>
</tr>
<tr>
<td>BosVita Tuzla</td>
<td>1996</td>
<td>IRC indiv.</td>
<td>refugees, returnees and local population; existing businesses and start-ups</td>
<td></td>
</tr>
<tr>
<td>EKI Tuzla</td>
<td>1996</td>
<td>World Vision group, indiv.</td>
<td>individuals without access to bank credit and businesses that can create and sustain jobs</td>
<td></td>
</tr>
<tr>
<td>LOKmicro Sarajevo</td>
<td>1997</td>
<td>citizens assn. group, indiv.</td>
<td>natural and legal entities with registered and unregistered businesses and low income profile</td>
<td></td>
</tr>
<tr>
<td>MI-BOSPO Tuzla</td>
<td>1996</td>
<td>humanit org. group, indiv.</td>
<td>low-income women entrepreneurs</td>
<td></td>
</tr>
<tr>
<td>MIKROFIN Banja Luka</td>
<td>1997</td>
<td>CARE Intl. group, indiv.</td>
<td>micro and small business, including agricultural enterprises</td>
<td></td>
</tr>
<tr>
<td>Partner Tuzla</td>
<td>1997</td>
<td>Mercy Corps, SEA indiv.</td>
<td>low-income, economically active individuals; existing businesses and start-ups; war affected population</td>
<td></td>
</tr>
<tr>
<td>Prizma Mikro Mostar</td>
<td>1997</td>
<td>ICMC group, indiv.</td>
<td>poor and low-income women and their families</td>
<td></td>
</tr>
<tr>
<td>SINERGIJA Banja Luka</td>
<td>1997</td>
<td>citizens assn. group, indiv.</td>
<td>legal, privately owned, existing, small-scale production, services, agriculture, and trade businesses</td>
<td></td>
</tr>
<tr>
<td>SUNRISE Sarajevo</td>
<td>1997</td>
<td>humanit org. indiv.</td>
<td>economically active, low-income indiv. in informal sector and legal entities with under 5 employees</td>
<td></td>
</tr>
</tbody>
</table>

The characteristics of each participating MFI’s loan portfolio, including measures of operational and financial sustainability, are provided in table 6. As can be seen in the table, the participating MFIs were providing loans to over 36,000 active clients as of December 31, 2001. Average loan sizes ranged from KM 1,365 to KM 4,313. While typical loan lengths ranged from seven months to 14 months, most loans were for nine or ten months. All of the participating MFIs were operationally self-sufficient and at or near financial self-sufficiency just prior to when the sample of clients for this study were selected. Thus, the clients and new clients included in this study were receiving their microenterprise loans from microfinance institutions that can be characterized as financially sustainable.
Table 6: Loan Portfolio Characteristics of Participating MFIs (December 31, 2001)

<table>
<thead>
<tr>
<th>MFI</th>
<th>Number of Active Loans</th>
<th>Amount of loans outstanding (KM)</th>
<th>Average loan size, range of loans (KM)</th>
<th>Typical loan size, range of loans (months)</th>
<th>Loans to women (percent)</th>
<th>Active clients per credit officer</th>
<th>Portfolio at risk (&gt;30 days) (percent)</th>
<th>Long run loss rate (percent)</th>
<th>Operational self-sufficiency ratio</th>
<th>Financial self-sufficiency ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIKRO ALDI</td>
<td>850</td>
<td>892,517</td>
<td>1,812, 1,000-10,000</td>
<td>11 10-18</td>
<td>70</td>
<td>213</td>
<td>0.09</td>
<td>1.00</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td>BENEFIT</td>
<td>2,064</td>
<td>4,126,206</td>
<td>1,999, 500-15,000</td>
<td>10 1-12</td>
<td>37</td>
<td>129</td>
<td>0.00</td>
<td>0.00</td>
<td>139</td>
<td>113</td>
</tr>
<tr>
<td>BOSVITA</td>
<td>992</td>
<td>1,241,785</td>
<td>2,139, 700-7,000</td>
<td>10 3-15</td>
<td>78</td>
<td>248</td>
<td>1.03</td>
<td>1.42</td>
<td>132</td>
<td></td>
</tr>
<tr>
<td>EKI</td>
<td>6,617</td>
<td>14,426,258</td>
<td>3,607, 1,000-20,000</td>
<td>14 3-18</td>
<td>34</td>
<td>195</td>
<td>0.60</td>
<td>1.39</td>
<td>127</td>
<td>106</td>
</tr>
<tr>
<td>LOK MICRO</td>
<td>3,558</td>
<td>8,695,168</td>
<td>3,837, 500-30,000</td>
<td>9 1-36</td>
<td>33</td>
<td>139</td>
<td>6.42</td>
<td>3.60</td>
<td>115</td>
<td></td>
</tr>
<tr>
<td>MI-BOSPO</td>
<td>4,460</td>
<td>5,838,044</td>
<td>1,563, 300-10,000</td>
<td>10 3-12</td>
<td>100</td>
<td>343</td>
<td>0.31</td>
<td>0.77</td>
<td>156</td>
<td>112</td>
</tr>
<tr>
<td>MIKROFIN</td>
<td>4,419</td>
<td>10,403,530</td>
<td>2,354, 500-20,000</td>
<td>7 2-18</td>
<td>45</td>
<td>164</td>
<td>0.06</td>
<td>0.00</td>
<td>151</td>
<td></td>
</tr>
<tr>
<td>PARTNER</td>
<td>6,777</td>
<td>12,802,240</td>
<td>3,066, 1,000-20,000</td>
<td>10 5-24</td>
<td>54</td>
<td>154</td>
<td>0.22</td>
<td>0.79</td>
<td>154</td>
<td>108</td>
</tr>
<tr>
<td>PRIZMA MIKRO</td>
<td>3,647</td>
<td>3,757,563</td>
<td>1,365, 200-15,000</td>
<td>8 5-36</td>
<td>100</td>
<td>281</td>
<td>0.55</td>
<td>0.22</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>SINERGIJA</td>
<td>1,071</td>
<td>3,092,186</td>
<td>2,887, 400-20,000</td>
<td>9 4-24</td>
<td>30</td>
<td>107</td>
<td>0.25</td>
<td>0.28</td>
<td>129</td>
<td>104</td>
</tr>
<tr>
<td>SUNRISE</td>
<td>2,282</td>
<td>6,456,893</td>
<td>4,313, 500-20,000</td>
<td>9 2-24</td>
<td>37</td>
<td>134</td>
<td>2.66</td>
<td>1.87</td>
<td>135</td>
<td></td>
</tr>
<tr>
<td>ALL MFIs IN STUDY</td>
<td>36,737</td>
<td>71,732,390</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>

Source: Information provided by participating MFIs.
III. RESPONDENTS AND THEIR CREDIT HISTORIES

A. SELECTION OF RESPONDENTS

There are three types of respondents in this study: clients, new clients, and non-clients. The clients were selected randomly from lists of active clients provided by each participating MFI for March 2002. New clients were selected randomly from lists provided by each MFI of people who received their first program loans in April 2002. Non-clients were selected based on a process that ensured they would meet several criteria: 1) non-clients must currently be operating a microenterprise in a similar location and in the same sector as the corresponding client and 2) non-clients must not have received a loan for their microenterprise from either an MFI or a bank.3

A total of 3,333 entrepreneurs responded to the survey. Of these, 1,742 were clients, 399 were new clients, and 1,192 were non-clients. Table 7 indicates the number of each type of respondent selected from the participating MFIs. The percentage of an MFI’s clients selected into the sample ranges from three percent, for MFIs with a large number of total clients to 14 percent, for MFIs with fewer total clients.

Table 7: Number of Respondents Selected into Study, by MFI

<table>
<thead>
<tr>
<th>MFI</th>
<th>Clients</th>
<th>New Clients</th>
<th>Non-Clients</th>
<th>Total Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mikro ALDI</td>
<td>123</td>
<td>33</td>
<td>80</td>
<td>236</td>
</tr>
<tr>
<td>BENEFIT</td>
<td>119</td>
<td>26</td>
<td>107</td>
<td>275</td>
</tr>
<tr>
<td>BOSVITA</td>
<td>205</td>
<td>70</td>
<td>137</td>
<td>412</td>
</tr>
<tr>
<td>EKI</td>
<td>175</td>
<td>31</td>
<td>115</td>
<td>321</td>
</tr>
<tr>
<td>LOK micro</td>
<td>175</td>
<td>43</td>
<td>124</td>
<td>342</td>
</tr>
<tr>
<td>MIKROFIN</td>
<td>201</td>
<td>38</td>
<td>119</td>
<td>358</td>
</tr>
<tr>
<td>PARTNER</td>
<td>193</td>
<td>37</td>
<td>119</td>
<td>349</td>
</tr>
<tr>
<td>PRIZMA Mikro</td>
<td>127</td>
<td>39</td>
<td>104</td>
<td>270</td>
</tr>
<tr>
<td>SIN</td>
<td>141</td>
<td>12</td>
<td>82</td>
<td>235</td>
</tr>
<tr>
<td>SUNRISE</td>
<td>141</td>
<td>52</td>
<td>95</td>
<td>288</td>
</tr>
<tr>
<td>Unknown</td>
<td>19</td>
<td></td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>Total Sample</td>
<td>1742</td>
<td>399</td>
<td>1192</td>
<td>3333</td>
</tr>
</tbody>
</table>

Note: Non-clients did not have any kind of business relationship with the corresponding MFI. Non-clients were selected based on having microenterprises in the same location and sector as clients.

Because respondents were selected randomly from MFI client lists, their distribution throughout the country is representative of the overall distribution of clients for the participating MFIs. The largest number of respondents, about 27 percent, came from the Tuzla Canton. The next largest number of respondents, with 19 percent, was from the Banja Luka administrative region (West-North RS). Other regions with large numbers of respondents were the Sarajevo Canton and Zvornik (East RS), each with eight percent of the respondents.

3 For more details on the sample selection and survey techniques, the reader is referred to appendix 2.
B. **CLIENTS AND NEW CLIENTS’ CREDIT HISTORIES**

The MFIs participating in the study provided data from their credit files on the clients and new clients in the sample. In all, credit history data were provided for 2,140 borrowers. Of these, there were 1,741 clients and 399 new clients. In this section, we will look at four characteristics of the borrowers’ credit histories: length of time as a client, number of loans received, value of the current loan, and cumulative value of all loans received.

**Table 8: Borrowers’ Credit Histories as of May 31, 2002, by Type of Borrower**

<table>
<thead>
<tr>
<th>Type of Borrower</th>
<th>Time in Program (months)</th>
<th>Number of Loans Received</th>
<th>Value of Current Loan (KM)</th>
<th>Cumul. Value of Loans (KM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client (n=1741)</td>
<td>18.23</td>
<td>2.39</td>
<td>3,429</td>
<td>7,807</td>
</tr>
<tr>
<td>New Client (n=399)</td>
<td>2.65</td>
<td>1.07</td>
<td>2,135</td>
<td>2,287</td>
</tr>
<tr>
<td>All Borrowers (n=2140)</td>
<td>15.33</td>
<td>2.14</td>
<td>3,188</td>
<td>6,778</td>
</tr>
</tbody>
</table>

Source: Credit files of participating MFIs.

It is important to distinguish between the two types of borrowers—clients and new clients—since these are very distinct groups and are analyzed separately throughout the report. The four characteristics of the clients’ and new clients’ credit histories are reported in table 8. The differences between clients and new clients are highly significant for all four credit history characteristics (p=.001).

Recall that the new client sample was drawn from borrowers who received their first loan during April 2002. Therefore, it makes sense that their average time in the program is just 2.65 months and that they have only received one loan. The clients, on the other hand, have been participating in the programs an average of more than 18 months and have received an average of 2.39 loans. The cumulative value of the loan principal amount that clients have received over time averages KM 7,807.

