



# **Independent Evaluation of the JOBS Project Financial Leasing Scheme 2005 - 2006**

**JOBS PROJECT  
Financial Leasing Scheme,  
Bulgaria**

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## **Evaluation Report**

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*by*  
***Dr Mostaq Ahmmed***

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### Annexes:

*Questionnaires*

*List of Leasing Clients and Other People Interviewed*

*Institutional Structure*

## Acronyms

BC	Business Centers
BGN	Bulgarian Leva
BIR	Base Interest Rate
BNB	Bulgarian National Bank
CCU	Central Coordination Unit
FC	Financial Consultant
FLE	Financial Leasing Expert
FLS	Financial Leasing Scheme
FLSIP	Financial Leasing Scheme Implementation Procedures
JOBS	Job Opportunities Through Business Support
LC	Leasing Committee
MIS	Management Information System
NBDN	National Business Development Network
NGO	Nongovernmental Organization
PAR	Portfolio at Risk
SME	Small and Medium Enterprise
SWL	Start With Leasing
TL	Team Leader
TOR	Terms of Reference

## **Acknowledgements**

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# **1. Introduction**

## **Background**

Unemployment has been a persistent problem in Bulgaria, particularly in the rural and agricultural regions. The strategic goal of an economically prospering Bulgaria where the private sector creates long-term sustainable jobs cannot be achieved unless proper mechanisms are put into place. This led to the creation of JOBS Project, which addresses the issue of unemployment by creating sustainable long-term jobs through support to micro and small business development.

The project strategy relies on a network of Business Centres (BCs), Business Incubators (BIs) and Window Offices located in 55 Bulgarian Municipalities<sup>1</sup> providing an integrated package of business development and business support services (consulting, marketing, office and information services, training and a financial leasing scheme). The project targets unemployed people, existing micro and small entrepreneurs, self-starters, agricultural entrepreneurs and disadvantaged groups with the aim of creating jobs and alleviating poverty through micro and small enterprises.

## **Scope and Methodology of the Evaluation**

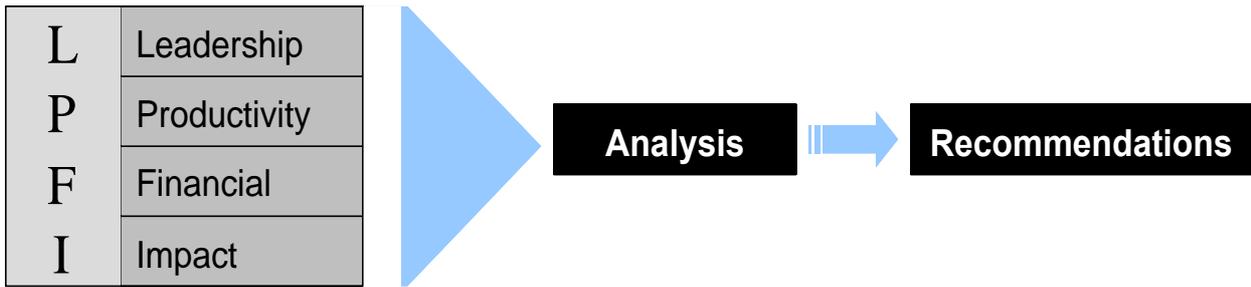
This is the 4<sup>th</sup> regular external (independent) evaluation of one of the JOBS Project's key components – its Financial Leasing Scheme. The evaluation covers the period 1 January 2005 – 31 December 2006.

The microfinance consultant employed the LPFI evaluation method and a scoring methodology. The scoring has been used in the tables to furnish data for analysis and also for showing the comparisons of the findings.

The LPFI scoring has provided the JOBS Financial Leasing Scheme (FLS) with a concrete idea of its current situation in terms of four operational areas, which are leadership, productivity, finance, and impact.

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<sup>1</sup> Bulgaria has a total of 264 Municipalities.



## Identification of Strengths and Weaknesses

The microfinance expert has identified major strengths and key weaknesses of the JOBS leasing operations that need to be addressed in order to improve the management efficiency of the FLS. Strength and weakness identification is an integral part of the LPFI evaluation. Thoroughly undertaken, clear, and concise problem identification enables to identify and design the most appropriate technical support services that will address the identified issues in a cost-effective way, furthering the JOBS Project's positive impact on poverty alleviation

The LPFI diagnostics is an innovative state-of-the-art microfinance operations' analytical tool developed by the evaluation consultant. The tool helps analyze 4 aspects of the JOBS FLS:

The evaluator has carried on an in-depth assessment of the JOBS FLS and has identified the main operational aspects that need to be enhanced or restructured, after which an appropriate technical support service will be implemented. During the evaluation, the consultant has focused on the JOBS FLS strategic planning, product & services, leadership and management structure, productivity, record keeping, fund management, and monitoring and supervision system.

## 2. The Financial Leasing Scheme in Brief

A key tool used by the BCs is the JOBS Project micro financing mechanism – a financial leasing scheme (FLS).

### FLS Description

Microfinancing through financial leasing is open to local entrepreneurs through the BCs for purchase of production and service equipment. The target clients of FLS are micro and small manufacturing and service enterprises; start-up entrepreneurs with viable business ideas; and agricultural businesses. FLS is a revolving fund, initially totalling USD 5.5 million, managed by 38 of the JOBS BSc with the active involvement of each

BC's financial consultant and of the central FLS unit (5 staff) with the JOBS Team in Sofia. Leasing applications are reviewed by a Local Leasing Committee composed of key stakeholders: representatives of the Municipality, the Labour Office, a bank, one business representative, and the BC Team Leader.

