

“CLIENT FIRST”

TECHNICAL ASSISTANCE FOR NON BANK FINANCIAL INSTITUTIONS AND/OR CREDIT UNIONS TO DEVLOP AND PROVIDE BUSINESS DEVELOPMENT SUPPORT SERVICES (BDSS) TO THE CLIENTS

1. BRIEF DESCRIPTION OF THE PROPOSAL FOR BUSINESS DEVELOPMENT SUPPORT SERVICES (BDSS)

“**Client first**” – is an innovative initiative that combines financial services: micro-credits for investments in productive assets and equipment’s acquisition with tailored business development support services (BDSS) for clients and potential clients: micro-enterprises, farmers, start-up entrepreneurs located in the rural and small towns of Romania.

Context: The microenterprises are representing 89,3% from the total Romanian private sector, and within the last years the tendency of reducing the investments in productive assets due to lack of appropriate resources is preventing their development, growth and graduation into small and medium enterprises. >90% from MFI/CU’s portfolio is extended to micro-enterprises, based on the analysis of the portfolio invested in loans for client’s productive assets investments and on the rate of applications for investment loans rejected, Eurom Consultancy and Studies is offering a partnership for a pilot project aimed to increase the portfolio invested in loans for productive assets acquisition, improve its quality and to diminish the applications’ rejection rate.

First phase: The pilot project consists in organising “projects’ clinics” (workshops) for MFI/CU’s clients and potential clients for the assessment of the feasibility of the client’s investment project using a financial analysis and forecasting tool developed as MS-Excel application, followed by the extension of the loans with characteristics that match the analysed investment, an monitoring client’s investment implementation and financial performance during the loan period.

The “projects’ clinic” (workshop) consist in one hour presentation of the investment’s assessment methodology, followed by one to one working session. The client and Eurom consultant are assessing the input data of the investment, consisting in input data compilation, calculation of the investment project indicators and forecasts and interpretation of the investment’s indicators, forecasted P&L and cash flow. Based on the analysis the client may decide on investment’s opportunity, the size, the implementation schedule of the investment, and will get guidance from MFI/CU’s credit officers in the selection of the appropriate financial product from MFI/CU’s offer that will fit to the investment characteristics and potential for reimbursement, e.g. value of the loan, loan period, grace period (for interest), repayment schedule, etc.

Project’s First phase results are assessed versus the measurable indicators agreed: e.g.: the investment loan portfolio increase, the investment application rejection rate decreased and the quality of the portfolio improved, etc. in the branches where the project is piloted.

Second Phase: The training for the MFI/CU’s credit officers in assessment of investment project’s feasibility and utilisation of the assessment tool was introduced in the curricula of the EaSI TA program

(former JASMINE TA) and delivered to all MFI/CU's credit officers, branch managers and risk management department staff. The investment indicators: NPV (net present value) and IRR (internal rate of return) were introduced in the loan risk assessment procedure.

Third phase (on-going): Project clinics are organised in each MFI/CU's branch with the assistance of Eurom Consultants, impact indicators are collected, analysed and reported each quarter in order to improve the efficiency of the business development services delivery and its effectiveness on client performance.

2. CLINET FIRST INNOVATION METHODOLOGY

Innovative Open door approach: Clients and potential clients are invited to participate to the event organised in the MFI/CU's branch office special organised and equipped to host up to 10 participants. The business development services are not extended exclusively to the MFI/CU's clients, but to potential clients as well: start-ups, young entrepreneurs, potential entrepreneurs currently unemployed, minorities, etc. It is not an exclusively marketing tool that promote MFI/CU's financial offer, but mainly a customised business service aimed to assist the client in the development of its business.

Innovative methodology and assessment tool:

Presentation: The project's assessment tool is presented by the consultant or credit officer using a PP Presentation and the video projector; printed copies of the presentation are available. After the project's assessment tool presentation by the consultant or credit officer, the beneficiary become the **main "actor of the show"**.

The financial analysis and forecasting tool developed as MS-Excel application, is designed based on UNIDO's SMEs investment projects' feasibility assessment methodology, in constant prices (inflation influence is ignored).

Compilation of analysis' input data are based on the info provided by the beneficiary therefore confidentiality of beneficiary data and info is ensured by signing and confidentiality agreement. **The input data consist in:**

- Value and items of the investment and their depreciation period,
- Products/ services resulted after the project implementation: quantity and current unit price; estimated production capacity utilisation within the analysis period (five years).
- Costs related to the production/services: labour costs, raw materials, administrative costs, marketing, taxes, etc.
- Working capital needs, based on the characteristics of the products/services.
- Financial inputs: beneficiary own financial resources, loan, grant, equity investment.

Transfer of the input data, after compilation of the input data the transfer into the tool is provided by the consultant/ credit officer.

Outputs from the forecasting tool are obtained instantaneous:

- Forecasted investment project's Balance sheet, P&L and Cash-flow,
- Forecasted investment project's indicators: profitability indicators and breakeven, liquidity and coverage indicators and investment indicators NPV and IRR
- Graphical representation of the main indicators

Interpretation and follow up: At the end of the session the client receives not only the know-how to interpret the investment performance indicators and as its sensitivity towards potential the market changes

during investment phase, but the printed forecasts of project's balance sheet, P&L and Cash-flow of its own investment project idea, as well as clear guidance to select a suitable financial product. Attached The investment appraisal tool reports.

What differentiates the “Client first” BDSS services from the current consulting services provided by MFI/CU's to its clients is the **focus on clients and potential clients'** specific and long term needs, the **capacity building component** in beneficiary's self- assessment of the investment project feasibility, the improvement of the internal risk appraisal techniques for loan applications with an investment component.