**Table 9: Borrowers’ Credit Histories as of May 31, 2002, by MFI**

<table>
<thead>
<tr>
<th>Microfinance Institution</th>
<th>Time in Program (months)</th>
<th>Number of Loans Received</th>
<th>Value of Current Loan (KM)</th>
<th>Cumulative Value of Loans (KM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALDI (n=156)</td>
<td>10.82</td>
<td>1.37</td>
<td>1,706</td>
<td>2,616</td>
</tr>
<tr>
<td>BENEFIT (n=168)</td>
<td>14.48</td>
<td>1.83</td>
<td>3,223</td>
<td>6,801</td>
</tr>
<tr>
<td>BOSVITA (n=137)</td>
<td>21.15</td>
<td>2.33</td>
<td>2,478</td>
<td>5,587</td>
</tr>
<tr>
<td>EKI (n=275)</td>
<td>10.04</td>
<td>1.38</td>
<td>3,052</td>
<td>4,845</td>
</tr>
<tr>
<td>LOK micro (n=206)</td>
<td>14.67</td>
<td>2.06</td>
<td>3,416</td>
<td>7,009</td>
</tr>
<tr>
<td>MI-BOSPO (n=218)</td>
<td>18.19</td>
<td>2.30</td>
<td>2,116</td>
<td>4,209</td>
</tr>
<tr>
<td>MIKROFIN (n=239)</td>
<td>19.28</td>
<td>4.08</td>
<td>3,915</td>
<td>12,302</td>
</tr>
<tr>
<td>PARTNER (n=230)</td>
<td>14.02</td>
<td>1.83</td>
<td>3,735</td>
<td>7,030</td>
</tr>
<tr>
<td>PRIZMA Mikro (n=166)</td>
<td>15.49</td>
<td>2.04</td>
<td>2,031</td>
<td>3,970</td>
</tr>
<tr>
<td>SINERGIJA (n=153)</td>
<td>21.61</td>
<td>2.60</td>
<td>5,086</td>
<td>12,849</td>
</tr>
<tr>
<td>SUNRISE (n=193)</td>
<td>12.14</td>
<td>1.62</td>
<td>3,952</td>
<td>6,825</td>
</tr>
<tr>
<td>All MFIs (n=2140)</td>
<td>15.33</td>
<td>2.14</td>
<td>3,188</td>
<td>6,778</td>
</tr>
</tbody>
</table>

Source: Credit files of participating MFIs. Note: Numbers in table are representative of sample of borrowers analyzed in this study, but not of each MFI’s general client base, since the sample is more heavily weighted toward new clients.
As we have already seen, the MFIs participating in the study have different backgrounds and target populations. It follows, then, that their loan portfolios would also differ. The four characteristics of borrowers’ credit histories are summarized by MFI in table 9. It is important to note that these numbers are not representative of each MFI’s total client base, since the numbers in the table are more heavily weighted toward new clients. However, the numbers in the table are representative of the sample of each MFI’s borrowers that are being analyzed in this study.

A comparison of the time in program to the cumulative amount borrowed leads to several observations about the borrower samples from each MFI. In the figure below, weeks in program are plotted along with cumulative amount borrowed (in KM 100s). The last data point on the right represents the entire sample of 2,140 borrowers in all of the MFIs. This far right data point indicates that, for the entire sample, the average number of weeks in the program and the cumulative amount borrowed (in KM 100s) are very close (61.32 and 67.78, respectively). Similarly, these data points are close together for EKI and, to a lesser extent, for BENEFIT and LOK micro.

By contrast, time in program and cumulative loan value are relatively far apart for the sample of borrowers drawn from SINERGIJA, MIKROFIN, MI-BOSPO, and BOSVITA. Note that the borrower samples from these four MFIs have the highest average time in program. All four are established programs. Yet, cumulative loan value is substantially above time in program for the SINERGIJA and MIKROFIN samples, indicating higher initial loan values and faster growth in loan size. On the other hand, cumulative loan values are substantially below time in program for MI-BOSPO and BOSVITA, indicating lower initial loan values and slower growth in loan size. For the sample of borrowers selected into this study, the position of the two data points relative to each other is an indication of the balance that each MFI maintains between initial loan size and growth in loan value, on the one hand, and time in program, on the other hand.
IV. THE ENTREPRENEURS AND THEIR HOUSEHOLDS

The people who responded to the survey are entrepreneurs who own and manage their own microenterprises. By examining the characteristics of these entrepreneurs, we can gain a better understanding of the general population of entrepreneurs and microenterprises in BiH. In fact, the survey respondents are representative of microfinance clients and new clients in participating MFIs in the spring of 2002. In the sections that follow, we will focus on what the results tell us about these two populations of microfinance clients.

A. INDIVIDUAL ENTREPRENEURS

The typical microfinance client is around 39 or 40 years old and married. The clients are about evenly split between males and females, with slightly more females than males. On average, clients have completed between eleven and twelve years of formal education. In terms of ethnicity, 51 percent of respondents are Bosniacs, 40 percent are Serbs, and six percent are Croats. There are no significant differences in ethnicity between the three types of respondents. Table 10 indicates the general demographic characteristics of the entrepreneurs in the sample.

Table 10. Demographic Characteristics of Entrepreneurs

<table>
<thead>
<tr>
<th></th>
<th>Client n=1742</th>
<th>New Client n=399</th>
<th>Non-Client n=1192</th>
<th>Total Sample n=3333</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (years)</td>
<td>40.4</td>
<td>39.1</td>
<td>39.1</td>
<td>39.8</td>
</tr>
<tr>
<td>Gender (percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>45.6</td>
<td>45.1</td>
<td>62.4</td>
<td>51.6</td>
</tr>
<tr>
<td>Female</td>
<td>54.4</td>
<td>54.9</td>
<td>37.6</td>
<td>48.4</td>
</tr>
<tr>
<td>Education (years)</td>
<td>11.6</td>
<td>11.2</td>
<td>11.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Marital Status (percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>83.0</td>
<td>79.2</td>
<td>69.7</td>
<td>77.8</td>
</tr>
<tr>
<td>Single</td>
<td>8.4</td>
<td>10.3</td>
<td>22.1</td>
<td>13.5</td>
</tr>
<tr>
<td>Widowed</td>
<td>5.0</td>
<td>6.3</td>
<td>3.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Divorced</td>
<td>3.3</td>
<td>4.0</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Ethnicity (percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bosniac</td>
<td>50.7</td>
<td>52.1</td>
<td>51.1</td>
<td>51.0</td>
</tr>
<tr>
<td>Serb</td>
<td>40.7</td>
<td>39.1</td>
<td>38.3</td>
<td>39.7</td>
</tr>
<tr>
<td>Croat</td>
<td>5.4</td>
<td>6.8</td>
<td>7.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Other</td>
<td>3.2</td>
<td>2.0</td>
<td>2.9</td>
<td>2.9</td>
</tr>
</tbody>
</table>

4 The percentage of Croats in the study population would have been larger if the study had included AMK Posusje, one of eight MFIs continuing to receive funds from LIP I following the mid-term review. Because AMK Posusje operated in the Herzegovina region, the majority of its clients were Croats.
Non-clients differ from the clients and new clients in terms of three characteristics: gender, age, and marital status. A significantly higher percentage of non-clients are males (62 percent). There are at least two plausible explanations for this difference. First, the snowball technique used to select the non-client sample may have been biased toward finding males, possibly since their microenterprise activities are more visible. Second, it may be that MFI clients have a higher percentage of females than the general population of microentrepreneurs in BiH. In other words, the MFIs participating in the study may be reaching female entrepreneurs at a rate disproportional to females’ representation in the general population of microentrepreneurs.\(^5\) This would not be surprising, since two of the MFIs in the study offer loans exclusively to women.

While the average age is similar across the three types of respondents, there are differences in the distribution of ages. The majority (65 percent) of microfinance clients and new clients are between the ages of 31 and 50, while the ages of the non-clients are more widely distributed (p=.001). The non-client group includes a significantly higher percentage of entrepreneurs who are younger than 31 years old. This probably helps to explain why non-clients were much more likely to be single than either clients or new clients. In fact, a full 26 percent of males in the non-client group are single. Because single males tend to be more socially active, they may therefore have been more likely to be identified under the snowball technique.

![Education Levels by Gender](image)

The education levels of clients, new clients, and non-clients are similar. However, there are differences in education levels by gender. The average education levels of male and female entrepreneurs differ by slightly more than a year, with men averaging twelve years of education and women averaging 10.9 years. There were significant differences in average education levels between men and women for all three types of respondents. The figure above shows the number of years of education completed by males and females in the survey.

\(^5\) The best way to test this would be to analyze national data on the gender of microentrepreneurs. This information might be available from national LSMS or employment surveys.
A small number of respondents, only six percent, reported that they had attended school or some kind of course in the past six months. Interestingly, females were slightly more likely to have attended school (6.5 percent compared to 5.8 percent, p=.001). Among clients and new clients, courses related to the business were the most common type of school attended (37 and 33 percent, respectively). Among the small number of non-clients who had recently attended school, the most common type of school attended was university (42 percent). This may be related to non-clients’ younger age profile.

B. **HOUSEHOLD SIZE**

Typically, respondents’ households consist of four people (including the respondent). As indicated in table 11, the average number of household members is 3.75. The differences between clients, new clients, and non-clients are small. However, clients’ households are significantly larger than non-clients’ households (3.9 vs. 3.5 members, p=.05). At the same time, clients’ households have the largest number of economically active members. Economically active members are those who are engaged in some kind of paid work, whether full or part-time.

<table>
<thead>
<tr>
<th>Table 11. Household Size and Dependency Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Number of Household Members</td>
</tr>
<tr>
<td>3.91</td>
</tr>
<tr>
<td>Economically Active Members</td>
</tr>
<tr>
<td>Dependency Ratio</td>
</tr>
</tbody>
</table>

The dependency ratio represents the number of household members that must be supported by each paid worker in the household. It is calculated by dividing the total number of household members by the number of economically active household members. The average dependency ratio for the sample is 2.12, which means that each worker in the household must support himself or herself and slightly more than one non-working household member. While the dependency ratio is similar across the three types of respondents, it is highest among new client households (p=.05). This means that the money earned by workers in new clients’ households must support more people.

C. **WAR-AFFECTED RESPONDENTS**

One of the motivations behind the Local Initiatives Projects is to assist those people who have been adversely affected by the war. Several groups are of particular interest, including people who were displaced from their homes, demobilized soldiers, people who were disabled, and women who were widowed during the war. The results indicate that the MFIs participating in the survey have helped a relatively high percentage of people who were adversely affected by the war. In particular, the MFI programs appear to have
served a disproportionately high number of people that had been forced to leave their homes during the war, men who were disabled or demobilized, and widows.

1. **Displaced Residents**

One-third of the survey respondents had been forced to leave their homes during the war. The percentage of clients (36 percent) and new clients (34 percent) who had been forced to leave their homes during the war is significantly higher than the percentage of non-clients forced to leave their homes (29 percent, p=.01). In total, 1094 of 3333 respondents were forced out of their homes during the war. Of these, almost half (48 percent) remained displaced at the time of the survey. The figure at right indicates the status at the time of the survey of those respondents who had been forced to leave their homes during the war.

2. **Demobilized Soldiers**

All male respondents over the age of 25 were asked whether they had been soldiers during the war. More than three-quarters of men reported that they had fought during the war. The figure at right shows the number of men in each respondent group who fought during the war. The clients and new clients were significantly more likely to be demobilized soldiers than the non-clients (p=.001). If the men in the non-client group are representative of male microentrepreneurs throughout BiH, then this finding indicates that MFIs are serving a disproportionately high number of demobilized soldiers.

3. **War Disabled**

Only about five percent of the respondents reported that they had a disability as a result of the war. Of those 170 respondents who reported that they had been disabled either as a soldier or a civilian, the average level of the disability was 50 percent. When both male and female respondents are considered, the rates of disability and the percentage of disability do not differ by type of respondent.
However, when only male entrepreneurs are considered, eleven percent of clients report a war disability, which is significantly higher than the percentage of new clients and non-clients who are disabled (six and 7.5 percent, respectively; *p*=.05). This suggests that the MFIs in the study are serving disabled clients at a higher rate than they are found in the general population of microentrepreneurs.

There were some interesting gender differences related to disabilities and willingness to report a disability. As might be expected, men were significantly more likely to have a war-related disability than women. About nine percent of men reported a disability compared to only one percent of women (*p*=.001). However, it is interesting that a relatively high 17 percent of women did not want to answer this question, compared to only seven percent of men who did not answer. One possible explanation for this result is that women were more reluctant to discuss the types of disabilities that they suffered during the war.

4. Widows

Just over eight percent of the women in the survey, or 133 women, are widows. There is no information about whether they were widowed during the war or at some other time. The highest percentage of widows is found among female new clients: eleven percent of female new clients are widowed, compared to 7.8 percent of clients and non-clients. While the statistical significance of this difference is weak (*p*=.20), it may help to explain the higher dependency ratio found among the new client population. To the extent that the representation of widows is disproportionately high among the new clients, then that would lead to a higher number of new client households with only one member who is economically active.

D. Household Income and Poverty Levels

Improving the welfare of households in BiH is an objective of the Local Initiatives Projects. By supporting microentrepreneurs, the projects seek not only to develop the microenterprise sector, but also to improve the welfare of entrepreneurs’ households. The overall study will seek to evaluate the impacts of the LIPs on household welfare, as measured by changes in household income. The impact evaluation will occur after the second round of the survey. However, the first-round survey provides information on respondents’ starting income levels, their poverty levels, their sources of income, and the size of microenterprise income relative to total household income.

