

**Microcredit in post conflict societies:
The Bosnia-Herzegovinian example**

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Introduction

What role can microfinance play in the rebuilding of a post conflict society? While much has been written on the topic of microcredit as an agency in underdeveloped societies, less is known about the role this mechanism can play in developed states.¹ This paper draws on the material that was gathered in a five-year, 1\$ mill Boshman-program carried out at the Centre for Development Studies and Microfinance (MICRO) at the Norwegian School of Management, BI. The research span has a period starting in 1990 and goes all the way up to the present day.

The plan of this study is relatively straightforward. A general outline contextualising the role of microfinance in BiH is followed by three core sections centred upon the case studies, while a concluding chapter summarises the findings in the broader microfinance context. The first section lays out the establishment and development of the BiH microfinance sector. The second section traces prevailing trends in terms of regulatory pressures, financial self-sustainability, competition and mergers and impact assessment. In the third section findings are discussed. Special attention is given to the activities of the microcredit institutions (MCIs) especially with regards to the role of the 'new poor' and criticisms that have been voiced. The concluding remarks summarises the most notable findings and make suggestions for future research.

1.0 Microcredit in BiH

In a post-socialist BiH, a three-year conflict from 1992 to 1995 resulted with almost 6 percent of a pre-conflict 4,4 million population killed or missing, over 60 percent forced to relocate, and around 1 million people that left the country. The war activities resulted with a per capita GDP drop of a 75 percent (from 2,400 USD to 600 USD) registered over a five-year period, from 1990 to 1995 (Demirguc-Kunt et al., 2007). Ohanyan (2002) notes: "The post-Communist conflict cases are characterized by the problem of multiple transitions, which refer to the variety of policy goals that international organizations working in the country bring to the table. Specifically, transitions (1) from war to peacetime economy, (2) from command to market economy, and (3) from humanitarian assistance to long-term development assistance are the major policy goals driving the international involvement in BiH" (pp. 398).

The war activities destroyed large state-owned enterprises (SOEs) and resulted with extremely high unemployment rates in the aftermath of war. However, due to the existence of a large informal sector, the 'true' unemployment rate estimated by the World Bank (2005b) was about 20 percent. As a result, a 'new poor' in the post-conflict BiH represent a different clientele than the poor in Africa and Asia, since they are educated and usually possess some physical

¹ In the current scholarly literature 'microcredit' and 'microfinance' are seen to hold much of the same meaning. This study has chosen to use the term microcredit.

assets. Hartarska and Nadolnyak (2007) offer their description of the new poor: “The potential microentrepreneurs were people who before the war might have had sophisticated private businesses but were displaced or, alternatively, people who, before the war, were factory workers but became unemployed after the industry collapsed (post-war unemployment reached as much as 85%)” (pp. 4). Demirguc-Kunt et al. (2007) also emphasized that BiH had a large entrepreneurial middle class before the war activities in the 1990s.

High unemployment rates and a deteriorated social welfare system urged promotion of a self-employment and microenterprise (Demirguc-Kunt et al., 2007). Lyman (2005) argues that choice of a microenterprise credit as a development tool in BiH seemed reasonable given the high unemployment and a poor social welfare in the aftermath of the post-conflict. The following sections will provide a closer insight into the BiH microcredit sector.

1.1 Establishment and Development of BiH Microcredit Sector

Microfinancial institutions (MFIs) started with their activities shortly after the Dayton Peace Agreement was signed. In a period 1996-2005, 50 MFIs were created (Ribic, 2005). Seemingly, an increase in number of MFIs in BiH followed a general trend of increased funding for microcredit activities. This happened in an environment in which financial sectors' officials accepted NGOs giving loans and government's officials made the registration process for NGOs quick and simple (Woodworth, 2006). Today, the BiH MFIs are some of the largest MFIs in Eastern Europe, financially self-sustainable and competitive.

Lyman divided development of BiH microcredit sector into four periods:

- i. 1996-1999: the early years of microcredit;
- ii. 2000-2001: the adoption of the microcredit organizations (MFIs) laws put in place to cope with the institutions that developed in the immediate postwar period;
- iii. 2002-2003: developments in the broader BiH financial system that affected the position of the MFIs, and the changes in the legal and regulatory picture that accompanied these developments;
- iv. 2004 and on: maturing of the microcredit sector, the emergence of the Central Bank as a likely dominant force in the future development of the BiH financial system and the implications of these facts for MFIs, as well as the prognosis for future microcredit-related legal and regulatory reform (Lyman, 2005).