## FLS Goals

The FLS goals are to provide local entrepreneurs with alternative (non-bank) access to micro funding for purchase of vital equipment for their business, which will result in sustainable employment; to support non-bankable clients, allowing them to demonstrate a successful credit history and by doing so change the attitude of banks towards this business sector; to increase the capacity of micro and small enterprise owners through the provision by the BCs of a package of business services to the lessees; and to function as a key source of income from paid interest for the BCs on their way towards sustainability

## FLS Terms

Two FLS tracks are available: i) for start-up and existing enterprises; ii) the Start-with-Leasing program designed specifically for unemployed people, registered at the Labour Office and wishing to set up independent businesses.

FLS terms	General FLS program	Start with Leasing program
maximum lease value	USD 15,000	USD 3,000
flexible grace period	6 months	6 months
annual interest rate	national interest rate* + 10%	national interest rate + 10%
repayment period	up to 36 months	up to 48 months
down payment	20% of the equipment cost	10% of the equipment cost

\*The national interest rate is set by the Bulgarian National Bank and is 3.26% for December 2006.

The lease is repaid in equal monthly installments. No collateral is required: the leased, equipment serves to collateralize the lease. Approval is contingent on two requirements: businesses have to operate within the communities where the Business Centers work and they have to create new jobs.

## FLS Results as of December 31, 2006

	Since start of project
Leases approved	1245
Utilized leasing funds (in USD)	7,9 million
Total cost of the leased equipment (in USD)	10,2 million
Direct jobs created as a result of leases	3,052
Start-up companies supported	26%

### 3. Business Environment and Legal Context

Bulgaria has an enabling and friendly environment in terms of NGO activities and for promotion of the SME sector.

The JOBS Project Business Centres have been registered in public benefit according to the Act on Non-Profit Legal Entities, which allows them to carry out economic activities whenever these comply with the main goals proclaimed in the BC bylaws

A comprehensive National Strategy for Promotion of SME Development has been adopted along with an Action Plan and Annual Programs for its implementation. The main objective is to create a favorable environment for the development of a competitive SME sector, whilst safeguarding macroeconomic stability. The strategy lays down the following priorities: to simplify the administrative and regulatory environment for SMEs activities; to improve the friendly financial environment; to support innovation, product and technology development; to enhance the access of SMEs to information and services; to ensure appropriate conditions for SME development on a regional level; and to promote entrepreneurial skills and spirit.

The Credit Institutions Act allows bodies that are not credit institutions to perform one or more of the activities under Art.2, paragraph 2, items 5 through 14 (where Art.2, paragraph 2, item 6 explicitly states financial leasing), including lending of funds which are not raised through public collection of deposits or other recoverable funds.

### 4. Target Beneficiaries of the JOBS Financial Leasing Scheme

The target clients of the FLS are the unemployed people, small entrepreneurs, start-up entrepreneurs, vulnerable groups in the labour market and the youths in search of employment.

The FLS project has also ensured satisfactory number of women participation and committed that woman and men benefit equally from all the rights,

resources and opportunities provided under the project. Members of different ethnic minorities also supported by the project to have the opportunities for increased income generation activities to improve their living condition.

## **5. Organisational Structure of the JOBS FLS and Core Business Support Services**

The human resources of the FLS are well structured and impressive. As of 31 December 2006, the BC/BI network employed over 300 people<sup>2</sup>, of which 130 were financed by the JOBS Project.

The FLS is managed by 38 of the JOBS BSc with the active involvement of each BC's financial consultant and of the JOBS central FLS unit of 5 (FL Manager, 3 FL Experts and FL Assistant) in Sofia.

Continuous training and capacity building programs have improved the capacity of the BCs/BIs with a positive impact on service delivery and reporting. With a lean organizational structure (please see Annex), JOBS management structure is encouraging quality service delivery and reporting mechanisms with well-defined responsibilities at each level.

The level of authority remains constant for all BCs by category. All leases must be processed through the Leasing Committee (LC) at the 14 new BCs, while at the 21 old BCs, loans above BGN 10,000 must be processed through the LCs. BCs processing greater volumes of leases who successfully maintain portfolio quality at 5% PAR (Portfolio at risk more 30 days) and comply with procedures be granted greater authority. This would include raising the limit for LC threshold to BGN 15,000 in those cases. BCs that fail to maintain this quality or who have less than one year of FLS experience would be subject to the BGN 10,000 limit and be subject to more frequent supervisory visits and receive additional training to remedy identified shortcomings.

The LC composition provides an excellent complement to the BC resources, but may in cases be reaching the limits of optimal performance due to heavy workload. Increasing the threshold for LC submittal would help reduce this pressure.

Currently all reports monitor specific BCs or the overall scheme. Reports to segregate BCs by the three regions served by the Financial Leasing Experts (FLEs) are not generated. Reports produced on this basis would provide valuable management information for the FLEs as well as the Financial Leasing Manager. Producing the Analytical Report, Portfolio Status Report and Leasing Scheme Status Report for each of the regions served by the

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<sup>2</sup> Information from the JOBS Annual Report 2006,

FLEs is recommended. This would provide baseline information to: compare size and composition of leases, portfolio quality, employment impact and lease activity by region. The FLEs would be able to use this as management tool in evaluating activities in their respective regions. Additionally, the Financial Leasing Manager would have an additional quantitative tool to evaluate both the performance of BCs by region and the performance of the FLEs among the regions.