What differentiates the “Client first” BDSS services from other BDSS services in the market is the **establishment on a solid base of long term partnership in development, based on trust and fairness.**

3. SUSTAINABILITY

Context: At the EU level, the Eastern European MFIs are considered and labelled as being more commercial than social oriented, the efforts the main Romania MFIs/CUs are making to chance the “commercial label” consist in targeting and serving the non-bankable entrepreneurs, increase transparency, provision of innovative business development services and support to the clients, and fully implement the European Code of Good conduct for microcredit provision.

Within the last years an important part form the annual profit was reinvested by MFI/CUs in the development and outreach, co-financed by the EU funded programs and/ or through partnerships with BDSS providers, the investment in training and development of the staff, new products and services, MIS and in the market development ensured the continuous growth of the organisation.

The “Client First” methodology and approach will be extended to all MFI/CUs current financial products for micro entrepreneurs, the internal loan application risk assessment procedures will include the investment indicators along with the liquidity and financial coverage indicators. Impact indicators and case studies of successfully implemented investment/development projects alongside with the “client first” clinics are planned to be the main marketing instruments of the MFI within the following years.

Subject of availability of resources the **“Client first” investment project feasibility assessment tool** will be further develop **in an on-line assessment tool**, posted on the MFI/CU's website, available for all clients and potential clients of the MFI/CUs.

4. IMPACT OR POTENTIAL IMPACT

The aim of the **“Client First”** initiative is to redesign the BDSS having in mind that client focus mission of the MFIs have to be translated and implemented not only through the financial products designed to meet the needs of the clients, but through the non- financial services as well, and the client interest and benefit should become the **“First”** priority while the MFI benefit should follow on the **“Second”** position .

Therefore impact indicators, both, qualitative and quantitative, financial and nonfinancial, should be developed to assess the efficiency and effectiveness of the initiative (table).

Pilot phase's impact indicators outputs and results/outcomes targeted for the pilot and for the first year of implementation:

| Quantitative Indicators | Results/outcomes pilot | Targets first impl. | Assessment tool used |
|-------------------------|------------------------|---------------------|----------------------|
|-------------------------|------------------------|---------------------|----------------------|

| | year (target) | year | |
|---|---|---|---|
| # of project clinics | 10 located in 2 branches outreach 2 economic regions | 40 located in 14 branches outreach 4 economic regions | Training/consulting event reports |
| # of participants/beneficiaries | Total 60 30 women entrepreneurs 15 young (<35 years old) | Total 300 >50% women entr. <50% young entr. | Participants questionnaire, event report |
| # of projects analysed | 45 projects analyses | 90% of participants are submitting projects to analysis | Event report |
| # of loan appl. with investment component submitted | 40 – credit application | >80% - credit application | Branch activity report |
| # of loan application approved and financed | 32 – loans extended | >80 %– loans extended | Branch activity report 80% approval rate |
| Qualitative Indicators | Results/outcomes pilot year (target) | Targets of the first impl. year | Assessment tool used |
| % of satisfied beneficiaries - Relevance and utility of the BDS - Quality of training and training materials - Organisation and efficiency | 75% - excellent 15% - very good 10% - good | 75% - excellent 15% - very good 10% - good | Event beneficiaries evaluation questionnaire Event report |
| Portfolio at risk for the loans extended to BDS beneficiaries | 7% | 5% | Pilot project monitoring report, 3 times lower than MFI/CU's 2012 PAR |
| Investment implemented according to the initial plan (+/-10%) | 70% | 70% | Monitoring report s/ questionnaires , telephone interviews, site visits |
| Profitability indicators compared with the forecasts (+/-10%) | To be determined | 70% | Monitoring report s/ questionnaires , telephone interviews |
| Liquidity indicators compared with the forecasts (+/-10%) | To be determined | 70% | Monitoring report s/ quest. telephone interviews |

5. REPLICABILITY

The “**Client First** “ initiative, as presented , does not address only the issues specific to the MFI/CU, e.g. high rejection rate of loan applications for investment, credit officers' lack of knowledge in assessing the feasibility of the investment projects, PAR , etc. it addresses a general issue of the MFIs' targeted beneficiaries: start-ups and micro-enterprises, potential entrepreneurs: lack of knowledge, clear guidance and appropriate financial resources to implement their business idea or development plan.

The “**open door approach**”, the “**innovative methodology**”, partnership with a business consulting firm, specialised in services related to SMEs access to finance, the targeted beneficiaries; current and potential clients, and never the less, the cost effectiveness of the initiative recommend it to be adopted by the other Romanian MFIs in the first stage.

Transformed in an on-line investment project feasibility assessment tool, assisted on line by the consultants and the credit officers of the MFIs, will make it more accessible, less time and resources consuming and therefore more efficient.

Adapted to the specifics of each country legal fiscal regime for entrepreneurship activities and micro enterprises, the tool can be replicated in the neighbouring Eastern European countries, where the MFIs’ targeted beneficiaries are facing the same growth difficulties, as well as in other countries where the MFIs are targeting the start-ups and non- bankable clients.

If there are positive results of the pilot phase, the initiative to be expanded, the lessons that will be learned from this challenging experience will be subject to case studies and presentations to the micro-finance events organised in Romania and in Europe, with the support of the **EMN working groups, labs and the Client first** initiative will be promoted among the European MF providers.

Another element that will recommend the reliability of the initiative is the cost effectiveness. The cost per beneficiary is estimated to around euro 40 in the pilot phase, applied on a larger scale the estimated cost per beneficiary is estimated to be euro 25, and after transforming it to an on-line assessment tool, it is expected to drop up to euro 15 per beneficiary.

Investors and sponsors financial resources may contribute to the tool’s transformation for on-line, impact evaluation and dissemination of the initiative.

Attached The investment appraisal tool reports.