Household income is a widely used indicator of household welfare and there are two distinct approaches for measuring it. One approach, the income-based approach, is to measure income as the household receives it. The second approach, the expenditure-based approach, is to measure expenditures made by the household. This study uses the income-based approach, probing respondents to name all of their sources of income, the number of months income is received from each source, and the average amount received each month. The main disadvantage of this approach is that respondents may understate their income, either because of recall difficulties or because they are reluctant to reveal
their true income levels. Two advantages of the income-based approach are that it involves fewer questions than the expenditures-based approach and it reveals information about the composition of household income. In this section, we will look first at income and poverty levels, then turn to analyze the composition of household income.

1. Income Levels

The average annual household income for respondents in the study is KM 11,013. When the number of people in each household is taken into account, the average annual per capita income is KM 3,281. Table 12 reports per capita income levels by type of respondent and by entity. There are no statistically significant differences in per capita income by type of respondent. This indicates that clients, new clients, and non-clients are starting with similar per capita income levels in the first-round survey.

<table>
<thead>
<tr>
<th>Type of Respondent</th>
<th>Location</th>
<th>Total Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client n=1588</td>
<td>FBiH n=1788</td>
<td>3,414</td>
</tr>
<tr>
<td>New Client n=368</td>
<td>RS n=1165</td>
<td>2,936</td>
</tr>
<tr>
<td>Non-Client n=1096</td>
<td>Brcko n=99</td>
<td>3,203</td>
</tr>
</tbody>
</table>

However, average per capita incomes do differ significantly by location. Households in the FBiH and in RS have similar per capita incomes, but per capita incomes in the Brcko District are significantly higher, at KM 4,989. The Brcko District has unique tax laws within BiH that make the tax rates much lower than in FBiH or RS. As a result, the Brcko District has emerged as one of the most important trade centers in the country. This probably helps to explain the difference in respondents’ per capita incomes.

2. Poverty Levels

National Poverty Estimates

National poverty level standards for BiH were established in 2002, based on data collected under the Living Standards Measurement Survey (LSMS). The LSMS data include detailed information on household expenditures and were used to construct national poverty measures. According to the LSMS results, households with annual per capita expenditures below KM 1,843 are unable to provide for minimal food and non-food needs. Therefore, they are classified as “poor.” Households with annual per capita expenditures below KM 747 are classified as “extremely poor” because they are unable to provide even for minimal food needs. In
monthly terms, the poverty line for a family of four would be KM 606 per month, while the extreme poverty line for a family of four would be KM 249 per month.

Based on national data collected under the LSMS in 2001, an estimated 19.1 percent of households in BiH are below the poverty line. The poverty rates differ across the two entities, with as estimated 15.6 percent of household in the FBiH and 24.8 percent of households in the RS living below the poverty line. According to the LSMS study, there were no households in BiH that fell below the extreme poverty line in 2001.

An alternative perspective on poverty levels in BiH is provided by the UNDP Early Warning System (EWS). The EWS findings indicate that 21 percent of people in the FBiH and 29.6 percent of people in the RS were living in households with less than KM 300 per month in 2001. The EWS results suggest that poverty rates in BiH are higher than indicated by the LSMS results. Part of the reason for this higher estimate of the incidence of poverty may be that, unlike the LSMS, the EWS does not attempt to account for non-monetary income and the exchange of goods and services. Taken together, the results from the LSMS and EWS suggest that at least 19 to 25 percent of the national population in BiH lives in general poverty (UNDP 2002).

Poverty Levels of Microentrepreneurs in this Study

A comparison of the per capita incomes of respondents in this study to the national poverty line established by the LSMS study indicates that a relatively high percentage of respondent households, or 43 percent, live below the poverty line. Indeed, eleven percent of the households included in the survey report income that would place them below the extreme poverty line, indicating that they are unable to meet basic nutritional needs. Clearly, the estimated poverty rate for the microentrepreneurs in the study (43 percent) is much higher than the national poverty rate estimated under the LSMS study (19 percent). This discrepancy in the results of the two studies might be related to measurement differences, to differences between the two populations, or some combination of both.

There are several measurement differences between this study and the LSMS study. First, the survey for this study uses an income-based measure of income, rather than the expenditure-based measure used in the national LSMS study. As mentioned above, respondents might have difficulty recalling all of their income for the previous twelve months. Second, this study does not account for non-cash income, while the LSMS study does. A third measurement-related difference is that the respondents to this survey may be unwilling to fully report their income, hoping to conceal income information from government authorities or from the MFIs that provide them with loans. Any of these measurement differences would tend to lower the reported income in this study and lead to higher estimates of poverty rates for the respondents.

However, an important reason for the difference in poverty rates is that the majority of the MFIs are specifically involved in poverty targeting. In other words, this study and the national LSMS study are not based on the same populations. While the LSMS study sampled the general population, this study sampled the population of low-income
microentrepreneurs who own and operate microenterprises. More specifically, this study is based on 1) a representative sample of microentrepreneurs who are clients of MFIs and 2) microentrepreneurs who are not clients of MFIs but whose businesses are in the same sector and location as the clients’ businesses.

Therefore, while there are measurement differences between this study and the LSMS study, much of the explanation for the differences in poverty rates is that people who start microenterprises in BiH have, on average, lower incomes than the general population. This would make sense, as one would not expect a wealthy individual or a person with a large salary to start a microenterprise. The majority of the MFIs in this study consider service to low-income and vulnerable populations to be a part of their mission. Providing access to credit for low-income entrepreneurs is also an important development objective for both the LIP I and LIP II projects.

**Poverty Level Differences Between Groups**

In general, there are only small differences in poverty rates between groups in the study. The percentage of clients, new clients, and non-clients who are below the poverty line are 41 percent, 46 percent, and 45 percent, respectively. While these differences are small, they are statistically significant (p=.01). As can be seen in the figure below, clients are the most likely to be non-poor (59 percent) and the least likely to be extremely poor (nine percent). The poverty rates for new clients and non-clients are almost identical.

As with per capita incomes, there are some striking differences in poverty rates by location. Only 26 percent of the microentrepreneurs in the Brcko District had incomes below the poverty line. In fact, this is the only group that comes relatively close to the national poverty rates. On the other hand, the poverty rates for microentrepreneurs in FBiH and RS are quite similar to each other, with about 43 to 44 percent of the respondents being below the poverty line.
3. **Sources of Income**

Respondent households rely on microenterprise income as their most important source of income. This can be seen from considering all sources of income for every member of the household. As the figure at right indicates, the households in the sample derive 71 percent of total income from enterprises that they own and operate. The second most important source of income is wages earned from employment in the state sector, which generates 13 percent of total income.

New client households earn the smallest percentage of total income from their own microenterprises, although it is still two-thirds of total income. These new client households depend relatively more than clients and non-clients on wages they earn in the state and private sectors and on retirement income. This may change as their enterprises mature and develop.

4. **Summary on Household Income and Poverty**

The average annual per capita income for respondents’ households is KM 3,281. The average income per household is KM 11,013. There are no significant differences in per capita income between clients, new clients, and non-clients, but there are differences by location. The respondents in Brcko District have significantly higher incomes than those in FBiH and RS.

Around 40 percent of respondents have incomes below the national poverty line. While the measurement approach used in this study may overestimate the poverty level of the respondents, their true poverty rate probably does exceed the national average. In other words, the MFIs in the study appear to be serving a disproportionately large percentage of the nation’s poor. This is because the MFIs target low-income owners of microenterprises and offer enterprise credit to entrepreneurs who would not normally be able to qualify for bank credit. Furthermore, the results from this section have shown that microenterprise income plays an important role in supporting these households. In the next section, we turn to look more closely at the characteristics of the business activities owned by the households in the sample.
V. ENTERPRISE CHARACTERISTICS

At the time of the survey, the survey respondents and other members of their households owned and operated a total of 4,117 microenterprises. The information collected in the survey about these enterprises can be used to create a portrait of the microenterprise sector in BiH. This section describes the enterprises included in the study in terms of general characteristics, employment patterns, recent investments, and credit practices.

Obviously, some households were operating more than one enterprise, since there are 4,117 enterprises and only 3,333 households in the sample. In order to distinguish between multiple enterprises within the same household, the designations of “primary enterprise” and “other enterprise” are used:

- **Primary Enterprises**: For clients and new clients, these were the enterprises for which the microcredit was received; for non-clients, these were the enterprises that were matched to the sector and location of the clients’ primary enterprises.
- **Other (non-primary) Enterprises**: Other enterprises owned and operated by the respondent or household members, but not the primary enterprise.

Primary enterprises are of particular interest in this study because, among clients and new clients, these are the enterprises supported by MFI loans. However, other enterprises within the household are also relevant, because they are part of the household economic portfolio and may be affected by the loan.

A. GENERAL CHARACTERISTICS

There were a total of 4,117 enterprises in the sample, of which 3,153 were primary enterprises and 964 were other enterprises. As mentioned above, some households had more than one enterprise. However, the majority of households (72 percent) had one enterprise and another 17 percent of households had two enterprises. Table 13 indicates the number of enterprises reported by the 3,333 households in the sample.

Table 13: Number of Enterprises in Each Household

<table>
<thead>
<tr>
<th>Number of Enterprises</th>
<th>Number of Households</th>
<th>Percent of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>180</td>
<td>5.4</td>
</tr>
<tr>
<td>1</td>
<td>2396</td>
<td>71.9</td>
</tr>
<tr>
<td>2</td>
<td>576</td>
<td>17.3</td>
</tr>
<tr>
<td>3</td>
<td>158</td>
<td>4.7</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
<td>0.6</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>3333</td>
<td>100.0</td>
</tr>
</tbody>
</table>

As previously noted, the terms microenterprise, enterprise, business, and business activity are used interchangeably in this report. The terms are not meant to indicate whether the microenterprise is formally registered or operates informally.
As can be seen in table 13, about five percent of the households in the sample reported that they were not currently operating any enterprise. These 180 respondents had either been on the MFI client lists in March 2002 or had been identified in the registration of non-client entrepreneurs. However, in the time period between when they were selected for the study and when the actual survey interviews took place, these respondents had decided to close their microenterprises. There are a number of possible explanations for these business closures, including poor business performance, low risk tolerance on the part of the entrepreneur, or an opportunity for more lucrative employment elsewhere.

1. Enterprise Sector

Each enterprise in the sample can be classified into one of five sectors: trade, production, services, livestock/animal husbandry, or agriculture. Trade, which involves the purchase of goods for resale, is the most heavily represented sector in the sample, with 37 percent of primary enterprises. The next most common sector is the services sector, with 29 percent of primary enterprises. Livestock/animal husbandry (18 percent), production (eight percent), and agriculture (eight percent) were less common in the sample than trade and services. The sectoral distribution of the primary enterprises is illustrated in the figure at left.

The sector profile of client and non-client enterprises is very similar because this was a criterion used in selecting the non-client sample. On the other hand, a comparison of the sectors of clients and new clients’ primary enterprises suggests that the sectoral distribution of enterprises supported by the participating MFIs may be changing over time.

New clients are significantly less likely to receive a loan for a trade enterprise and are significantly more likely to receive a loan for an enterprise related to livestock and animal husbandry (p=.001). As can be seen in table 14, only 28 percent of new clients have trade sector enterprises, while 38 percent of clients operate in the trade sector. New clients are at least as likely to be receiving MFI loans to support enterprises in the livestock/animal husbandry sector as they are in the trade sector. These findings indicate a shift in the loan portfolios of participating MFIs toward greater balance between the three sectors of trade, services, and livestock/animal husbandry.
Table 14: Sectors of Primary Enterprises

<table>
<thead>
<tr>
<th>Sector</th>
<th>Client (n=1653)</th>
<th>New Client (n=376)</th>
<th>Non-Client (n=1124)</th>
<th>Total Sample (n=3153)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>37.6</td>
<td>28.2</td>
<td>39.8</td>
<td>37.2</td>
</tr>
<tr>
<td>Production</td>
<td>9.2</td>
<td>6.4</td>
<td>7.3</td>
<td>8.2</td>
</tr>
<tr>
<td>Services</td>
<td>29.3</td>
<td>26.1</td>
<td>29.6</td>
<td>29.1</td>
</tr>
<tr>
<td>Livestock/Animals</td>
<td>18.1</td>
<td>29.0</td>
<td>14.2</td>
<td>18.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5.7</td>
<td>10.4</td>
<td>9.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

2. Gender of Enterprise Manager

The number of primary enterprises managed by men and women are roughly equal among MFI clients and new clients. While men manage a slight majority (52 percent) of clients’ primary enterprises, women manage a slight majority (53 percent) of new clients’ primary enterprises. This is not the case for the non-client group, however, in which men manage the majority (63 percent) of primary enterprises. The contrast between the non-clients, on the one hand, and the clients and new clients, on the other hand, is noticeable and statistically significant (p=.001). The gender distribution of microenterprise managers is provided in table 15.