In order to expand access to financing for start-up entrepreneurs, new terms were introduced in the financial leasing scheme under the JOBS for Roma Component effective 1 July 2006. The limitation for leasing applicants to operate only production or service companies was removed. The maximum lease value was made equal for existing companies, start-ups and unemployed people at BGN 25,000 (USD 16,600). Special relief provisions were introduced with respect to business starters. The repayment period on the lease was extended from three to four years and the grace period was increased from 6 to 9 months.

## **6. JOBS Leasing Products and Services**

The JOBS Project strategy is to implement an integrated approach to job creation and economic development, whereby the FLS is one of the key project tools. The FLS enables the BCs in financing long-term capital for local business activity that creates employment. Additionally, the FLS income (interest payments) is a key element in the strategy to ensure long-term financial viability of the BCs so they may continue to fulfill their mission in a post-project environment.

The FLS approach is to provide training (as needed), advisory assistance and financial leases to those who have no or restricted access to financial services. There is evidence of transition to banks among several clients, a real success.

## **7. Outreach**

The basic instruments of the FLS outreach are 38 of the JOBS BCs. Four more BCs can develop capacity to participate in the future. BCs have further enhanced their outreach by cultivating relationships in sites outside their prime location. Lease clients very much value the consultative relationship that the BCs have cultivated with them. Clients look to the BCs for advice when they require information to help in their businesses.

The JOBS Project FLS model has had some international exposure as a good practice in the countries like Poland, Hungary, France, Luxemburg, etc. The JOBS Project assisted with the organization of the closing meeting of the international project "From Exclusion to Inclusion through Microfinance:

Learning from East to West and West to East", which took place in Sofia. Bulgaria has been selected to host the 10<sup>th</sup> Anniversary Annual Conference of the International Microfinance Centre, which will be held in Sofia in May 2007 with the support of UNDP.

## **8. Leasing Procedures & Service Delivery Mechanism**

The leasing procedures are well articulated in the Financial Leasing Scheme Implementation Procedures (FLSIP). Strong leadership from the JOBS CCU<sup>3</sup> has insured compliance with FLSIP. While the procedures are well-suited for the scheme, a number of items could be modified to improve efficiency. Implementing the new MIS (Management Information System) as soon as possible will help immeasurably in reducing workloads and improving data quality.

The JOBS Project has a unique structure with 40 Business Centers all over the country and running from the heart of the each municipality with the support of the local government. The project has already remarkable reputation in terms of attracting people from the community and providing diversified technical and training support to build the local business capacity. In 2006 the BCs/BIs continued training lease applicants, assisted clients in developing their business plans, and held local leasing committee meetings to approve new lessees. Due to full disbursement of the leasing funds on hand and in order to meet the strong interest in the local communities, the leasing fund of six centers in 2006 was increased with additional transfers of USD 50,000 each in Peshtera, Novi Pazar, Harmanli (in the period April-June), Shumen, Sliven (October) and Montana (December). The leasing fund of BC/BI Pernik was also increased in December by USD 25,000.

Reducing the reporting requirement for "Pipeline Interest in the Financial Leasing Scheme" to once per month will continue to provide useful information while significantly reducing time spent on the report.

## **9. Impact and Clients Satisfaction Analysis**

During the diagnosis mission 5 Business Center activities were analyzed and 15 clients were interviewed to measure their satisfaction with the JOBS FLS and the impact of the project activities. The overwhelming majority of lease clients are highly pleased with the services and information they received from the BCs. The level of service - especially training and technical support to the lease clients - is significantly better than the other conventional banking supports. Most interviewed lease clients expressed their high level satisfaction in terms of support they get from the BCs concerning the lease application process, such as, assistance filling out lease related

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<sup>3</sup> Central Coordination Unit of the JOBS Project in Sofia

documentation, creation of business plan, business training, and assistance in equipment procurement.

When clients were asked about the quality of JOBS FLS services, 12 out of 15 expressed that they are highly satisfied, since services were fast and very much supportive, and the BC staff played efficient role to speed up the loan processing.

The majority of the interviewed clients stated that the 20% down payment, fluctuating interest rate and the short lease term/grace period were the biggest weakness of the FLS. They were claiming that a 10% down payment or no down payment requirement, a fixed interest rate and a bigger lease amount with a 48 months loan period could be much more appropriate for them.

The majority of the interviewed clients stated that the project should continue with simple and flexible procedures so that start up business can benefit from the FLS. Although the FLS provides an excellent source of credit to finance equipment needs of small businesses, there is a great demand for credit to finance shorter-term working capital needs of small businesses. In several cases throughout the evaluation, both clients and BC staff expressed a need for the FLS to provide access to working capital and credit for housing or construction for business premises. On the other hand, the option could be considered of offering an additional credit product specifically designed to finance retailing and homegrown businesses. The business premises possessions, business license or stoke/equipment etc. could be used as collateral.

## **10. Productivity Analysis and Keys to Achieving Sustainability**

The JOBS Business Centers are still subsidized, since their current operational cost is higher than their income earnings. The project bears the costs of BC operation since the beginning. It is willing to reduce the amount of financial support to encourage BC to develop other means of sustaining operations.