In the post-conflict BiH, two approaches to microcredit are advanced: microcredit as an immediate peace-building instrument provided in a targeted manner and commercialized microcredit for a long-term sustainability (Ohanyan, 2002). The first approach has been mainly supported by the United Nation's High Commissioner for Refugees (UNHCR), whereas the second one was advocated by the World Bank (WB). A comparison between the two approaches is shown in Table 2.

Table 2. Approaches to microcredit in post-conflict BiH (modified from: Ohanyan, 2002)

Microcredit's role	Main advocates	Target groups	Aims
Peace-building	UNHCR, European bilateral donors	Minority reintegration: returnees, refugees, minorities	To facilitate refugee return
Long-term provision of small credits	WB	'Economically active poor' with business skills, fixed assets and sound business plan	To provide sustainability to microcredit organizations; to create a new type of financial institutions to support small entrepreneurs

The World Bank, together with other donors, financed two phases of a Local Initiatives Project (LIP) I and II, which took place in periods 1996-2000 and 2002-2005 respectively. The LIP I, financed by the World Bank and six other donors (the Netherlands, UNHCR, Italy, Japan, Switzerland and Austria) had three objectives:

- respond to urgent needs and help economically people affected by war during transition from the dependence on humanitarian aid towards the active employment (i.e. 7-10,000 credits with a maximum amount of 10,000 DM² per credit)
- commence 5-10 years old process of establishing the financially sustainable MFIs
- improve business environment for self-employment, micro- and small-enterprises, as well as regulatory environment for non-financial MFIs (World Bank, 2001).

In the World Bank (2001) report, the LIP I was qualified as a successful project, since it had produced results beyond original expectations: 50,260 credits amounting up to 148 millions KM were allocated to clients that were 50 percent females (war widows); an average credit amount was 3,231 KM; the number of clients was 23,000 with portfolio of 44 millions KM; a repayment rate was extremely high with less than 1 percent of risk portfolio; 17 NGOs were funded in order to start with microcredit activities in 1996; until the end of 2000, eight of nine MFIs funded by the LIP I became self-sustainable, by developing strong governance mechanisms, motivated and educated staff, effective credit methodologies as well as appropriate information systems and systems of financial management. On a basis of such results, the second phase of the Project was launched in 2001.

The LIP II, which became effective on 26 March 2002, had a budget of 24.06 million USD, of which the WB/IDA financed 20 million USD and the two Entity governments 4.06 million USD (Dunn, 2005). It aimed at contributing to four main areas: reducing poverty, increasing employment and business development, as well as strengthening the financial sector (World Bank, 2001). As a result, the LIP I and II have had a major influence on development of a microcredit sector in BiH (Dunn, 2005). This was seen as a necessity for providing the microentrepreneurs with an access to loans.

² In the aftermath of war, the local currency was the Deutsch Mark (DM). In 1998, the Convertible Mark (KM) replaced the DM and was established as the local currency.

2.0 Prevailing trends in BiH Microcredit Sector

There are several trends that took place during a course of development of BiH microcredit sector: regulation, financial self-sustainability and competition.

2.1 Regulation

In a period 2000-2001, a legal reform component of the LIP projects aimed at creating the preconditions for a strong microcredit sector at a national level. As a result, development of four new legal forms was recommended:

- a) microcredit organization – a basic form of non-profit, ‘credit only’ institution;
- b) finance company – a form of privately-owned ‘credit only’ lending institution, whose lending is not necessarily limited to microenterprises;
- c) savings and credit association – a member-owned and governed lending institutional form that would also be permitted to mobilize capital from its members in the form of savings;
- d) microfinance institutions – a form of specialized microfinance bank that would be authorized to accept deposits from the general public (Cicic and Sunje, 2002: 164).

However, given political realities in the post-conflict country, only a more limited legislative agenda was possible since every legal change had to be adopted by two Entities’ Parliaments. This resulted with a draft law calling for a new form of ownerless legal entity set up entirely for a purpose of microlending – the Microcredit Organization MFI (Lyman, 2005). The MFI law passed the Federation BiH Parliament in 2000 and the RS Parliament in 2001. The two MFI laws accomplished something new in a deeply divided country: a system of reciprocity that made it possible for a legal entity formed in, for example, the Federation BiH to be registered and carry out business in the RS and vice versa (Lyman, 2005).