Table 15: Gender of Enterprise Manager, Primary and Other Enterprises (percent)

<table>
<thead>
<tr>
<th>Gender of Manager</th>
<th>Client (n=1653)</th>
<th>New Client (n=376)</th>
<th>Non-Client (n=1124)</th>
<th>Total Sample (n=3153)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>51.8</td>
<td>47.3</td>
<td>62.6</td>
<td>55.1</td>
</tr>
<tr>
<td>Female</td>
<td>48.2</td>
<td>52.7</td>
<td>37.4</td>
<td>44.9</td>
</tr>
<tr>
<td>Other Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>60.2</td>
<td>61.0</td>
<td>71.7</td>
<td>63.1</td>
</tr>
<tr>
<td>Female</td>
<td>39.8</td>
<td>39.0</td>
<td>28.3</td>
<td>36.9</td>
</tr>
</tbody>
</table>

There is a noticeable discrepancy between the information here on gender of the primary enterprise manager and the earlier information on gender of respondents (see table 10 of section IV.A above). The percentage of women who are MFI clients (54 percent) is higher than the percentage of primary enterprises in the client group managed by women (only 48 percent). By contrast, there is almost no discrepancy among new clients and, for non-clients, the distribution by gender is exactly the same.

There are at least two possible explanations for the gender discrepancy among the client group. One explanation would be that women clients close their enterprises at a disproportionately higher rate than men. This possibility can be tested following the second round of the survey. A second explanation would be that at least some women who are MFI clients are not managing the enterprise for which they receive the loan. This probably occurs in the cases where husbands begin working in a wife’s enterprise, become more involved in the daily operation of the enterprise, and eventually assume the daily operation of the enterprise, and eventually assume the
managerial role. Also, since some MFIs provide preferential treatment to women, there may be some couples that have the wife take the loan for the husband, while the husband is the one who actually manages the microenterprise.

There are some differences in manager gender according to the sector of the enterprise. Women appear to be more interested in managing enterprises in the trade and animal husbandry sectors. As can be seen in the figure at right, women represent slightly more than half of the primary enterprise managers in these two sectors. By contrast, women represent about one-third of primary enterprise managers in the production and services sectors. Only one-fourth of the managers for primary enterprises in agriculture are women. The sectoral differences between men and women microentrepreneurs are significant (p=.001) and may be a factor when comparing the performance of men’s enterprises and women’s enterprises.

3. Enterprise Ownership and Operation

Partnership arrangements are uncommon among the sample respondents. The vast majority of enterprises (93 percent) are owned primarily or solely by the household of the respondent. Very few of the respondents (only six percent) own their enterprises in partnership with others outside their household. There are no statistically significant differences in these ownership patterns between clients, new clients, and non-clients.

The average age of enterprises in the sample is 5.8 years. However, many of the enterprises are quite old, having been passed down through the family. The oldest enterprise in the study is 52 years old. Older enterprises are most common among the non-client group and least common among the new client group. The average ages of client, new client, and non-client enterprises are 5.4, 4.2, and 6.9 years, respectively. These differences in ages between the three types of respondents are statistically significant (p=.001).

The starting dates of the enterprises in the sample are represented in the figure below. As can be seen in the figure, over 40 percent of client and non-client enterprises were started prior to 1998. It is also apparent why the average age of new client enterprises is so low, since 21 percent of these enterprises were started in the same year as the survey. The differences in the distribution of starting dates are significant (p=.001).
Respondents were also asked if the enterprise had operated in the 30 days prior to the survey interview. This question was used to determine which enterprises should be interviewed for the past month’s employment data. However, the results revealed small but significant differences between the types of respondents. While only 6.5 percent of non-client enterprises had been inactive in the previous 30 days, some nine percent of new client enterprises and twelve percent of client enterprises had been inactive (p=.001). As with the information on gender of the manager, this might suggest that a small percentage of clients close their enterprises but continue to receive microenterprise loans from MFIs. Again, this can be explored further after the second-round survey.

Slightly less than half of the primary enterprises in the sample were officially registered with government authorities. The registration rates for clients and non-clients were similar, at 48 and 49 percent, respectively. However, only 40 percent of new clients’ primary enterprises were registered, which was significantly lower (p=.05). The lower registration rates for new client enterprises may be due both to the younger age of these enterprises and to the shifting sectoral distribution between clients and new clients.

Registration rates differ a great deal by enterprise sector. About 65 percent of primary enterprises in the trade and services sectors are registered. Business activities in both of these sectors are required to register and are highly visible to the public. On the other hand, primary enterprises in the production sector are required to register, but may not be so publicly visible. This may explain why their registration rate is lower, at 42 percent. At the other end of the spectrum are enterprises in livestock/animal husbandry and in agriculture, which have registration rates of only seven percent and five percent, respectively. Enterprises in these sectors are not subject to the same registration requirements as are found in the trade, services, and production sectors. The differences between sectors in registration rates are both large and statistically significant (p=.001).

4. Location and Premise

The survey data provide two types of information about the physical location of enterprises. First, the locations of the enterprises can be classified as urban, rural, or remote. Isolation, difficult access, and low levels of infrastructure characterize remote
areas. As can be seen in the figure below, the majority of primary enterprises (59 percent) are in urban areas, with another 31 percent in rural areas. Only three percent of primary enterprises in the survey were located in remote areas.

Location patterns for clients’ and new clients’ primary enterprises are significantly different (p=.01). For clients, 60 percent of primary enterprises are in urban areas, and only 29 percent are in rural areas. New clients, on the other hand, have a higher percentage of primary enterprises in rural areas (35 percent). This is consistent with the trend of new clients toward livestock/animal husbandry and agriculture. It indicates that MFIs are shifting toward greater outreach to entrepreneurs in rural areas.

The second type of location information relates to the type of business premise. There were several possible responses for type of premise. The different possible responses are listed in the box at right, along with the percentage of primary enterprises in each. The location for the largest percentage of primary enterprises (31 percent) was at the home of the entrepreneur, adjacent to the residence. The next largest category was in a residential area, but not inside or adjacent to the entrepreneur’s residence (19 percent). Some of the premise categories are combined in table 16, which illustrates the shift of new clients toward more enterprises located at the entrepreneur’s residence and on agricultural land (p=.001).

### Table 16: Business Premise of Primary Enterprises

<table>
<thead>
<tr>
<th>Premise Type</th>
<th>Client (n=1653)</th>
<th>New Client (n=376)</th>
<th>Non-Client (n=1124)</th>
<th>Total (n=3153)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In or adjacent to residence</td>
<td>40.0</td>
<td>45.8</td>
<td>36.1</td>
<td>39.4</td>
</tr>
<tr>
<td>Other residential area</td>
<td>18.3</td>
<td>16.5</td>
<td>19.4</td>
<td>18.5</td>
</tr>
<tr>
<td>Shop in commercial district</td>
<td>7.6</td>
<td>4.0</td>
<td>9.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Traditional market</td>
<td>16.0</td>
<td>10.4</td>
<td>16.3</td>
<td>15.4</td>
</tr>
<tr>
<td>Agricultural land</td>
<td>6.5</td>
<td>10.6</td>
<td>9.8</td>
<td>8.1</td>
</tr>
<tr>
<td>Other and NA</td>
<td>11.6</td>
<td>12.7</td>
<td>9.0</td>
<td>10.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
B. EMPLOYMENT PATTERNS

Employment is an important policy variable in Bosnia and Herzegovina, where the economy has struggled with persistently high unemployment levels since the war. Policy makers would like to know how the microenterprise sector might contribute to improving overall employment levels within the country. While each microenterprise, by definition, employs only a small number of people, the magnitude of the effect of the microenterprise sector on national employment also depends on the total number of microenterprises in the country.

In this section, we will examine the role of microenterprises in providing employment for the entrepreneur, members of his or her household, and people from outside the household. Policy makers tend to focus primarily on paid employees, who are almost always people from outside the entrepreneur’s household. For this reason, employment results sometimes appear rather modest. However, it should be kept in mind that a defining characteristic of microenterprises is that they are family owned and operated, drawing primarily on family labor.

In lieu of wages, the entrepreneur and other household members who work in the enterprise are supported by the profits of the business activity. This generates the income that the household uses to participate as consumers, savers, and investors in the economy. And so, while self-employment and unpaid employment of family members does not generate wages, it is productive employment in the sense that it creates value and disposable income.

In this section, we will consider all three types of employees: entrepreneurs, other household members, and non-household members. To simplify the discussion, the focus will be on the 3,153 primary enterprises in the sample. These primary enterprises represent the ones supported by the program loan, for clients and new clients, or the non-client enterprise matched by sector and location to the client’s primary enterprise. The first section looks at the number of people employed, by type of respondent and by enterprise sector. The following section reports the wages paid and the intensity of employment, as measured by the number of hours employed.

1. Number of People Employed

The primary enterprises in the sample employed a total of 5,846 people in the month prior to the survey interview. On average, each enterprise employed 1.85 people. This number includes all types of employees—the entrepreneur, members of the entrepreneur’s household, and non-household members. The majority of these employees (4,526) were the entrepreneur or other household members. Just over one-fifth of the employees, or 1320 people, were non-household members.

As shown in the figure below, the primary enterprises of MFI clients employed significantly more people than new client and non-client enterprises. Clients’ enterprises averaged almost two employees (1.98 people) per enterprise. Average employment in
new client and non-client enterprises were significantly lower, at 1.74 and 1.70 employees, respectively (p=.001).

The higher levels of employment in clients’ enterprises are due to the fact that they hire more non-household employees. On average, clients’ enterprises employ .52 non-household members, which is significantly higher than new client and non-client enterprises, which employ only .32 and .30 non-household members, respectively (p=.001). By contrast, all three types of respondents employ a similar number of household members, an average of 1.44 household members per enterprise, with no statistically significant differences between them. Thus, clients’ enterprises provide significantly higher rates of total employment by employing more non-household members than new client or non-client enterprises.

As might be expected, employment levels differ by the sector of the enterprise. The differences in average employment levels by sector are illustrated in the figure at right. The enterprises that employ the greatest number of employees are those in the production and agricultural sectors. Average number of employees per enterprise in the production and agricultural sectors is just over 2.2 employees. Enterprises in the other three sectors—trade, services, and livestock—employ similar numbers
of people, ranging from 1.76 to 1.8. While the average number of employees in these three sectors is similar, we will see in the next section that the average number of hours that employees work differs by sector.

2. Employment Intensity and Wages

While the previous section indicates the number of jobs generated by the microenterprises in the sample, this section focuses on the characteristics of those jobs. In particular, we would like to know whether they are full-time or less than full-time jobs. For each employee, the survey data included information on the number of hours worked in the previous week. In this section, we use number of hours worked as a measure of employment intensity.

In general, the results indicate that the microenterprises in the sample are providing full-time employment. The average number of hours worked in the previous week for all employees was 42.8 hours per employee. The average workweek was longer for employees in non-client enterprises, who worked 44.9 hours, compared to about 41.6 hours for employees in client and new client enterprises (p=.001).

As might be expected, entrepreneurs and non-household employees worked the longest hours. Household members (other than the entrepreneur) had the shortest workweeks. This makes sense, as many household members help in the enterprise on a part-time basis while also being engaged in other activities, such as attending school. Table 17 indicates the average length of the workweek for different types of employees.

<table>
<thead>
<tr>
<th>Type of Employee</th>
<th>Client (n=1505)</th>
<th>New Client (n=353)</th>
<th>Non-Client (n=1103)</th>
<th>Total Sample (n=2961)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneur</td>
<td>43.5</td>
<td>42.9</td>
<td>46.3</td>
<td>44.4</td>
</tr>
<tr>
<td>Other Household Member</td>
<td>38.9</td>
<td>38.8</td>
<td>37.6</td>
<td>38.4</td>
</tr>
<tr>
<td>Non-Household Member</td>
<td>43.8</td>
<td>47.2</td>
<td>48.2</td>
<td>45.4</td>
</tr>
<tr>
<td>All Employees</td>
<td>41.5</td>
<td>41.7</td>
<td>44.9</td>
<td>42.8</td>
</tr>
</tbody>
</table>

The sector of the microenterprise has an influence on the intensity of employment. When all types of employees are considered, enterprises in the trade and service sectors have the longest workweeks, at 47 and 46 hours per week. The next two sectors that are statistically similar are production and agriculture, in which the average workweeks are 41 and 37 hours per week, respectively. In a category by itself is livestock/animal husbandry, in which the average workweek is only 30 hours per week. The differences between these three groups are highly significant (p=.001), except that the difference between the service and production sectors is not as highly significant (p=.05).

Considering only the employment intensity of non-household workers, a slightly different picture emerges. For non-household workers, the length of the workweek is virtually identical in trade, service, and production microenterprises, ranging from 47 to 49 hours.
per week. However, non-household employees in the agriculture and livestock sectors have a significantly shorter workweek, at around 30 hours per week. These results indicate that paid employees in trade, service, and production enterprises are working full-time jobs, while paid employees in agriculture and livestock enterprises are working less than full-time (an average of 30 hours per week). The figure below indicates the sectoral differences in the average number of hours worked in the previous week for all employees and for non-household employees.