Income from the BC training services and interest income from the FLS covers a substantial portion of the BC operating costs. Presently, in many cases the interest generated covers all BC costs related to the FLS and in addition cover a portion of the other operating expenses of the BC. The following tables highlight the Business Center-wise monthly average income and expenses and their differences, productivity ratio and business losses due to idle and unused money at the BC level:

## Business Centre-wise Monthly Average Income & Operational Expenses Analysis

Sl. No.	Name of the Branch	Monthly Average Expenses Amount in BGN	Monthly Average Income Amount in BGN	Differences Amount in BGN
1.	Karlovo	85, 428 BGN	70,249 BGN	-15179
2.	Novi Pazar	15,000 BGN	33,733 BGN	18733
3.	Dobrich	7283	5848	-1434
4.	Isperih	8238	8330	92
5.	Vidin	6991	6008	-983
6.	Dulovo	3587	3783	+196
7.	Polski Trambesh	5831	3694	-2137
8.	Shumen	7285	7596	+311
9.	Devin	6617	3774	-2843
10.	Montana	8056	2705	-5351
11.	Targovishte	17091	9848	-7243
12.	Svishtov	9788	6641	-3147

The above table shows the monthly average income and operational expenses of each business centre. Data in the table reveal that except 4 branches, i.e., Novi Pazar, Isperih, Dulovo and Shumen, all other branches are yet not in a position to cover their expenditure from the income. Among those four, which can cover their expenses, three have a marginal difference of income above the expenditure. Only the branch Novi Pazar shows a positive indication in this respect. It may be concluded that the branches are not yet in a sustainable position. But they are very close to ensure their income above the expenditure.

### Breakdown of Yearly Earnings of Sample Business Centre

Sl. No.	Name of the Branch	Expenses Amount in BGN	Income Amount in BGN	Differences Amount in BGN
1.	Dobrich	87403 BGN	Leasing-30956BGN Services/training-27471BGN Other-11759BGN Total-70186 BGN	-17217 BGN
2.	Vidin	83899 BGN	Leasing-24 750BGN Services/training-19839BGN Other-27509BGN Total-72 098 BGN	-11801 BGN
3.	Dulovo	43050 BGN	Leasing-32 200BGN Services/ training- Other-13 200GN Total-45400 BGN	+2350 BGN
4.	Polski Trambesh	69974 BGN	Leasing-12 720BGN Services/training-30700BGN Other-916BGN	-25638

			Total-44336 BGN	
5.	Shumen	8728 BGN	Leasing-30130BGN Services/training-33477BGN Other-27556BGN Total-91163 BGN	+3735
6.	Devin	79406 BGN	Leasing-17848BGN Services/training-22090BGN Other-5359BGN Total-45297 BGN	-34109
7.	Montana	96673 BGN	Leasing-22448BGN Services/training-1231 BGN Other-13075BGN Total-36754 BGN	-59919
8.	Targoviste	205100 BGN	Leasing-17306 BGN Services/training-29514BGN Other-71367BGN Total-118187 BGN	-86913
9.	Svishtov	117463 BGN	Leasing- 10411BGN Services/training-33193BGN Other-36089BGN Total-79 693 BGN	-37770

The table furnished above shows the breakdown of the yearly earnings of the business centres. Information reflects that the branches Dulovo and Shumen confirm their yearly income in the positive. Other branches could not cross the break-even point. It is expected that all the branches would be able to raise their income and occupy a positive position very soon.

### Staff Productivity Analysis: Sample Business Centre

Sl. No	Name of the Business Centre	Number of Staff		Number of Leasing Clients	Outstanding Loan Amount BGN	Curent Principle Disbursement BGN	Average Outstanding Loan Size BGN
		Leasing	Others				
1.	Peshtera	3	5	27	231148	312427	8561
2.	Karlovo	2	12	33	217,000	575341	6575
3.	Novi Pazar	5	3	27	278740	478959	10323
4.	Dobrich	3	4	43	237 481	430 148	5522
5.	Isperih	3	3	11	70,000	214000	6364
6.	Vidin	2	10	20	136653	366805	6832
7.	Elhovo	3	10	43	206286	614273	4797
8.	Samokov	2	19	19	128375	343692	6756

9.	Dulovo	3	9	40	340 606	593 258	8515
10.	Polski Trambesh	2	10	23	128 539	425 178	5589
11.	Shumen	2	9	40	286 398	625 509	7160
12.	Devin	2	4	18	172 234	372 087	9568
13.	Montana	2	5	23	204 319	315 675	8883
14.	Harmanli	2	2	21	156 141	225 749	7435
15.	Kazanlak	3	5	14	139 652	197 398	9975
16.	Svishtov	2	7	19	94 004	179 948	4947

The table reflects the staff productivity analysis of 16 sample business centres. The number of staff for leasing in the BCs varies from 2 of 3. In the branch Shumen 2 staff oversee a number of 40 leasing clients. That is, 1 staff covers 20 clients on average. On the other hand, in the branch Isperih 3 staff oversee 11 leasing clients, about 4 clients each on average, Hence there is scope to increase the staff productivity in every BC and each and every business center should cover 60 to 80 clients minimum with existing structure. With the increase in number of client ratio, the amount of loan disbursement would increase. Consequently income in each BC would increase, which invariably would pave the way to sustainability.

