

## Creating Jobs through Microfinance



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## CHALLENGE

Before war erupted in Bosnia and Herzegovina in 1992, the country's economy was based on heavy and military industry, and dominated by several large state-owned conglomerates. A major part of this economy was destroyed during the conflict. As a result, the country was left without the most basic infrastructure and services, and suffered from significant unemployment. People had a hard time launching new businesses since the commercial banking sector was embryonic. The emerging private sector found it extremely arduous to access capital, while micro-enterprises and low-income clientele found it downright impossible.

## APPROACH

The IDA-financed Local Initiatives Microfinance Project was launched in 1997 shortly after the war to address the urgent need to raise incomes, develop businesses, and create jobs in Bosnia and Herzegovina. IDA's approach was an innovative one since microfinance was unheard of in Bosnia and Herzegovina at the time. IDA provided financing to eight micro-credit organizations, invested in building local capacity in this new field, and developed a legal and regulatory framework so the micro-credit organizations could diversify their financing sources and services. The project provided financial services to low-income clients and micro-entrepreneurs to launch or expand businesses. In the immediate post-war period, the project gave priority to demobilized soldiers, women entrepreneurs, and those displaced or disabled by the conflict. This jumpstarted the development of the micro-credit sector, whereupon a second project was launched in 2002 to increase the sector's scale, financial sustainability, and social impact.

## RESULTS

**About 380,000 micro-credits for more than EUR 600 million were disbursed over 10 years from the revolving micro-credit fund. When the project closed in 2005, eight partner organizations were serving about 100,000 active borrowers.**

### Highlights:

- Jobs created. More than 200,000 jobs were created or sustained. An independent impact assessment showed that client businesses on average employ 2.1 persons, and that there was a very positive impact of micro-credits on businesses, household income and even registration (formalization) of businesses.

- Gender parity achieved. 50 percent of borrowers were women. This strengthened women's role

in the family and helped support female-headed households. This was an important contribution, since the war left many households without male heads of families.

- Formal sector expanded. 60 percent of new clients formalized their businesses, compared to less than 40 percent of non-clients surveyed.

- Loan terms and conditions improved over time. For example: the average loan term of micro-credit in 2000 was 10 months, whereas in 2005 it was more than 15 months. Interest rates significantly declined, from close to 30 percent APR to about 15 percent APR (inflation was constant and did not affect the decline).

- Strong repayment rates. Performance indicators of partner micro-credit organizations were strong throughout project implementation, including a portfolio-at-risk of less than 1 percent.

- Sector framework established. An appropriate legal and regulatory framework was established, which allowed micro-credit organizations to attract equity investments in addition to the initial options—donor grants, subsidized donor loans, and commercial loans. The project also strengthened supervision of the sector in accordance with international best practices.

- Overall, the two projects helped create a sustainable and well performing microcredit industry that can meet the needs of microenterprises and low income clients in Bosnia and Herzegovina.

## IDA CONTRIBUTION

The total cost of the two Local Initiatives Microfinance Projects was US\$44.3 million, of which IDA contributed US\$27 million. IDA used its global expertise in microfinance to pioneer the micro-credit approach in Bosnia and Herzegovina.

## PARTNERS

The Governments of Italy, Japan, the Netherlands, Switzerland as well as the UN High Commissioner for Refugees provided co-financing for the first project.

## NEXT STEPS

Although the project closed, the revolving funds of the partner micro-credit organizations continue providing funds for micro-entrepreneurs—which is spurring new employment and businesses. Interest from private equity funds, local and international banks, as well as the International Finance Corporation and the European Bank for Reconstruction and Development suggest that the micro-credit industry will remain sustainable in Bosnia and Herzegovina long into the future.

## LEARN MORE

Local Initiatives (Microfinance) Project I, (1996-2001)

[Project documents](#)

Local Initiatives (Microfinance) Project II (2001-2005)

[Project documents](#)

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