The main regulatory institutions are the state-level Central Bank and the entity-level Banking Agencies and Ministries of Finance³. The Central Bank was established in August 1997 as the only monetary authority in BiH, whereas the Banking Agencies, established in 1998, conduct supervision and enforcement of banking regulations (de Montoya et al., 2006). In a period 2002-2003, the Banking Agencies played a main role in strengthening the banking sector, and helping the banks to have entrusted to them the main retail role in the privatization of the payment system (Lyman, 2005).

From 2004 and on, maturing of the market and consolidation of the financial system legislation and regulation at the state level took place, since the LIP II focused on making possibilities for transformation of MFIs from the non-profit organizations into a commercial legal form (Lyman, 2005). The new MFI law was expected to be passed by the end of 2005 providing the MFIs with a possibility of registering as foundations with a capital of at least 50 000 BAM⁴, or as finance companies with a minimum of capital 500 000 BAM (de Montoya et al., 2006). The new law, which was put in force in August 2006, stipulated the MFI as a legal entity that could be established and operate either as a microcredit company or as a microcredit foundation. As a result, the MFIs are allowed to register as a for-profit financial company providing non-saving financial products and being subject to the tax regulations. This resulted

³ In 2000, the Ministry of Finance in FBih was replaced by the Ministry of Social Affairs.

⁴ Some sources use term the Bosnian Mark (BAM) instead of the Convertible Mark (KM). At the official website of the Central Bank, the term Convertible Mark is in use.

with two options for MFIs: to register as financial companies with access to the commercial international funds, or to register as the microcredit NGOs with access to the subsidized loans.

In general terms, creation of the appropriate legal framework for microcredit initiated by the LIP projects helped many MFIs to become more integrated in the financial sector. As a result, there were two possible ways to proceed for the MFIs (Hartarska and Nadolnyak, 2007): a) some were successful to obtain the commercial loans from the local banks, whereas b) others transformed into the financial companies, thereby improving the access to funds and more financial services.

2.2 Financial self-sustainability

BiH MFIs tend to become financially self-sufficient short after their establishments. As already mentioned, under the LIP I Project, eight MFIs became self-sustainable and five were fully financially sustainable (Cicic and Sunje, 2002). The latter implied that five MFIs had a positive fully Adjusted Return on Assets (AROA), or in other words they had sufficient income to cover all costs including inflation, market costs of funds and adjustments of subsidies (Cicic and Sunje, 2002). In addition, BiH MFIs increased three times their total assets and gross loan portfolio in a period 1999-2003 (Berryman and Pytkowska, 2003).

According to data presented by Berryman and Pytkowska (2003), BiH MFIs became 130% financially self-sufficient by the end of 2002 (see Figure 1), which is quite satisfactory compared to MFIs reported to MicroBanking Bulletin (MBB) with their 117% financial self-sufficiency.

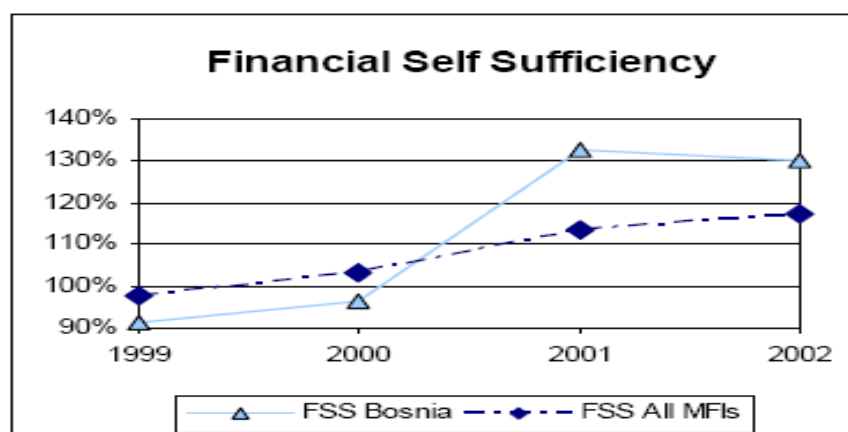


Figure 1. Comparison of financial self-sufficiency in Bosnian and other MFIs (source: Berryman and Pytkowska, 2003)

In a period 2000-2002, the average Adjusted Return on Equity (AROE) – or the return on capital invested - increased from -3% to 21,9% (Berryman and Pytkowska, 2003). This trend continued in a period 2003-2005, even though it did not reach the 2002 figure. Namely, the AROE amounted up to 14,8% in 2003, 18% in 2004 and 15,9% in 2005 (Gaul 2006).