### **Idle Money Remains in the Business Centre**

Idle Money Remains in the Business Centre Between October and December 2006:

Sl. No.	Name of the Business Centre	Idle Money in the Business Centre Account – BGN	Financial Losses –per month BGN
1.	Peshtera	85502	926
2.	Karlovo	149383	1618
3.	Novi Pazar	76160	825
4.	Dobrich	77419	838
5.	Isperih	131903	1429
6.	Vidin	62707	679
7.	Elhovo	84664	918

8.	Samokov	154475	1673
9.	Dulovo	27394	297
10.	Polski Trambesh	157461	1706
11.	Shumen	80602	873
12.	Devin	110916	1201
13.	Montana	106581	1154
14.	Harmanli	75409	817
15.	Kazanlak	16148	174
16.	Svishtov	145396	1574

The table shows the amounts of idle money lying in the business centres. It is estimated that more than US \$ 50,000 remained idle in the business centers during October to December 2006. The unutilized idle money hinders generation of income. If the huge amounts could be used as a revolving fund then it could yield a satisfactory income. The management must find out the way for proper utilization of the idle money with a view to gaining optimum benefit from it. Improvement of the situation would lead the BCs to attain the status of sustainability.

### **Business Centre -wise Leasing Disbursement for Start-up Business and Existing Business**

Sl. No.	Name of the Branch	Financial Support for Start-up Business		Financial Support for Existing Business	
		In amount BGN	In % of Total Outstanding Loan	In amount BGN	In % of Total Outstanding Loan
1.	Peshtera	39664	17%	191484	83%
2.	Karlovo	30485	14%	186515	86%
3.	Novi Pazar	23887	9%	254853	91%
4.	Dobrich	67150	28%	170331	72%
5.	Ispereh	1536	2,19%	68560	97,81%
6.	Vidin	59201	43%	77452	57%
7.	Elhovo	23580	11,43%	182705	88,57%
8.	Samokov	20141	16%	108234	84%
9.	Dulovo	151904	45%	188712	55%
10.	Polski Trambesh	40909	32%	87630	68%
11.	Shumen	148748	52%	137650	48%
12.	Devin	7609	4,42%	164624	95,58%

13.	Montana	85481	42%	118838	58%
14.	Harmanli	11604	7,43%	144537	92,57%
15.	Kazanlak	32396	23%	107255	77%
16	Svishtov	44949	48%	49055	52%

The table shows the business centre-wise financial support for the start-up and the existing business. It reveals that the percentage of the outstanding loan in the existing business is higher than that of the start-up business in all the business centres. This information indicates that the BCs have been able to gather strength gradually in start-up position and more focus should be given to support start up business. But definitely statistics shows that financial support increased to a great extent with the increase in financial support the way for achieving sustainability has been broadened.

## **11. Key Findings: Strengths and Weaknesses**

### **Strengths**

JOBS Project established and maintained strong partnerships with government, donor, private sector, and NGOs. Involvement and strong support provided by MLSP and MME to the leasing Component. Strong "local ownership" ensured since JOBS working at the community level and operated with municipalities' supports.

JOBS's Leasing Component is aligned with Bulgaria Government's goals for private sector development and poverty alleviation. Technical assistance & Networking supports are provided by UNDP, which helped JOBS project to mobilize funds and grow further.

Business Information Centres (BICs) are established for providing business support, marketing and financial information to MSEs, which is a strong aspect of the project. Strength of the project lies in the establishment and support to 42 Business Centres (BCs) that aim is to provide entrepreneurs, MSEs and unemployed with additional non-financial services: financial and marketing consultancy, market research, business plans, registration supports, and training services.

Establishment of Business Incubators (BIs) that offers office premises and business address to the MSEs with minimal cost. Additional services, provided to these MSEs, are office and administrative support as well as leading on necessary equipments. IT centres in each of the BCs/BIs/BICs offered Internet access, and computer training, which ensured great support for business community.

Strong visibility and well connected with local municipalities. Project is running from the heart of the city centres. Project beneficiaries are given

the opportunity to acquire equipment under financial lease contracts, concluded between them and BCs.

## **Weaknesses**

### **Leasing Products & Services**

The JOBS project showed a lack on product & service adaptation to local context. Single leasing product has been unable to address the diverse needs of the emerging market of micro or small enterprise development. Loan size is small compared to the target clients and market demand. Interest rate is high and fluctuating. Collaterals are imposed to access the leasing funds, 20% down payment requirements is difficult for leasing clients to meet up. Clients are not well informed and educated about the leasing terms and condition. Lack of Information and knowledge gap has been witnessed.

### **Operational Procedures & Condition**

Too many documents and information require processing the leasing demand, which take time and upset the clients as well. The current procedures are more complex compared to the conventional banking system.

Currently, more than two consecutive loans are not allowed but potential and regular clients want to continue. For the second loan clients need again to follow the same procedures like the first loan, which is not necessary.

Current MIS and record keeping system at the Business Centre level is not efficient to come up with financial analytical report.

For small and bigger amount of leasing disbursement check at the BC label requires signature of the CCU personnel. This is time consuming and it creates a complex situation in terms of smooth and quick operation.

### **Leasing Committee**

Too many people are in the leasing committee, which is not necessary. They evaluate a less number of clients (1 or 2 clients) in monthly basis as compared to their potential time of involvement.

Clients are obliged to defend their business plan in front of the credit committee, which they do not like and consider it a hard condition even more than conventional banking system.

## Productivity & Outreach

Less number of women beneficiaries are participating in the leasing scheme, which can be increased through focus based planning.

Less start up business is supported by the JOBS project. Most of the leases given to the existing business are in medium scale with strong capital base. FLS only serves micro and small companies hence no medium size companies should be financed. Existing companies served should not necessarily have a strong capital base.