![Weekly Hours of Employees](chart)

Turning now to the wages paid to non-household members, it is possible to draw some conclusions about the average wages paid by microenterprises in each sector. The first column in table 18 indicates the average wage paid to non-household employees in the previous month. While there appear to be large differences between sectors, with the amount paid ranging from KM 138 per month, for workers in the livestock sector, to KM 428 per month, for workers in the production sector, the results of the statistical analysis indicate that differences between most groups are not statistically significant. Only the wages paid in the livestock sector are significantly lower than the wages paid in trade, services, and production (p=.05).

<table>
<thead>
<tr>
<th>Enterprise Sector</th>
<th>Monthly Wage (KM)</th>
<th>Hours Worked per Week</th>
<th>Estimated Hours Worked per Month</th>
<th>Average Wage per Hour (KM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>329.75</td>
<td>46.96</td>
<td>187.84</td>
<td>1.76</td>
</tr>
<tr>
<td>Services</td>
<td>373.62</td>
<td>48.08</td>
<td>192.32</td>
<td>1.94</td>
</tr>
<tr>
<td>Production</td>
<td>427.92</td>
<td>48.86</td>
<td>195.44</td>
<td>2.20</td>
</tr>
<tr>
<td>Livestock</td>
<td>138.23</td>
<td>30.19</td>
<td>120.76</td>
<td>1.14</td>
</tr>
<tr>
<td>Agriculture</td>
<td>223.85</td>
<td>30.78</td>
<td>123.12</td>
<td>1.82</td>
</tr>
<tr>
<td>All Sectors</td>
<td>337.75</td>
<td>45.80</td>
<td>183.20</td>
<td>1.84</td>
</tr>
</tbody>
</table>
Considering all of the enterprises in the sample, the average monthly wage for non-household employees was KM 338 per month. This is comparable to estimates for national wage rates.\(^7\) For this wage, employees worked an average of almost 46 hours per week. Multiplying the number of hours worked per week by four weeks, as in table 18, provides an estimate for the average number of hours worked per month at about 183 hours. Dividing the estimated number of hours worked per month by the monthly wage, we can derive a rough estimate of the hourly wage paid to non-household workers in the microenterprise sector of KM 1.84 per hour.

Finally, we can look to see if there are any differences in wages paid to non-household employees between the enterprises of clients, new clients, and non-clients. While the monthly wage by type of respondent ranges from KM 262 for employees of new client enterprises to KM 354 for employees of non-client enterprises, the differences between average monthly wages are not statistically significant. The estimated hourly wages by type of respondent are reported in the last column of table 19.\(^8\) The low hourly wage paid to non-household employees in new client enterprises can be at least partially explained by the fact that new client enterprises have the highest proportion of enterprises in the livestock sector, which pays the lowest hourly wages.

Table 19: Wages Paid to Non-Household Employees, by Type of Respondent

<table>
<thead>
<tr>
<th>Type of Respondent</th>
<th>Monthly Wage (n=775) (KM)</th>
<th>Hours Worked per Week (n=780)</th>
<th>Estimated Hours Worked per Month</th>
<th>Average Wage per Hour (KM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client</td>
<td>341.41</td>
<td>43.80</td>
<td>175.20</td>
<td>1.95</td>
</tr>
<tr>
<td>New Client</td>
<td>262.24</td>
<td>47.18</td>
<td>188.72</td>
<td>1.39</td>
</tr>
<tr>
<td>Non-Client</td>
<td>354.11</td>
<td>48.21</td>
<td>192.84</td>
<td>1.84</td>
</tr>
<tr>
<td>Total Sample</td>
<td>337.13</td>
<td>45.44</td>
<td>181.76</td>
<td>1.85</td>
</tr>
</tbody>
</table>

3. **Summary of Employment Findings**

There are a number of interesting findings related to employment patterns in microenterprises. These can be summarized as follows:

- On average, each enterprise employs 1.85 people, including the entrepreneur. Of these, an average of 1.44 are household members.
- Employment in clients’ enterprises is significantly higher, at 1.98 people. This is because clients hire more non-household members than either new clients or non-clients. Clients’ enterprises employ an average of 0.52 non-household workers.

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\(^7\) The Foreign Trade Chamber for BiH estimated the average net wage in 2001 to be KM 458 in FBiH and KM 332 in RS. This is similar to the EBRD estimate of the monthly net wage, which was 187 Euro (approximately 374 KM) in 2001.

\(^8\) The slight differences in the figures for the total sample in tables 18 and 19 are due to small differences in sample sizes, as reported in the tables.
Enterprises in the production and agriculture sectors have the highest average employment at about 2.2 employees.

Microenterprises provide full-time jobs.

Enterprises in the livestock/animal husbandry sector are unique in that the jobs are less than full-time (30 hours per week) and the wages paid to non-household workers are significantly lower (KM 138 per month).

Average wages paid to non-household workers in microenterprises is KM 338 per month, estimated to be KM 1.84 per hour.

We turn now from employment to look at the rates and levels that entrepreneurs invest in their microenterprises.

**C. INVESTMENT IN PREMISE AND EQUIPMENT**

Enterprise investment plays a critical role in promoting business growth and development in the microenterprise sector. By improving the business premise and adding valuable equipment, the business may reap many kinds of benefits: the ability to attract more and wealthier customers; increases in sales volume; and reductions in operating costs. All of these changes can help to improve the profits and net worth of the business. Investments in the business premise are also a sign of recovery from the war, since the country is still repairing and rebuilding from the physical damages caused by the conflict.

For this study, respondents were asked about two types of enterprise investments: 1) improvements to the business premise and 2) investments in business equipment. For each of these types of investments, the entrepreneur was asked whether he or she had made that type of investment in the past twelve months and, if so, the value of the investment made. This information provides insights into the business investment behavior of microentrepreneurs.

1. **Improvements to Business Premise**

Improvements to the business premise refer to changes that become a permanent part of the business premise, such as building additions, changes to the walls or flooring, the addition of new doors or windows, or painting of the premise. Of the 3,333 respondents to the survey, some 35 percent of them (1,177 respondents) had made an improvement to the business premise in the past twelve months. The most common
types of improvements involved expansion of the premise, such as by building additional rooms or outbuildings; reconstruction of the premise; and whitewashing.

Clients and new clients were more likely than non-clients to have made an improvement in the business premise in the past twelve months (p=.001). These differences are illustrated in the figure above. While 40 percent of clients had made some kind of improvement to their premise in the previous twelve months, only 28 percent of non-clients had done so. Even new clients were more likely than non-clients to have invested in improvements to their business premise.

Among those who had made improvements, the average amount spent was KM 5,554. There were no statistically significant differences between clients, new clients, and non-clients in the amount spent. This level of expenditure is substantial, considering that the average annual income provided to households from primary enterprises is KM 7,114. However, it should be kept in mind that this number represents the average for those who actually made improvements. If the total amount spent on business premise improvements were averaged over all 3,333 respondents to the survey, then the average amount spent would be only KM 1,961 per respondent.

2. Investments in Business Equipment

Investments in business equipment were more common than improvements to the business premise, although the value of these investments were smaller. Of the 3,333 respondents to the survey, half (1,662) had invested in some kind of business equipment or furnishings in the past twelve months. The most commonly reported types of investments included the purchase of machinery for production, refrigerators, inventory shelving and display cases, furniture, computer equipment, and tools.

As with improvements to the business premise, clients and new clients were more likely than non-clients to have invested in business equipment in the past twelve months (p=.001). The figure above indicates these differences. More than half of clients (57 percent) had made investments in business equipment in the previous twelve months, while only 38 percent of non-clients had done so. Over half of new clients (53 percent) had also bought equipment or furnishings for their enterprise.
Among those who had made these types of investments, the average amount spent was KM 3,813. As expected, this is less than the average amount spent on improvements to business premises. As with expenditures on business premise improvements, there were no statistically significant differences between clients, new clients, and non-clients in the amount spent. If the total amount spent on equipment investments were averaged over all 3,333 respondents to the survey, then the average amount spent would be much lower, at KM 1,348 per respondent.

D. ALTERNATIVE MICROENTERPRISE CREDIT

The clients and new clients were all chosen because they have received one or more microenterprise loans from one of the MFIs participating in the study. The non-clients were chosen on the basis of a screening process that eliminated anyone who had received a microenterprise loan either from an MFI program or from a commercial bank. This section explores the experience of clients and new clients with microenterprise loans from alternative MFI programs or banks.

During the survey interview, all of the respondents were asked whether they had received a microenterprise loan from another MFI program or a formal bank since the end of the war (1995). This question was placed within the context of a loan to a specific microenterprise, either the primary enterprise or the other (non-primary) enterprises. The results indicate that 345 clients and new clients, or 16 percent of the respondents in these two groups, had received a microenterprise loan for their primary enterprise from another MFI program or formal bank.

The clients, who have more experience with microenterprise loans from program and formal sources than the new clients, were more likely to take alternative microenterprise loans. Some 17 percent of clients reported that they had taken an alternative loan for their primary enterprise, compared to only twelve percent of new clients (p=.10). This is consistent with findings in other settings, which indicate that individuals who use credit more heavily from one source are also the most likely to take credit from other sources.

The characteristics of alternative loans made to primary enterprises are listed in table 20. The average loan size for those who did take an alternative loan was KM 7,815. Clients had significantly larger alternative loans than new clients (p=.01). Compared to the average size of program loans for the sample as a whole (KM 3,188) or the average loan sizes reported by each MFI (ranging from KM 1,563 to KM 4,313), the size of these

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9 The survey results indicate that two percent of non-clients (25 people) incorrectly passed through the screening process, reporting during the survey that they received a microenterprise loan since 1995 from an MFI program or formal bank.

10 This number probably underestimates the extent of alternative loans, since many MFI programs discourage clients from taking microenterprise loans from alternative sources. Respondents would, therefore, be reluctant to report these loans.
alternative microenterprise loans is quite large. The alternative loans also extend for a relatively long period, averaging about 15 months in length.

Table 20: Alternative Loans for Primary Enterprises

<table>
<thead>
<tr>
<th>Loan Characteristics</th>
<th>Client (n=1742)</th>
<th>New Client (n=399)</th>
<th>Total Sample of Clients and New Clients (n=2141)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number receiving alternative loan (percent of sample in parentheses)</td>
<td>296 (17)</td>
<td>49 (12)</td>
<td>345 (16)</td>
</tr>
<tr>
<td>Average loan value (KM)</td>
<td>8,327.8</td>
<td>4,591.3</td>
<td>7,814.7</td>
</tr>
<tr>
<td>Average loan length (months)</td>
<td>15.1</td>
<td>11.0</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Note: An “alternative loan” is defined as a microenterprise loan received since 1995 from a different MFI or from a formal bank.

The characteristics of the alternative loans to primary enterprises indicate that many of them are high-end loans to larger microenterprises. However, the survey does not contain enough information to determine whether the alternative loans were taken prior to the program loans or concurrently with the program loans. We can assume that the new clients took many of these alternative loans prior to the program loan. For clients, at least some of the alternative loans were probably taken concurrently with program loans by entrepreneurs with relatively large microenterprises. These entrepreneurs may have reached the upper limit on program loan size and turned to alternative loans to supplement the program loan.

Other MFIs were the most common source for alternative loans. Among the 345 clients and new clients who had taken alternative loans for their primary enterprises, 58 percent of them reported that these loans came from one of twelve MFIs. The MFI programs working around Tuzla were the most likely to have been the source for alternative loans, probably due to the relatively high saturation of microenterprise lending in the Tuzla region compared to other areas of the country. Among all MFIs, the three largest sources for alternative loans were MI-BOSPO (twelve percent), PARTNER (eight percent), and BOSVITA (six percent), all operating around Tuzla.

The second most common sources for alternative loans were commercial banks, with 27 percent of respondents who reported taking an alternative loan having received it from a commercial bank. Clients were much more likely to have borrowed from banks than new clients (30 percent compared to ten percent). A third source for alternative

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11 These twelve MFIs include the eleven participating in this study plus MIKRA.
loans was Microenterprise Bank (MEB), representing 14 percent of alternative loans. Clients and new clients were equally likely to have borrowed from MEB.

Finally, the survey also provided some information about MFI and bank loans to non-primary enterprises. The clients and new clients in the survey had 460 non-primary enterprises. For 59 of these non-primary enterprises, about 13 percent, they had taken a microenterprise loan from an MFI or bank. Clients and new clients were equally likely to take program and bank loans for their non-primary microenterprises. For these loans, the five most common sources were formal banks (13 percent), SINERGIJA (twelve percent), MIKROFIN (twelve percent), PARTNER (ten percent), and MI-BOSPO (ten percent). The average size of these loans to non-primary enterprises was KM 8,261 and the average loan length was 14 months, with no significant difference between clients and new clients.