The similar overall positive trend occurred for indicators that show how well is the organization and all its assets managed - the average AROA. It seems that BiH MFIs managed

well since their establishment. In 2000, the AROA was -3.6% and by 2003 had risen to 6.1% (Berryman and Pytkowska, 2003). This positive trend continued, but not at the same pace: the AROA was 6.4% in 2003, 6.7% in 2004 and 4% in 2005 (Gaul 2006). In addition, Gaul (2006) documented a decrease in the financial revenue ratio (from 28.1% in 2003 to 21% in 2005), and the profit margin (from 25.6% in 2003 to 18.7% in 2005). Based on these figures, it becomes apparent that BiH MFIs achieved the operational self-sustainability. According to Cicic and Sunje (2002), achieving operational self-sustainability was not a goal in itself, but by reaching this goal, beneficiaries were provided a long-term access to the microcredit.

The above mentioned figures suggest that the BiH microcredit sector followed a full circle of sector development: establishment – growth – consolidation. This is supported by Gaul (2006) who claimed that BiH had the hallmarks of a mature microcredit sector already in 2005. The establishment and growth periods can be explained by distribution of a large number of small credits under conditions of an extended demand for credits without collaterals in a post-conflict situation. Despite a high rent, this way of distributing small credits was appreciated. Soon after their establishment, the MFIs started diversification of their loan portfolio in order to satisfy the market needs. However, the market consolidation and increased competition resulted with some of the microcredit organizations merging either with other microcredit organizations or with the commercial banks.

2.3 Competition and mergers

Achieving the long term sustainability can be challenging when MFIs operating in limited markets have similar groups of beneficiaries, offer similar product portfolio, and share similar missions. Limited markets are even becoming more so in less populous countries, such as BiH, where the potential number of beneficiaries is restricted. A highly competitive nature of the BiH microcredit sector is best illustrated by two trends: competition within the sector, and competition from the commercial banks offering lower loans (Berryman & Pytkowska, 2003). Competition within the sector followed from donor's funding. 17 Microcredit Organizations (MFI), both local and international NGOs, were originally funded under the LIP I (World Bank, 2001). This number reduced to eight⁵ in the LIP II, and resulted with a series of consolidations within the industry and strengthening of the microcredit sector (Dunn, 2005). According to McCarter (2002), there have been criticisms that LIP's management is responsible for the success or failure of MFIs it supported, since funding of many organizations (i.e. seventeen) in a small country like BiH at the beginning of LIP I project phase was not realistic and resulted with creation and dissolution of a number of LIP's programs in the second phase (McCarter, 2002). However, nine of the LIP I partner organizations that failed to renew funding agreements began to merge with eight organizations that did renew their funding agreements in the LIP II. As a result, five out of nine unfunded organizations merged with the LIP II partner organizations, whereas two unfunded organizations continued to operate independently without LIP's assistance: Aldi Gorazde, and World Vision/EKI (McCarter, 2002).

⁵ In 2001, during the planning phase for the LIP II, potential partner MFIs underwent an independent assessment of their institutional and financial characteristics by Shorebank Advisory Services from Chicago (Dunn, 2005). This resulted with selecting nine MFIs as eligible to receive funds through LIP II. Out of nine, two merged in a forthcoming period and the total number of MFIs funded by LIP II remained eight.

Competition from the commercial banks was due to two trends that emerged during a period 2002-2003: a) entry of the banks with foreign investments (such as Raiffeisen and Hypo-Alpe-Adria) and a rapid increase in savings, mobilization and liquidity; and b) launching of a private credit bureau (LRC) that engaged in the credit information services (Lyman, 2005). In some cases, the banks entered in partnership with the MFIs in order to offer additional financial services, such as insurance and savings, which were not offered by MFIs (de Montoya et al., 2006). Lyman (2005) suggests that although no BiH's bank was successfully focusing on saving services for the poor during this period, over time the MFIs began to see their bank partners as competitors.

Another consequence of the competition in the BiH's microcredit sector resulted with elimination of 'the one-size-fits-all' approach and development of more products (Hartarska and Nadolnyak, 2007). Therefore, as Goronja (1999) outlined, the microcredit sector was better able to serve a broader group of beneficiaries.