Monthly basis clients outreach is not satisfactory as compared to the number of staff involved and set up office facilities. The office of a business center manages a number of different activities/projects, including leasing.

Cost of operation is very high for last several years and BC office premises has been donated by the local municipalities. Lots of idle and unused money remains in the BC bank account, which is not wise or realistic, because it hinders yielding more income.

## CCU Management Structure

Regular and plan-wise field monitoring and supervision should be optimised, but currently monitoring checklist and register are not used by the CCU officials during the field visits.

Monthly monitoring report needs to be well structured through introducing Monitoring Register at the BC Level and follow up facts and findings/action plan in regular basis to increase the productivity achievements.

Unified institutional structure and chain of command needs to be strengthened. Middle management should be much more functional in terms of staff training and multi-layer monitoring activities.

## Institutional Structure & Performances

Each and every BC is registered as NGO at the local level and they have their own board and steering committee. As a result, they act like an independent and not under the single chain of command.

There is lack of initiative in giving specific global target and achieving certain targets (in terms of cost cutting and earnings revenues) at each BC within a timeframe. Hence several BCs are still running with subsidies. To mention that, at present, all BCs are partially subsidized by the JOBS Project.

Financial and analytical skills are not in satisfactory level, which need to be improved through specific training and capacity building activities at the BC level.

Less productive staffs are involved at the BC level as compared to the number of people. Low outreach of leasing clients found, because the leasing schemes supported by BCs haven't been able to reach more than 1245 clients.

JOBS project is competing with local banks since BC product is almost similar to the bank's products.

### **13. Recommendations**

It was announced at the meeting at the end of the mission in Bulgaria that JOBS Project FLS is doing a good job and needs only certain fine-tuning in order to develop better as a microfinance instrument. This is good to be noted again before specific recommendations are done to link up it to the proposed fine-tuning

#### **Simplified Credit Policy and Operational Procedures**

The lease financing itself comes with some collateral. Therefore a more simplified credit policy with less number of formats is expected for faster movement of the process with less complexity.

20% down payment is not realistic and is a burden for the clients, because to start a business, they need more capital initially. The recommendation on this point is either to remove it altogether or to reduce the requirement to 10%.

The interest rate is not an issue in terms of size. The rate may remain the same but it should be flat and fixed at least for 1 year because fluctuations are complicated for the clients and create confusion. The analysis and outcome from the clients' interviews supported the idea for applying a slightly lower interest rate without fluctuations.

For the second loan cycle the terms, conditions and procedure need to be simplified. No need to ask for all documents, it would be sufficient to provide current income statement and financial/business analysis. If the first lease was repaid on time and the business developed well, the team leader and the financial consultant could decide and approve the application.

## Product Diversification & Market Demand

The current leasing product is very much single-focused. By having one single product it is very difficult to be profitable and productive and address the market demand. The product itself has also a lot of limitation – in terms of duration and conditions of the product.

The better part of the fund disbursed, as shown by the statistical data, goes to existing companies, which are micro and small enterprises. The loan amount is smaller than their actual needs. Targeting clients are not suitable for the project as it is designed now. Either the product line (amount etc.) needs to be increased, or the target clients need to be changed. The current lease amount could be increased a little and categorized to serve different clientele. One category can be from 5,000 to 15,000 and the second category from 15,000 to 30,000 leva.

Clients with a good track record of repayment may be given an opportunity to use the fund more than 2 times. The minimum timeframe could be 3 times for such potential clients.

The maximum loan cycle may remain the same – 3 years.

Urgent need is to diversify the existing lease product. Lease financing, JOBS should immediately think about developing a micro finance product for micro business development by providing small amounts of working capital (5,000 to 15,000 leva can be given to retail businesses such as shop keeping, hardware, small buying and selling business).

Besides lease financing, JOBS may immediately come up with a housing loan product since there is a huge demand for it. It may consider small credits for reconstruction of business related buildings.

Linkages with local banks need to be developed to facilitate clients in mobilizing savings, because saving is not popular at all in Bulgaria.

The current evaluation and survey shows that the clients demonstrate a considerable gap in terms of information about the product. Ongoing program for financial education needs to be developed and implemented to respect the social obligation of the BC to increase the capacity of their target group.

## Proposed Product Line

Sl. No.	Name of the New Product	Product Line and Target Population/Business	Lending Methodology & Condition
1.	<b>Loan for Small Business</b>	<ul style="list-style-type: none"> <li>- 5,000 to 15,000 BGN</li> <li>- For Retailing Business;</li> <li>- Shop Keeping;</li> <li>- Home grown business &amp; services;</li> </ul>	<ul style="list-style-type: none"> <li>- 1 to 2 Years time period</li> <li>- Flat Interest Rate</li> <li>- Soft Collaterals/Condition</li> </ul>
2.	<b>Loan for &amp; Business Premises</b>	<p style="text-align: center;"><b><u>15,000 to 35,000 BGN</u></b></p> <ul style="list-style-type: none"> <li>- For reparation</li> <li>- Reconstruction</li> <li>- Decoration etc.</li> </ul>	<ul style="list-style-type: none"> <li>- 3 to 5 years time period</li> <li>- Flat Interest rate</li> <li>- Soft mortgage/Condition</li> </ul>

Possible Decision-making at the Local Level (by BC staff only without leasing committee)

If the amount is less than 10,000, the leasing committee may not need to arrange decision-making meeting. The team leader and financial consultant may finalize the decision with due respect to the rules. This may be standardized and applied across all BCs (new and old) as they already have experience with old BC. If the amount is less than 10,000, the client won't need to meet committee.