VI. SUMMARY AND IMPLICATIONS FOR FURTHER STUDY

This report has described the results of a baseline survey of 3,333 microentrepreneurs. These results provide insights into the conditions under which microenterprises are operated in Bosnia and Herzegovina. As a way of summarizing the findings, we return to the key questions for the overall study and adapt them somewhat to reflect the fact we are dealing with the results of the first-round survey and not the final results of the impact evaluation. After this summary of the findings, the report concludes with some notes on the limitations of the study as well as implications of the findings for subsequent data collection and analysis.

A. SUMMARY OF FINDINGS ON MICROFINANCE CLIENTS

1. Do microfinance institutions in BiH reach their target populations?

It is clear that microfinance institutions in BiH are reaching their target populations. The survey included a representative sample of 1,742 existing microfinance clients and 399 new microfinance clients. The sample was drawn from the current client lists of eleven MFIs. The clients and new clients in the sample match the characteristics of the target populations identified under the LIPs and by the individual MFIs (see table 5, p. 13):

- **Clients have low incomes.** Forty-one percent of clients and 46 percent of new clients have incomes below the national poverty line. This means that MFIs clients have substantially higher poverty rates than the general population of BiH, among whom an estimated 19 to 25 percent are below the poverty line.

- **Clients are economically active.** Ninety-five percent of the clients were actively engaged in operating a microenterprise for the purpose of income generation.
Many clients have been adversely affected by the war. The MFIs are serving a disproportionately large number of war displaced, disabled, and demobilized citizens (more details below).

Many clients are women. Just over half the clients and new clients in the sample are women (54 and 55 percent, respectively). By contrast, only 38 percent of the non-client sample drawn from the same neighborhoods and same microenterprise sectors are women. This significantly higher outreach to women entrepreneurs is related to the fact that two MFIs in the study provide loans only to women.

Few clients have received microenterprise loans from banks. Among the sample of new clients, only 1.2 percent have received a microenterprise loan from a bank.

So, the MFIs are reaching their target populations of economically active, low-income entrepreneurs who have little access to bank credit. They are also reaching a substantial number of women entrepreneurs and entrepreneurs who have been adversely affected by the war. Finally, it should be noted that the MFIs are reaching these target populations in a way that is operationally and financially self-sufficient.

2. Does microcredit ease or speed the post-conflict transition?

The MFIs in the study are serving a disproportionately large number of people who have been adversely affected by the war. A comparison of clients to non-clients indicates that there are some significant differences between these two groups in terms of displacement, disabilities, and demobilization:

- Displaced households. While 36 percent of clients are currently displaced from their pre-war residence, only 29 percent of non-clients are similarly displaced.

- War-related disabilities. Among male entrepreneurs, eleven percent of clients were disabled during the war, compared to only 7.5 percent of non-clients.

- Demobilized soldiers. Also among male entrepreneurs, 81 percent of MFI clients are demobilized soldiers, while only 73 percent of non-clients are demobilized soldiers.

These statistically significant differences between MFI clients and the control group of non-client entrepreneurs suggest that MFIs are effectively extending their outreach to provide services to these disadvantaged citizens.

3. What does the survey reveal about the household welfare of borrowers?

The survey reveals four important facts related to the household welfare of MFI clients:

- Role of microenterprise income. The clients of MFIs rely heavily on microenterprise income to support themselves and members of their households.
Client households earn 70 percent of their total income from microenterprises, while microenterprise income contributes two-thirds of the total income earned in new client households.

- **Household income.** Average annual per capita income in clients’ and new clients’ households is KM 3,414 and KM 2,936, respectively. This is slightly above per capita GDP, which was KM 2,759 in the year 2001.

- **Poverty rates.** Despite the fact that average income was above per capita GDP, over 40 percent of households in both groups have incomes that are below the national poverty line.

- **Regional differences.** While income and poverty rates are similar for the FBiH and the RS, microentrepreneurs in the Brčko District have significantly higher average incomes (KM 4,989) and lower poverty rates (26 percent).

4. **What does the survey reveal about clients’ microenterprises?**

The survey provides information on the characteristics of clients’ microenterprises, as well some insights into three important areas of business development, namely, business registration, employment, and investments in the business:

- **Business registration.** Only about half of clients’ microenterprises are officially registered with government authorities. Registration rates differ according to the sector of the microenterprise, with microenterprises in the trade and services sectors having the highest registration rates (about 65 percent). On the other hand, registration rates are less than ten percent in the agricultural and animal husbandry sectors, because these microenterprises are not required to register.

- **Employment.** Microenterprises provide full-time jobs. Clients’ microenterprises employ an average of two people, including the entrepreneur. On average, clients’ enterprises employ 0.52 non-household members and pay an average wage of KM 341 per month, which is comparable to average net wages nationally. Employment levels differ by the sector of the enterprise.

The total employment provided by MFI clients’ microenterprises can be estimated, based on the assumptions that 1) the MFIs in the study had 36,737 active clients in December 2001 and 2) clients’ enterprises employ an average of 0.52 non-household members and 1.46 household members. This implies that clients’ microenterprises provide paid employment to 19,103 workers and productive employment to another 53,636 unpaid, household members (including entrepreneurs). At 72,739, total employment in MFI-supported microenterprises is as large as the estimated number of wait-listed workers throughout BiH in August 2001.
• **Business investments.** Investments made by entrepreneurs to improve their business premises were substantial, averaging KM 1,961 in the previous year. Investments in business equipment are also substantial, at KM 1,348. Forty percent of clients had made some type of improvement to their business premise in the past year, and 57 percent had made some type of investment in business equipment. Considering only those clients who had made investments in the past year (instead of all of the clients in the sample), the average amount spent KM 4,896 on business premise improvements and KM 3,987 on business equipment.

5. **What does the survey reveal about possible shifts in MFI borrower profiles?**

Finally, a comparison of the characteristics of clients and new clients leads to a couple related observations about possible shifts in MFI borrower profiles:

• **Shifting sectoral balance.** The client base of the eleven MFIs in the study appears to be shifting toward a greater balance between microenterprises in the trade, services, and livestock/animal husbandry sectors. Among new clients, these represent 28, 30, and 29 percent of microenterprises, respectively.

• **More rural lending.** The MFIs in the study appear to be making a small but significant shift toward extending their outreach to entrepreneurs in rural and remote areas. While 60 percent of clients’ primary enterprises are located in urban areas, only 51 percent of new clients’ primary microenterprises are in urban areas. This is probably related to the shifting sectoral balance noted above. In addition, MFIs may also be reaching out to rural entrepreneurs because lending conditions may be becoming more competitive in some urban areas.

B. **STUDY LIMITATIONS AND IMPLICATIONS FOR IMPACT EVALUATION**

The first-round survey, as well as the larger impact evaluation to which it belongs, have been carefully designed and implemented to provide reliable information about the characteristics of microfinance-supported microenterprises and the impacts of microenterprise loans on business development and household welfare. Nevertheless, the study has several limitations and there are some adjustments that can be made to improve the final results.

The study has at least three significant limitations that should be kept in mind when interpreting and using the results:

• **Measurement of income and poverty.** There are several well-known difficulties associated with deriving accurate measurements of household income. These include both recall-related problems and the possibility that respondents may strategically withhold information. In fact, eight percent of the respondents to this survey were unable or unwilling to provide information on total household income. In addition, differences between income-based approaches and expenditure-based approaches for measuring income mean that results from these
two methods may not be strictly comparable. Therefore, special caution should be used when comparing the results from this survey, which used the income-based approach, to the national poverty (LSMS) measures, which were derived from an expenditure-based approach.

- **High refusal rates.** The original random samples from the client lists were drawn with 20 percent over sampling to allow for difficulties locating clients and the anticipated refusal of some clients to participate in the survey. However, refusal rates were higher than 20 percent and it was necessary to draw a second random sample from the client lists for replacement. This represents a potential problem, since high refusal rates can lead to sample bias. Bias can be a problem if those who refuse to participate share certain common characteristics that are relevant to the study, such as higher income levels, lower rates of business registration, or different credit characteristics. The problems encountered in the field are discussed in detail in the second appendix.

- **Control group selection.** With this type of research design (i.e., quasi-experimental) there are inevitable issues related to selection of the control group. Ideally, the non-client group should be identical to the client group in every way except for the receipt of microenterprise credit from MFIs. While specific steps were taken to identify a non-client group that was similar in important ways to the client group, the strict comparability between the two groups cannot be guaranteed. Some of the measures being taken to compensate for remaining differences include 1) the use of a longitudinal design that analyzes changes in the impact variables rather than directly comparing their magnitudes; 2) identification and inclusion of a new client sample that can be used as an additional point of comparison; and 3) the use of statistical analysis techniques that help to isolate the impacts of program participation from the effects of observed differences between the client and control groups (see next paragraph).

The results from the survey indicate that there are some statistically significant differences between types of respondents and between types of enterprises. These differences in characteristics will be controlled for during the impact analysis following the second round of the survey using multivariate techniques, in order to separate their effects from the impacts of microenterprise credit. Some of the differences that will be considered during the impact analysis include the following:

- Differences in age, gender and marital status between respondent groups.
- Higher per capita incomes in Brčko District.
- Differences in enterprise growth and development variables (e.g., employment characteristics) for enterprises in different sectors.
- Gender differences related to microenterprise sector.

Difficulties encountered during the data analysis suggest a few changes that can be made to the questionnaire to improve the quality and usefulness of the data:
• The question identifying the enterprise manager (item B7) will be adjusted to unambiguously indicate whether the manager is the same as the respondent.
• Questions referring to identities of household members will be modified so that enumerators record the relationship of the household member to the respondent (item A.3), rather than the than the individual’s identification number (item A.1).
• The first-round data on types of investments in business premise and equipment will be used to create response categories that enumerators can use to more easily record types of investments during the second-round survey.

Finally, the findings from analyzing this first round of data indicate that there are two interesting issues that should be explored in more detail in the case studies and through additions to the questionnaire for the second-round survey:

• **Business closure.** Approximately five percent of entrepreneurs selected into the sample closed their enterprises in the time period between the selection of the sample and the survey interview. Since there will be two years between the survey rounds, an even larger percentage of respondents may be expected to close their enterprises in the interim. The case study protocol and second-round questionnaire will include questions designed to measure the rate of business closure and identify factors related to it. This information will be used to analyze business closure rates for enterprises managed by different types of respondents, such as men and women, clients and non-clients, and poor and non-poor.

• **Alternative loans.** Around 16 percent of clients had received alternative microenterprise loans from MFIs or banks. Questions will be added to the case study protocol and the second-round questionnaire to collect information on these alternative loans. In particular, information will be collected on the timing of alternative loans (whether they occurred prior to or concurrent with program loans) and the reasons for seeking alternative loans (e.g., to increase total amount borrowed, to maintain alternative credit sources, to secure better loan terms). The information will also be used to analyze whether some of the microenterprises supported by MFIs are growing and developing in such a way as to “graduate” to bank credit.

C. **CONCLUSION**

The results from this first round of the survey provide extensive information about the clients of MFIs in Bosnia and Herzegovina and about the country’s microentrepreneurs in general. These results confirm that MFIs are reaching the target populations identified in their mission statements and in the development objectives of Local Initiatives Project I and Local Initiatives (Microfinance) Project II. This report has summarized the findings of the first-round survey, providing a foundation for the long-term assessment of the impacts of microenterprise credit on clients, their households, and their enterprises.
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APPENDIX 1: 
RESEARCH PLAN FOR IMPACT ASSESSMENT

OBJECTIVES

1. To document the impacts of a sustainable microfinance sector in BiH.
2. To provide client-level information to MFIs for use in management decisions.
3. To build interest and understanding among MFIs on the use of client-level
   information for documenting program impacts, improving program management, and
   developing new products and services.
4. To build local research capacity for collecting and analyzing client-level information
   on microenterprises and microfinance.

HYPOTHESES/RESEARCH QUESTIONS

1. Do microcredit organizations in BiH reach their target populations?
   • Related question: What are the demographic and socio-economic characteristics
     of the MFI clients?
2. Does microcredit improve the household welfare of borrowers?
   • Impact variable: Total household income
3. Does microcredit promote business development?
   • Impact variable: Employment and job creation
   • Impact variable: Business registration
   • Impact variable: Improvements to business site and investment in equipment
4. Does microcredit ease or speed the post-conflict transition?
   • Analyze impacts on survey subgroups (e.g. displaced persons, returnees, widows,
     demobilized, disabled)
5. Each MFI will also have the opportunity to add a brief module reflecting their
   specific needs for client-level information. This module will be asked of their clients
   only.