Since the microcredit operations found themselves in increasingly competitive, limited and deteriorating market over time, mergers and acquisitions emerged in the microcredit sector. For example, on the World Bank's LIP initiative, 12 largest partner MFIs joined forces and established the Association of Microfinance Institutions (AMFI) (see Appendix 1 for list of partner MFIs in AMFI). Such an initiative was launched due to the lack of strong relationships and inter-NGO ties, which would eventually be a driving force in lobbying the national government for the microfinance legislation (Ohanyan, 2003).

Before our discussion of consolidation of BiH microcredit sector, we will provide an overview of evidence on the impact of microcredit in BiH.

2.4 Impact assessment

Several studies assessed the impact of microcredit activities in BiH. Results varied from positive to neutral to negative impact.

By referring to an independent client survey of 1,437 interviewees⁶ conducted in 1999, Cicic and Sunje (2002) commented upon the microcredit as positively correlated to the generation of new businesses, the addition of new lines to the existing businesses, the growth of production and sometimes both the production and employment. Based on these results, there have been initiatives for creation of a sustainable microcredit sector in BiH – i.e. the establishment of the LIP II Project (Cicic and Sunje, 2002).

In the LIP II's impact assessment, Dunn (2005) reported that microcredit had important positive impacts on household welfare and business development between 2002 and 2004. She conducted a panel study on the impact of microcredit by comparing the changes experienced by two beneficiaries' groups⁷ to the changes experiences by the non-beneficiaries. The impact results are presented in Table 3.

⁶ 1,032 were current microcredit clients and 405 were people who applied for loan but were not approved

⁷ First round survey took place in 2002 with three types of participants: beneficiaries, new beneficiaries and non-beneficiaries. The second survey took place in 2004. The information from the two rounds of data collection was used to create a panel data set (i.e. time series data) of 2,561 participants (Dunn, 2005).

Table 3. Impact results of microcredit on beneficiaries in BiH (modified from Dunn (2005))

Impacts	Findings
Household welfare	<ul style="list-style-type: none"> - Positive impact on per capita household income for beneficiaries and new beneficiaries - Negative relationship between dependency ratio and growth in per capita income - Positive relationship between education and growth in income
Business development (employment, investment, and business registration)	<ul style="list-style-type: none"> - Positive impacts on the newest borrowers - Positive relationship between business registration and growth in all employment variables - Positive relationship between service sector enterprises and growth in wages paid and weekly hours of non-household employees - Positive relationship between livestock and agriculture sector enterprises and total number of employees - Positive impacts on investments in business premise and business equipment for all types of beneficiaries - Positive relationship between business registration and both types of investments - Positive relationship between age of enterprise and growth in business premise investments - Positive relationship between production sector and growth in business equipment investments - Positive impacts on business registration rates for all types of beneficiaries - Negative relationship between growth in business registration rates and enterprises in the agriculture, livestock, and production sectors
Post-conflict transition	<ul style="list-style-type: none"> - MFIs reaching displaced people: 36 percent of beneficiaries and 34 percent of new beneficiaries had been dislocated - MFIs also reaching the demobilized, the disabled and widowed

With less than 1 percent of population involved in microcredit (Ohanyan, 2003), Table 3 shows that the microcredit generally improves the household welfare of beneficiaries, and employment and wages of non-household employees. However, this improvement has been documented for the newest clients, and explanation offered was that the impact may occur after the first loan at any level off over time. Dunn's (2005) study confirmed that clients of the ten programs had higher income than a corresponding control group with similar characteristics in the same (non-randomly selected) areas. In addition, social and economic impact is measured by the microcredit promoting the business development and the post-conflict transition. One of the by-products of the microcredit impact is the impact in informal sector: 34 percent of loans used for services, 45 percent for trade, 13 percent for agriculture and 8 percent for strengthening the small-scale production (Ohanyan, 2003).

By using data collected from the WB's Living Standards Measurement Survey, Hartarska and Nadolnyak (2007) evaluated the impact of the BiH microcredit industry as a whole. Their findings showed that the MFIs improved access to credit in municipalities where two or more MFIs offered the financial products. An explanation is that investment in the local

microenterprises was less sensitive to availability of internal funds in such municipalities compared to those municipalities where the microcredit activities were limited or non-existing.

A study of BiH microcredit neutral impact is documented by Matul and Tsilikounas (2004). They studied impact of a single microcredit program offered by MFI Prizma in Tuzla⁸ region. Comparing beneficiaries and a control group, the study did not find evidence that the program participation led to increase in an income, number of workers, and the investment in equipment, even though these indicators were better among beneficiaries with longer use of credit.