Mechanism for Dealing with Problems of Leases & Delinquency Management (– more pressure – how many days to be given to client to react before court procedure – currently 45 days)

Each and every day of the repayment if clients do not pay on time, the same day FC should meet with the clients physically to see and understand the problem why payment wasn't done? During the first contact either collect the default amount or reschedule for specific date if any valid reason is present. A certain number of days, 1-2 weeks maximum, may be allowed.

Proposal for Fund Security Mechanism Other than Promissory Note

If lease amount is more than 20,000 leva, clients may be advised to open a savings account with a local bank as a condition of borrowing money from the BC. Each month the client may save a certain amount mandatory, which may be blocked in case of default.

The legal aspect of micro insurance needs to be analyzed according to Bulgarian context. Micro insurance can be developed in collaboration with Insurance Company to protect the fund against delinquency. Premium can cover the losses.

More connectivity and frequent follow-up need to be established between clients and FC. Social collateral needs to be ensured through putting pressure by the guarantor. If the problem persists, by the 30<sup>th</sup> day of past due, legal action starts. In terms of delinquency management, zero tolerance method may be applied.

### Return of Unused Funds by BC to JOBS Project – When and Following What Criteria?

Not more than 50,000 leva should remain unused for more than 2 months. If this happens, the entire amount may be returned to project. 25% of it can stay in BC account to offset an emergency liquidity crisis, but only by exception.

Keeping the funds idle is a losing concern because the bank provides low interest. If it is disbursed to clients, it can earn 13.5%. Some BCs may perform well and for that they require more money, so sharing the fund with them would increase productivity. There should be no upper limit for the well performing BCs, they need support to grow. This mechanism may influence the BCs to increase the number of clients and increase the utilization of the fund.

The fund management and ensuring the maximum utilization of the leasing fund should be managed and controlled by the central team. If any irregularities happen and the organization loses money, penalties may be imposed (compensation) on the people responsible for irregularities.

Expansion plan should be revised and updated on a quarterly basis, approved by the central team and then the available funds should be made available accordingly.

Mechanism to Compensate/Recover the fund in case of Default (presently interest from BC is retained if repossessed equipment is not sold in time)

To address this default losses issue, centrally one per cent of the total loan portfolio should be kept as a loan loss provision against unexpected events of capital loss.

If such default happens due to negligence and failure to respect the leasing terms and conditions by the team leader and the financial consultant, they should be held responsible by paying a financial penalty. If however there is a valid reason for default, then the interest proceeds can stay for the BC.

Micro insurance component can be suitable to protect the fund.

**Mechanism for Keeping the Purchasing Power of the Fund**  
(presently interest proceeds equal to the base interest rate is kept aside on the local level)

The fund should be centralized and available to all as per needs. That would make the issue of setting aside interest proceeds irrelevant.

Institutional structure needed to create such a central fund with common interest. The central finance department and revolving loan fund department should be created for streamlined channeling the fund to the BC level as per need.

Fund-raising, fund management, revolving fund issues need to be centralized.

### **BC Unsatisfactory Performance in Relation to Financial Leasing Scheme**

Statistics and evidence show that compared to the years of existence, the level of involvement the number of clients they are serving is very low.

BC grading system needs to be introduced according to the targets set out and analysis of the achievements. The grading system may be categorized as A, B, C: C and B categories should be followed-up on with specific targets and analysis of achievement along with giving a fixed timeframe. Maximum 3 months may be given to BCs in the C category and if performance fails to improve as per targets, they need to close down and integrate operations with the closest BC.

Management structure is also urgently required to scale up the performance of each BC. A regional office (mid-level management) may be set up to follow-up, monitor, supervise and train the BC staff. This regional layer may act as a bridge between local and central level units.

## Proposed Decentralised Management Structure and Centralised Leadership

Unique single structure and chain of command should be introduced through creating Microfinance Institution.