INTENDED USERS/AUDIENCE FOR STUDY

• Microfinance sector within BiH, including the MFIs, AMFI (a national MFI
  network), and the LIDs (the project implementation units of LIP II)
• Government officials in national, entity, and local governments
• General public in BiH through national and local media
• World Bank
• Potential donors to MFIs
• Microfinance organizations and networks within region and in post-conflict settings,
  including the Microfinance Center (MFC)
• Global publication to microfinance industry
**Research Design**

1. **Mixed Method Approach**
   - Combined use of quantitative and qualitative analysis
   - In-depth interviews prior to questionnaire design
   - Survey data to measure direction and size of changes over time
   - Case study data to complement quantitative analysis: to understand how changes occur, establish impact paths, and examine rival hypotheses
   - (Optional) Focus groups as needed at end of project to resolve any unclear findings

2. **Longitudinal Study**
   - Panel study following same households over time
   - Two rounds of survey, with two-year interval between rounds
   - Survey to be conducted in same month for each round
   - One round of case studies, conducted at mid-point between surveys

3. **Quasi-Experimental Design**
   - Include both a client (treatment) group and a non-client (control/comparison) group, with client group to include both longer term clients and new clients
   - Treatment group: Clients selected randomly from current client lists of MFIs
   - Control group: Non-clients selected from same neighborhoods as clients
   - New entrant group: Clients who received their first loans shortly before the first round of the survey
   - Comparison to results of LSMS as alternative baseline

4. **Sample Sizes**
   - Ratio of clients to non-clients: 5/3
   - Planned initial (baseline) sample
     - 2,500 clients
     - 1,400 non-clients
     - client group to include new clients and ex-clients, number to be determined
   - Assume no more than 20 percent panel attrition rate, resulting in final sample no smaller than
     - 2,000 clients
     - 1,200 non-clients
   - Approximately 16 case studies
4. **Sample Coverage**

- All operationally sustainable MFIs in BiH (survey will have national coverage)
- Sampling proportional to size (same percentage of clients from each MFI)
- If necessary, maintain minimal baseline sample size per MFI of 75 clients
- Case studies to be selected from throughout the study area

5. **Sample Frames**

- For clients and new clients: MFIs to provide current client lists; after selection of the sample, MFIs will provide address (contact) and credit information
- For non-clients: The sample frame for the control group will be constructed using a snowball technique to find enterprises in the same neighborhood as the selected client enterprise, continuing until three to five qualified non-client enterprises are registered. A corresponding non-client will then be randomly selected from that list.
- A “qualified” enterprise is defined as one that
  - Is in the same sector as the client enterprise (commercial, service, or industrial),
  - Has not received a formal or program microenterprise loan, and
  - Has fewer than ten employees (including the entrepreneur and family members).

6. **Survey Interview Approach**

- Survey interview length of 45-60 minutes
- Use of special enterprise module to collect survey data on each enterprise associated with the household
- Take positive steps to minimize panel attrition:
  - Provide small guest gifts worth about 6DM.
  - Collect primary and secondary contact information at end of baseline interview that can be used to locate respondents two years later.
  - Send New Year’s greeting card with address correction request in 1/03 and 1/04
- Interviews to be conducted at homes and businesses of respondents

7. **Analysis of Survey Data**

- Analysis of baseline characteristics for full sample and separately by MFI, sector, region, gender, and war-affected subgroups
- ANOVA, t-tests and chi-square tests for analyzing baseline differences between treatment groups and significant changes within treatment groups over time
- Analysis of covariance (ANCOVA) for analysis of impacts, with separate ANCOVA investigation of cross-over effects among subgroups
- Multiple regression of impact variable on measures of length and/or depth of program participation
- Logit analysis of panel attrition and program attrition
8. **Collection and Analysis of Case Study Data**

- The interviews will follow a protocol developed by the consultant, in cooperation with the qualitative researcher.
- The interviews will be held over two days, at the home and/or business of the informant, with each interview lasting 2-3 hours per day.
- Appropriate guest gifts, worth approximately 20 DM, will be provided to the case study households as a token of appreciation for their cooperation.
- The interviews will be tape recorded, transcribed, and translated into English.
- A data base will be prepared for each case, consisting of the following items:
  - Written interview notes
  - Tape recordings of the interviews
  - Transcriptions of tape recordings and English translations of transcriptions (hard copies and electronic copies)
  - Photocopies of the filled questionnaires for 2002 and 2004
  - One-page summary (profile) of each case study household (electronic)
- The analysis of the case study data will follow two tracks:
  - A written analysis of how closely each case matches the hypothesized patterns (i.e. analysis of the case study data based on the “pattern matching” technique)
  - A synthesis of illustrations and examples, including quotations, on a set of themes specified by the consultant.

**Research Schedule**

- March-July 2002: Conduct baseline survey
- August 2002-December 2002: Analyze baseline survey
- January-December 2003: Write and disseminate baseline survey results and conduct case studies
- January-September 2004: Conduct second rounds of survey and case studies
- October-December 2004: Disseminate impact results
APPENDIX 2:
TECHNICAL METHODS USED IN SURVEY

A. SAMPLE SELECTION PROCEDURES

The objective of the study was to compare differences between three groups of respondents:

- **Clients.** Microentrepreneurs who have had one or more microenterprise loans and were on the active client list in March 2002 for one of the MFIs included in this study;
- **New clients.** Microentrepreneurs who received their first microenterprise loan in April 2002 from one of the MFIs included in this study;
- **Non-clients.** Microentrepreneurs who have not taken a microenterprise loan from any MFI or bank between the end of the war in 1995 and the date of the interview.

The planned sample was to include 2000 clients, 500 new clients, and 1400 non-clients, for a total of 3,900 respondents. The quota for the number of clients to be interviewed from each MFI was determined based on the total number of clients. The final sample size was 3,333 respondents, consisting of 1,742 clients, 399 new clients, and 1192 non-clients. The reduced sample was a result of a couple of unanticipated changes. One MFI that was planning to participate in the study decided not to participate after data collection had begun. The sample from another MFI included respondents who had received non-enterprise loans. When this was discovered, the final sample for that MFI had to be reduced.

1. **Selection of Clients**

The selection of the client sample was conducted in the following manner:

- Each of the MFIs participating in the study were asked to provide lists that contained only the identification codes of their active clients (with no other identifying data) in order for the selection to be completely random.
- After the clients to be included on the survey were randomly selected, we sent each MFI the lists with the identification codes of these clients and requested that the MFIs provide the remaining data to enable us to locate and contact these clients. The contact data included the full name of the client, home address, business address, contact telephone numbers, and type of business activity for which the loan was received.
- The sample for each MFI contained 20 percent over sampling of clients as it was anticipated that some people would refuse to participate in the study for various reasons and it was necessary to ensure adequate alternatives for these cases.

It was agreed with each of the MFIs that they would inform their clients about the survey through a letter of invitation to participate in the study. The letter informed the clients...
that an interviewer from Prism Research was likely to contact and visit them in relation to the study. The text of the invitation letter was prepared by the research team and was identical for all of the MFIs. Each MFI printed the letter on its own letterhead/logo next to that of Prism Research.

Each MFI delivered this letter to its clients and new clients through their own field agents. Field agents were requested to not give any subjective opinions about the study but rather to only deliver the letter of invitation to clients and to state that it relates to an important study being commissioned by the World Bank and that their participation is completely voluntary. The intention was that all respondents be equally and objectively informed about the study.

Table 21. Population and Sample of Clients, by MFI

<table>
<thead>
<tr>
<th>MFI</th>
<th>Number of Active Clients in 3/02</th>
<th>Sample of Active Clients in Study</th>
<th>Percent of All Active Clients</th>
<th>Percent of Client Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mikro ALDI</td>
<td>956</td>
<td>123</td>
<td>12.9</td>
<td>7.1</td>
</tr>
<tr>
<td>BENEFIT</td>
<td>1904</td>
<td>142</td>
<td>7.5</td>
<td>8.2</td>
</tr>
<tr>
<td>BOSVITA</td>
<td>899</td>
<td>119</td>
<td>13.2</td>
<td>6.8</td>
</tr>
<tr>
<td>EKI</td>
<td>6879</td>
<td>205</td>
<td>3.0</td>
<td>11.8</td>
</tr>
<tr>
<td>LOK micro</td>
<td>3705</td>
<td>175</td>
<td>4.7</td>
<td>10.0</td>
</tr>
<tr>
<td>MI-BOSPO</td>
<td>4396</td>
<td>175</td>
<td>4.0</td>
<td>10.0</td>
</tr>
<tr>
<td>MIKROFIN</td>
<td>4648</td>
<td>201</td>
<td>4.3</td>
<td>11.5</td>
</tr>
<tr>
<td>PARTNER</td>
<td>6748</td>
<td>193</td>
<td>2.9</td>
<td>11.1</td>
</tr>
<tr>
<td>PRIZMA Mikro</td>
<td>4645</td>
<td>127</td>
<td>2.7</td>
<td>7.3</td>
</tr>
<tr>
<td>SINERGIJA</td>
<td>1223</td>
<td>141</td>
<td>11.5</td>
<td>8.1</td>
</tr>
<tr>
<td>SUNRISE</td>
<td>2557</td>
<td>141</td>
<td>5.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Total Sample</td>
<td>38560</td>
<td>1742</td>
<td>4.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 22. Population and Sample of New Clients, by MFI

<table>
<thead>
<tr>
<th>MFI</th>
<th>Number of New Clients in 4/02</th>
<th>Sample of New Clients in Study</th>
<th>Percent of All New Clients</th>
<th>Percent of New Client Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mikro ALDI</td>
<td>178</td>
<td>33</td>
<td>18.5</td>
<td>8.3</td>
</tr>
<tr>
<td>BENEFIT</td>
<td>141</td>
<td>26</td>
<td>18.4</td>
<td>6.5</td>
</tr>
<tr>
<td>BOSVITA</td>
<td>85</td>
<td>18</td>
<td>21.2</td>
<td>4.5</td>
</tr>
<tr>
<td>EKI</td>
<td>443</td>
<td>70</td>
<td>15.8</td>
<td>17.5</td>
</tr>
<tr>
<td>LOK micro</td>
<td>198</td>
<td>31</td>
<td>15.7</td>
<td>7.8</td>
</tr>
<tr>
<td>MI-BOSPO</td>
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<td>10.8</td>
</tr>
<tr>
<td>MIKROFIN</td>
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<td>38</td>
<td>15.7</td>
<td>9.5</td>
</tr>
<tr>
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<td>313</td>
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<td>11.8</td>
<td>9.3</td>
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<tr>
<td>PRIZMA Mikro</td>
<td>685</td>
<td>39</td>
<td>5.7</td>
<td>9.8</td>
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<tr>
<td>SINERGIJA</td>
<td>47</td>
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<td>25.5</td>
<td>3.0</td>
</tr>
<tr>
<td>SUNRISE</td>
<td>343</td>
<td>52</td>
<td>15.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Total Sample</td>
<td>3127</td>
<td>399</td>
<td>12.8</td>
<td>100.0</td>
</tr>
</tbody>
</table>
2. **Selection of New Clients**

Similar procedures were applied in the selection of new clients. However, in this case we used a proportional sample based on the total number of new clients each of the MFIs had in the month of April 2002. These persons were invited to participate in the study in an identical manner as described above.

3. **Selection of Non-Clients**

The sample of non-clients was necessarily selected in a very different manner. First we set the total number of non-clients to be 70 percent of the total number of MFI clients. The same percentage was applied for each of the MFIs.

The non-client group is intended to be a control group for the purposes of this study. To ensure the comparability of data, interviewers were instructed to adhere to set principles in the selection of respondents in this group. The basic principle was that non-clients would be sought only for certain (previously determined) clients from the MFI client lists. This selection of clients from the MFI lists was made randomly and each such client name had a mark next to it to indicate that it was required that a corresponding non-client be found. If for any reason it proved not possible to conduct the interview with a client that had been identified as requiring a corresponding non-client to be identified, then the first available name on the reserve list was taken and the non-client identification requirement was transferred to this client.

A *corresponding non-client* for the purposes of this study means that the non-client has to have the following characteristics:

- Own and operate a microenterprise in the same sector as the corresponding client’s microenterprise (i.e., trade, services, production, agriculture, livestock/animal husbandry), but not necessarily in the same subsector;
- The microenterprise must be in the same neighborhood or in a close area of the same town or village as the corresponding client;
- The entrepreneurs could not have received a microenterprise loan from a bank or MFI from the end of the war in 1995 up to the time of the study; and
- The enterprise must have fewer than 10 employees.

In order to ensure objectivity in the selection of non-clients, interviewers were instructed to use a specially constructed screening questionnaire to initially recruit five persons that met the *corresponding non-client* criteria and were willing to participate in the study. These completed screening questionnaires were then sent to the central office of Prism Research where one of the five identified potential non-client respondents was randomly selected for inclusion in the study.

In order to boost the participation rates when the survey is repeated two years later with the same respondents, each respondent was given a small gift at the end of the interview.
as a token of appreciation for their time and cooperation. The gift was one-half kilogram of coffee, valued at approximately 6 KM.