On the other side, some critical voices are heard about the negative impact of microcredit in BiH. Bateman argues:

“Very little evidence has emerged in BiH to suggest that the commercial microcredit model actually possesses the required ‘transformative capacity’ to secure genuinely *sustainable* poverty reduction, through genuinely *sustainable* local economic and social development. On the contrary, the commercial microfinance model is quite centrally implicated in the evolution of the disturbingly weak, unsophisticated, anti-social, disconnected and unfair economic and social structures we see in BiH today.”

(Bateman, 2007: 220)

Bateman (2007) examines five key sustainable economic and social development variables in the light of the commercialized microcredit approach in BiH: material support for the de-industrialization and infantilization of the BiH economy, creation of an atomized ‘unconnectable’ local enterprise sector, programmed failure to reach minimum efficient scale of operations, facilitating trade deficits and import dependency, and destruction of local social capital. *First*, there was never an attempt to establish a local industrial policy for BiH, although “the comparatively high level of industrial development, skills and technology in 1995 represented a once only opportunity to establish a core of small-scale, innovative, relatively technology-intensive, industry-related ventures” (Bateman, 2007: 214). These high opportunity costs are, according to Bateman (2007), due to the commercial microcredit model, which represented ‘the *only* major local financial support structure in BiH’ and used for funding of ‘largely unsustainable trade- and household-based economic activities’. It has been recognized an ‘adverse selection’, and an anti-industrial bias characterized by “[f]iltering out those potential entrepreneurs wishing to work in the industrial sector but who cannot hope to service the onerous terms and conditions offered by the commercial microcredit institutions, and filtering in those ventures incorporating only the very simplest of non-industrial business ideas that just about can” (Bateman, 2007: 214).

Second, Bateman (2007: 216) warns that despite the increased number of MFIs, these organizations are “completely unsuited to forging the efficiency-enhancing horizontal (‘proto-industrial districts’) and vertical (sub-contracting) connections” that are crucial for establishing and reinforcing the sustainable growth and development trajectory. *Third*, by focusing mainly on the small-scale trade activities (i.e. shops and kiosks) in a period 1996-2000, and the small-scale agricultural ventures after 2000, a minimum efficient scale of production that exist in every enterprise sector was never possible to reach. The two sectors faced competition from new supermarkets and local dairy supply chains leading to survival’s difficulties and challenges for the MFIs’ clients. *Forth*, the newly established BiH’s MFIs highly engaged with the small scale trading sector. *Fifth*, Bateman (2007) suggests that microcredit model actively destroys social

⁸ Tuzla is a city in North-East region of BiH.

capital by degeneration of the local solidarity, interpersonal communication, volunteerism, trust-based interaction and goodwill.

Some researchers also warned against the net effect that microcredit approach can have on the economy and society and the potential opportunity costs and summarized some fundamental issues such as:

- distorting the local incentive structures, since they channel the entrepreneurial energy into non-industrial activities and away from more substantive and sustainable activities;
- non-challenging the existing structural relationships in society that perpetuate poverty, such as social inequality;
- disguising the real issues that underpin sustainable development, which tend to relate to the ability to enter modern industries and sectors;
- reproducing poverty at just above an acceptable level, and thus pacifies those who might otherwise legitimately demand more interventionist policies than the international development agencies agreed to (e.g. a Balkan “Marshal Plan”);
- institutionalizing the smuggling of goods and the widespread (though legal) importation of simple, low value added goods that would and could be better produced locally.

Cicic and Sunje (2002: 167)

Based on this, Cicic and Sunje (2002) suggested a revision of microcredit programs' strategy in along three lines: first, microcredit activities should not support developments of the BiH's economy in the direction of low-skill, low technology and import dependent future; second, microcredit should not support small-scale illegal activities, such as smuggling, unlicensed retailing and the reluctance to pay taxes; and third, microcredit activities should become a part of a wider set of policy interventions designed to address factors causing and perpetuating poverty and social exclusion.

3.0 Discussion

According to Forbes Magazine rankings⁹, five members of BiH AMFI¹⁰ are among top 50 in the world. This ranking, published on 20 December 2007, used the nomination criteria such as: the size of loan portfolio, efficiency related to operative expenditures and loan consumers' expenses related to the GDP of a country, as well as risks related to portfolios' quality and action and property capital. The evidence, therefore, suggests that development of a 'new wave commercial' microcredit model in BiH is threefold: it contributes positively in post-conflict situations; it proves to be self-sustainable; and it is followed by commercial banks giving loans, which in turn reinforces competition and regulation. Interestingly enough, development of the microcredit sector in the neighboring countries of Croatia, Serbia and Macedonia, for example, did not follow the same development trajectory. Hence we set out to examine how this development took place, which corresponded to our inquiry about the viability of collective action.

⁹ Forbes' first-ever list of the World's Top 50 MFIs were chosen from a field of 641 microcredit providers. The list was prepared by the Microfinance Information Exchange (www.themix.org) under the direction of the Forbes magazine. To qualify, the institutions must have made available their audited financial and must have passed review by a Forbes panel of advisers.

¹⁰ EKI on 14th, Partner on 18th, MICROFIN Banja Luka on 24th, MI-BOSPO Tuzla on 32nd, and MFI Sunrise on 39th

3.1 Post conflict BiH financial sector

Over a period of ten years, the BiH's microcredit sector that originated from an NGO base has developed and transformed itself into a strong player in the financial sector. At the very beginning, the institutional void situation favored the establishment of the microcredit practice. Indeed, the financial sector's officials accepted NGOs giving loans and the government's officials made the registration process easy for those NGOs. The process has been accelerated due to the goals' alignment between the donors, NGOs and government. This is not surprising if we consider that the microcredit and microenterprise have become an evolving practice in post-conflict situations serving multiple goals, ranging from economic to social goals. Therefore, microcredit has been applied in contexts featured by numbers of the displaced people, refugees and returnees, as well as disruption of the normal life conditions. Taking into consideration that the post-conflict environments suffer from a lack of financial and social capital, infrastructure and functioning relationships, one important implication of microcredit is an economic development strategy aiming to rebuild and recover local economies - to "jump-start the crippled economy" (Nagarajan, 1999). Another important implication is that microcredit becomes a tool for peace and reconciliation. For example, Nagarajan (1999) emphasizes that 'restoration of social capital' is important facilitating conditions if MFIs aim at providing long-term viable services. In BiH's case, this double donor's intention is emphasized in Table 2.

Besides having a social impact in employing demobilized soldiers and refugees and returnees, the microcredit provided another dimension within a financial system that was built and accustomed to support large formerly socialist state-owned enterprises (SOEs) – that of strengthening the financial markets by making financial institutions accessible to small businesses. In BiH the microcredit allowed what commercial banks failed to do: access to the credit for people without collaterals. Hence the microcredit sector, as documented by Hartarska and Nadolnyak (2007), improved access to the credits.

3.2 Institutional entrepreneurs in action: Activities of MFIs

Emergence of microcredit as an institutionalized practice was due to the activities of institutional entrepreneurs. More specifically, the microcredit institutions applied three logics of operation: lobbying for the field's regulation (Ohanyan 2003), aiming for operational self-sustainability (Cicic & Sunje 2002) and merging to strengthen the microcredit sector (Dunn 2005). The three types of activities implied a strategic action in the institutional void, whereby the MFIs acted as actors seeking opportunities to develop their own niche in the financial sector. Such approach produced two kinds of results: the increased self-sustainability of MFIs and a possibility for a strong sector that can react in situations when administrative state is weak. The latter is especially important in cases when there is a gap between the public and the government (Ohanyan, 2003). Hence one of the most important lessons from consolidation of the BiH microcredit sector is seen in this tendency to 'compensate' for the weak institutional framework. Namely, the organizations in microcredit sector used creatively the institutional voids for their own development.

For this purpose, three main principles of microcredit commercialization - profitability, competition and regulation (Christen, 2001) - are identified in the BiH microcredit sector. This is not surprising, since BiH microcredit sector follows the overall development in the region of Eastern Europe related to commercialization of sector in a period 2004-2006 (for more details on

commercialization of Eastern European microcredit sector see Rhyne and Busch, 2006). BiH's NGOs that got involved in microcredit 'transformed' themselves into the MFIs over the past decade. This can be seen as a part of the minimalist microcredit thinking and financial systems logic leading to transformation of NGOs into the commercial MFIs (Premchander, 2003). Hence BiH's case is interesting since it shows the minimum requirements in a broader context for microcredit models to survive in situations of the institutional void.