B. QUESTIONNAIRE DEVELOPMENT AND PILOT TEST

The questionnaire was developed under the guidance of Elizabeth Dunn in close cooperation with the quantitative research department of Prism Research. The questionnaire sections were developed in accordance with the fundamental hypotheses of this study. It was agreed that the questionnaire should be composed of the following sections:

- Introduction (self-introduction of enumerator, explanation of purpose of interview and study, confidentiality and use of information, request for honesty, etc.);
- Interview details (respondent name, code, home address, business address, type of loan, interviewer name and code, etc.);
- Demographic information on household members (name or nickname, age, gender, marital status, education, person’s primary occupation, etc.);
- Information on microenterprises owned by the respondent and members of his or her client household (number of distinct business activities, main products or services in each activity, employment, money spent on improving or enhancing the business location and/or equipment, etc.);
- Household income (including all sources of income to all members of the household); and
- Other questions related to war-affected status and closing questions.

The draft version of the questionnaire was prepared and pilot tested. In the pilot study, a number of MFI clients in various parts of BiH engaged in various types of business activity were interviewed. In this way we tested for the clarity and comprehension of questions and interview procedures. After some minor changes and adjustments to the questionnaire, a second draft version of the questionnaire was pilot tested on new respondents, but in this case interviewers who had been specially trained in the administration of the questionnaire conducted the pilot interviews. In this manner we gathered valuable information that was used in the improvement of the questionnaire and interview procedures.

C. INTERVIEWER SELECTION AND TRAINING

Experienced Prism Research interviewers were selected for engagement in this study. Interviewers over the age of 25 were preferred in order for them to leave an impression of maturity and experience on the respondents. All interviewers had to undergo a training process comprised of a number of segments as follows:

- Familiarization with the general methodology of social research,
- Familiarization with the basic objectives of this study,
- Familiarization with the specific methodology of this research,
• Familiarization with respondent identification procedures (separately for non-client identification from that of client and new client procedures),
• Familiarization with the questionnaire and the constituent modules, and
• Practical role-play exercise of questionnaire administration in pairs.

The interviewer training was conducted in group sessions in a number of cities throughout BiH, including Sarajevo, Mostar, Bihac, Banja Luka, Tuzla, and Zenica. Where it was necessary to conduct additional training sessions for new or additional interviewers, the regional coordinators conducted either group or individual training.

The above diagram indicates the organization of the fieldwork and how the project manager was related to the interviewers and coordinators.

D. FIELDWORK AND QUALITY CONTROL

The fieldwork for the study commenced in early May 2002. Coordinators and interviewers were given lists of names and contact details for clients and non-clients, including residential address, business address, contact telephone numbers, credit type, and type of business activity engaged in and for which the credit was taken. Interviewers were instructed to first contact the person they were to interview by telephone in order to make an appointment for the interview. For persons on the lists without contact telephone numbers, the interviewers were instructed to go to one of the given addresses (residential or business) and attempt to conduct the interview at that time or to make an appointment for conducting the interview at a time more convenient to the respondent.

Interviewers were instructed to be very polite and cooperative and ensure that they make the least possible disruption. In the case where the identified respondents did not wish to participate in the study for any reason, the interviewer was instructed to replace this respondent with the first respondent on the reserve list provided.
In the first part of the fielding of the study only clients and new clients were interviewed. At this stage the recruitment of potential corresponding non-client respondents was also conducted. This first phase went through to the middle of June 2002. At this stage all completed questionnaires were collected and an overview of the results achieved was conducted. Due to the somewhat poorer than expected responsiveness and willingness of clients and new clients to participate in the study, additional potential respondents were selected from the same lists of clients and new clients that had been used in the first phase, of course excluding the identification codes of those clients who were selected in the previous phase.

Control of the completed questionnaires from the first phase of the study was conducted in one of two ways – either by telephone or by field visit. In both cases, control included a check of the work of the interviewer, adherence to prescribed procedure, and the correctness of data collected. If there was evidence of errors, these were corrected through contact with the respondent. In such cases the interviewer concerned was contacted, as was the coordinator, in order to bring these errors to their attention and to avoid similar errors in later work.

E. DIFFICULTIES ENCOUNTERED IN THE FIELDING OF THE SURVEY

The fielding of the project proved to be very demanding and required concerted and concentrated effort to overcome the difficulties encountered in the best possible manner. The two main problems encountered relate to the unexpectedly low level of cooperation from clients and new clients, and difficulties in the process of recruitment of non-clients. The following specific problems were encountered in this regard:

- REFUSALS TO PARTICIPATE - The problem of a high level of refusals plagued the fieldwork. For this reason, in the middle of July we selected an additional sample of clients and new clients in order to be able to complete the project;
- DELAY WITH LISTS – The commencement of the project was delayed somewhat as not all of the MFIs provided the lists at the anticipated time. In one case, the MFI lists did not contain the necessary contact information for respondents, while for some clients the contact information was incorrect. In this case, the lists were returned to the MFI for completion with the necessary information or Prism Research staff sought contact information for the listed clients over the Internet or the telephone operator to obtain this information where available;
- CLIENTS NOT INFORMED ABOUT THE PROJECT – Although the initial agreement was that all clients and new clients would be informed about the research through a letter of invitation, and in order to allow time for this we started the field work with a 10-15 day delay. However, this was not done in all cases and this was the source of problems arising in contact between interviewers and clients in the field. To overcome this problem, Prism Research arranged for all clients and non-clients on the lists that had not been contacted already to be
contacted by telephone in order to check whether these persons had been informed of the study and at the same time to attempt to set a time for an interviewer to visit to conduct the interview;

- **LOANS THAT ARE NOT BUSINESS RELATED** – Two of the MFIs provided loans other than enterprise loans and this was a fact that Prism Research was not aware of at the outset. This resulted in numerous misunderstandings with such clients until this was clarified, since these clients did not in fact meet the basic criteria for participation in the study. Once this problem was identified, we requested a revision of the lists but, unfortunately, this took quite a long time and led to delays in the fielding of the study;

- **ANNUAL LEAVE / HOLIDAYS** – The fielding period included July and August, which is the important summer holiday season in BiH. This resulted in considerable difficulties in contacting respondents, so that it was necessary to interrupt the fieldwork in the month of August and recommence at the start of September;

- **PROBLEMS WITH INTERVIEWERS** – One result of the high level of refusals was that it affected the motivation for many of the interviewers, and a large number of interviewers resigned from work on the project. This resulted in a new challenge – the need for recruitment and training of new field interviewers in various parts of BiH. The table at right indicates the number of interviewers engaged in this survey by region. In each region Prism Research has one coordinator. These numbers are some 20 percent higher when we include those who withdrew after the training or in the following few days without completing any interviews.

<table>
<thead>
<tr>
<th>Region/Coordinator</th>
<th>Number of interviewers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brčko</td>
<td>6</td>
</tr>
<tr>
<td>Bihać</td>
<td>14</td>
</tr>
<tr>
<td>Bijeljina</td>
<td>4</td>
</tr>
<tr>
<td>Banja Luka</td>
<td>14</td>
</tr>
<tr>
<td>Doboj</td>
<td>11</td>
</tr>
<tr>
<td>Donji Vakuf</td>
<td>4</td>
</tr>
<tr>
<td>Foća/Srbinje</td>
<td>3</td>
</tr>
<tr>
<td>Kiseljak</td>
<td>4</td>
</tr>
<tr>
<td>Mostar</td>
<td>5</td>
</tr>
<tr>
<td>Pale</td>
<td>4</td>
</tr>
<tr>
<td>Prijedor</td>
<td>9</td>
</tr>
<tr>
<td>Sarajevo</td>
<td>34</td>
</tr>
<tr>
<td>Tomislavgrad</td>
<td>2</td>
</tr>
<tr>
<td>Trebinje</td>
<td>9</td>
</tr>
<tr>
<td>Tuzla</td>
<td>25</td>
</tr>
<tr>
<td>Zenica</td>
<td>20</td>
</tr>
<tr>
<td>Zvornik</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>171</td>
</tr>
</tbody>
</table>

- **PROBLEMS ENCOUNTERED IN RECRUITMENT OF NON-CLIENTS** – Difficulties relating to the recruitment of non-clients include most of those already mentioned above, but there were some others that were specific for this part of the study. These specific problems are described below.

The original research plan called for the recruitment of five qualified non-clients for each corresponding client. This proved very difficult to realize for a number of reasons:

- Lack of interest – Many people contacted did not display any interest whatsoever in being interviewed as they personally saw no benefit in doing so;
- Fear and distrust – Some of these people believed that this was some sort of monitoring of their business and for this reason resolutely refused any sort of participation or the collection of any data about them;
• Too busy – Some refused recruitment, citing lack of time. Others may have been interested, but it was not possible to meet with them, even when there was an appointment set with the interviewer. There were cases where interviewers went back to the same address a number of times but did not manage to complete the interview.

• Had already taken a credit for their enterprise – People who stated that they had already taken a microenterprise loan were not eligible to be recruited for the survey. This problem was particularly evident in Prijedor and Gradiska, and partly in Tuzla (although once we broadened the region in which recruitment was conducted in this city we managed to obtain a sufficient number). For this reason it was not always possible to achieve five recruitments per client in all cases. The table above shows that an average of 3.56 eligible non-clients were recruited for each one that was interviewed, with the ratio varying by region.

• Insufficient number of eligible potential respondents – This was especially the case in smaller settlements.

• Type of activity – As a rule it proved easier to recruit people engaged in farming or livestock because they were easier to find. Clients in these two groups could direct interviewers to the exact addresses of appropriate people for recruitment, since these people tended to know one another well. This was not as often the case with merchants or person engaged in production or service enterprises.

F. DATA ENTRY AND DATA CLEANING PROCEDURES

Data entry was conducted at the central office of Prism Research in Sarajevo.

• The software program utilized for data entry was Epi-Info 6 in which a data entry mask was constructed to assist data entry and minimize data entry operator error.

• Quality control over the entered data was conducted through random selection of questionnaires, followed by a check of the accuracy of data entered.

• Another form of control used to clean the data was logical control. All of the responses that are not within the possible range of responses were checked using

<table>
<thead>
<tr>
<th>Region</th>
<th>Recruiteds</th>
<th>Interviewed</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brčko</td>
<td>128</td>
<td>29</td>
<td>4.41</td>
</tr>
<tr>
<td>Bihać</td>
<td>94</td>
<td>62</td>
<td>1.52</td>
</tr>
<tr>
<td>Bijeljina</td>
<td>59</td>
<td>22</td>
<td>2.68</td>
</tr>
<tr>
<td>Banja Luka</td>
<td>654</td>
<td>172</td>
<td>3.80</td>
</tr>
<tr>
<td>Doboj</td>
<td>196</td>
<td>68</td>
<td>2.88</td>
</tr>
<tr>
<td>Donji Vakuf</td>
<td>17</td>
<td>15</td>
<td>1.13</td>
</tr>
<tr>
<td>Foča/Srbinje</td>
<td>42</td>
<td>28</td>
<td>1.50</td>
</tr>
<tr>
<td>Kiseljak</td>
<td>87</td>
<td>25</td>
<td>3.48</td>
</tr>
<tr>
<td>Mostar</td>
<td>144</td>
<td>44</td>
<td>3.27</td>
</tr>
<tr>
<td>Pale</td>
<td>104</td>
<td>87</td>
<td>1.20</td>
</tr>
<tr>
<td>Prijedor</td>
<td>83</td>
<td>61</td>
<td>1.36</td>
</tr>
<tr>
<td>Sarajevo</td>
<td>807</td>
<td>214</td>
<td>3.77</td>
</tr>
<tr>
<td>Tomislavgrad</td>
<td>30</td>
<td>3</td>
<td>10.00</td>
</tr>
<tr>
<td>Trebinje</td>
<td>149</td>
<td>44</td>
<td>3.39</td>
</tr>
<tr>
<td>Tuzla</td>
<td>1782</td>
<td>338</td>
<td>5.27</td>
</tr>
<tr>
<td>Zenica</td>
<td>256</td>
<td>95</td>
<td>2.69</td>
</tr>
<tr>
<td>Zvornik</td>
<td>59</td>
<td>12</td>
<td>4.92</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4691</td>
<td>1319</td>
<td>3.56</td>
</tr>
</tbody>
</table>
the original completed questionnaire. If the illogical entry proved to be a data entry error, it was corrected. If it proved to be an error in the completion of the questionnaire, then the problematic data was declared to be *missing data*.

- There was also a crosscheck of responses that should be logically related, such as filter questions. For example, we checked whether the number of private business activities in question B.1 was the same as the number of activities written in question B.2. Also, we checked whether the activities written in question B.2 were the private business activities of a member of the household or whether they belonged to someone outside of that household.
LOCAL INITIATIVES (MICROFINANCE) PROJECT II
MICROFINANCE PROJECT
IN BOSNIA AND HERZEGOVINA

LIP II

Financed by the World Bank

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