3.3 The 'new poor' and microcredit practice

The example of BiH's microcredit programs shows that microcredit in BiH is a quick and relatively easy option of getting a smaller amount of cash. For the new poor it is a convenient way of starting up a microenterprise. Rent is usually between 15 and 20 percents. Some consider this as a relatively expensive credit, while others see it as primarily assistance in making the first business steps. What is an advantage with microcredits is the way they are obtained – relatively easy access to credits, with guarantees in some cases. In 2002, the microcredit sector served approximately 1% of the whole BiH population, with rapidly growing needs for small credits (Ohanyan, 2002). BiH's case shows how microcredit is used as the post-conflict reconstruction strategy: for supporting the returnees to their homes and providing them and others with a tool to start-up and hopefully develop their own business.

Post-conflict societies may impact microcredit activities to some extent. Doyle (1998) documents that few preconditions are essential to initiate a microenterprise development program in the post-conflict situations: reasonable security and accessibility; a certain level of market activity; and an assurance that the refugees or internally displaced persons will remain in place long enough to make and recover loans. Furthermore, he divides these preconditions into two types:

- a) essential preconditions: low intensity of conflict, reopening of markets, and long-term displacement; and
- b) preferred preconditions: functioning of commercial bank system, absence of hyperinflation, dense population, enabling legislation for MFIs, skilled and educated labor, social capital, and trust in the local currency and financial institutions (Doyle, 1998).

Some of the Doyle's preferred preconditions were present in the BiH's microcredit sector, whereas others are created through the entrepreneurial activities of the MFIs. Hence it would be of a major importance to conduct further research in this context, in order to provide more data on how activities of the institutional entrepreneurs in the microcredit sector may compensate for the lack of, for example, preferred preconditions to initiate microenterprise development programs in the post-conflict situations.

3.5 Critics of microcredit approach in BiH

Discussion on the critics of the microcredit approach in BiH is beyond the scope of this paper. Nevertheless, we take seriously Bateman's (2007) argument criticizing the attention given to the microcredit model on the expense of the SME model in BiH. The importance of the SME model for creating sufficient and necessary institutional framework sounds plausible. However, claims put forward by Bateman (2007) that the microcredit model does not contribute on this issue still need further evidence, especially since there are others authors that recognize the role of (any type of) networks in advancing the institutional frameworks (Ohanyan, 2002). If state-

building in this context refers to minimum requirements for policies and institutional frameworks, and if 'improved policies and institutions' are necessary conditions over which donors have little control (Clemens et al. 2007), then BiH's microcredit case carries some important lessons for what activities 'work' in situations of institutional void.

4.0 Concluding remarks

This paper suggests that building up a strong sector serves as a catalyst between the self-sustainable organizations and a weak institutional framework – and fulfilling of such a role would eventually lead to a desirable social impact. In other words, it is most likely that almost any kind of wider social impact will lack if there is no a complementary institutional design or government policy. Hence the BiH's microcredit case illustrates that understanding these impacts may lead to further understanding of the institutional and policy interventions for pro-poor, in particular, and the society at large, in general.

The case of BiH's microcredit sector has some important implications. Where the collective action take place in the institutional void, we should pay attention to the potential institutional entrepreneurs and their ability to lobby, achieve operational self-sustainability and merge with similar organizations. To the institutional entrepreneurship literature, this paper provides an insight into type of activities identified at the organizational field level in situations of the institutional void. To the development studies in general, and microcredit studies in particular, it documents a case of the successful development of microcredit sector.

We argue that the institutional void has direct implications for collective action and rationality. Hence a phenomenon of collective action in the institutional void needs to be studied in more details. Not only that this phenomenon occurs in the specific contexts (e.g. post-conflict, or developing countries) but also more frequently in the transnational and international networks. Consider for example the establishment and functioning of the European Union, or recent efforts in consolidating the climate change efforts world-wide. We argue that further research into the antecedents and consequences (intended and unintended) of the BiH's microcredit sector may provide implications for broader context of the institutional void.

Finally, more research is needed in countries like BiH to ascertain where it might be possible for microcredit models to evolve and make a positive sustainable impact instead of de-industrialization of a local economy, which may be ending chances of future development and progress. Can we transform today's microcredit institutions into more developmental local financial institutions? Or are there alternatives to microcredit, such as development banks, cooperative banks, development funds, social venture capital funds, community development banks, technology funds, and so on? All these questions boil down to only one: What is the potential for microcredit programs?

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