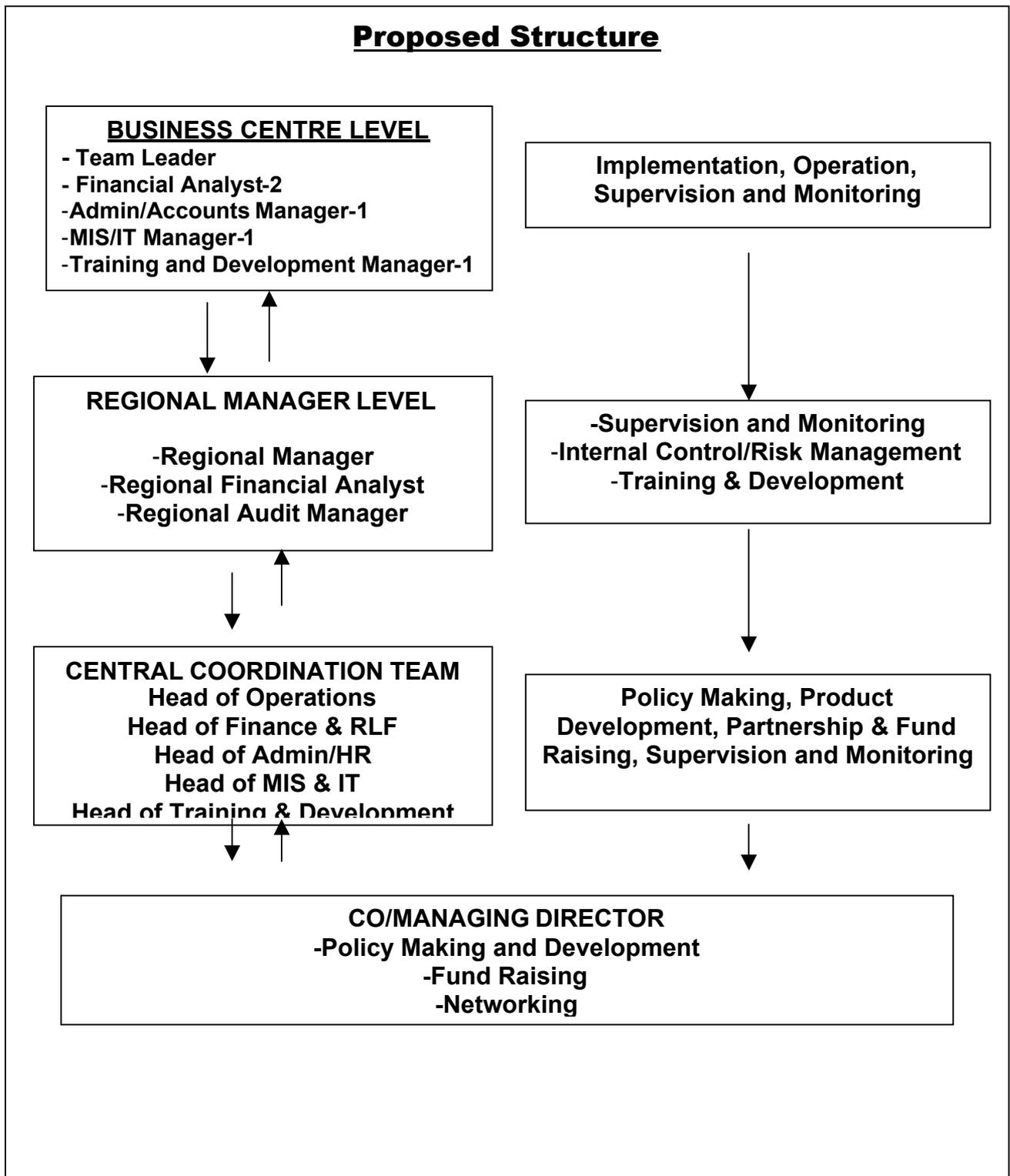
Each and every BC may work as a Unit Office of the Microfinance Institution and implement the program independently. It will be responsible 100% for program implementation with certain autonomy.

BC should run according to standardized operational policy and procedures (simplified credit policy, accounting and record-keeping system, management information system, internal controls and risk management, monitoring and supervision manuals etc.)

Staff may be recruited to build up the mid-level management structure. This would be a big expansion which would be very expensive. It is good to actually note the number of clients per BC which you see necessary in order to have such a structure.

The central team/head office team will be responsible for strategy planning, financial planning, product development, fund raising, networking, promotional activities and the middle management will be responsible for monitoring, supervision, staff training and capacity building; the field management (BC) will be 100% responsible for program implementation, client monitoring and supervision etc.

## Proposed Structure



### 13. Proposed Action Plan

No.	Activities	Who will do What	Timeframe
1.	Set up two working group ( for new product development & creation of a single unified MF Institution)	CCU & BC	By 25 <sup>th</sup> May 2007
2.	Fine tuning of the existing products and developing new products	Working Group	By 30 <sup>th</sup> May 2007
3.	Updating and simplified Operational Procedures and policies	Working Group	By 15 <sup>th</sup> June 2007
4.	Development of Monitoring Check List and Monitoring Register	Working Group	By 30 <sup>th</sup> June 2007
5.	<b>Training Content Development &amp; Adaptation:</b> <ul style="list-style-type: none"> <li>• Clients Targeting Methodology &amp; Marketing Strategy</li> <li>• Delinquency Management &amp; Internal Control</li> </ul>	CCU	By 30 <sup>th</sup> July 2007
6.	<b>Intensive Training Program Implementation &amp; Train all Staff on:</b> <ul style="list-style-type: none"> <li>• Clients Targeting Methodology &amp; Marketing Strategy</li> <li>• Delinquency Management &amp; Internal Control</li> </ul>	CCU	By 15 <sup>th</sup> August 2007
7.	Organizing Field Training and Exposure Visit in other Country with Microfinance Best Practitioners	CCU	By End of September 2007
8.	Policy Formulation on: Unused Funds at the BC Level, BC Grading System, Purchasing Power, Default Management & Setting up a Revolving Loan Funds (RLF) to unified and centralize the Funds Management.	Working Group	By End of October 2007
9.	Standardize BC website, communication tools and each and every documents	Working Group	By End of August 2007
10.	Introduce single MIS, Accounting and Record Keeping System at the BC Level	CCU	By 15 <sup>th</sup> November 2007
11.	Further revision of BC Institutional Structure and Leasing Committee: Simplification through having minimum members as possible	Working Group	By 10 <sup>th</sup> November 2007
12.	Organize workshop to build a common platform for creation of single microfinance institution	CCU	In November 2007
13.	Institutional and Strategic Planning for Creation of New MFI	CCU	By End of November 2007
14.	<b>Training Content Development &amp; Delivery</b> -Monitoring and Supervision System -How to Manage Growth and Sustainability	CCU	By 15 of November 2007
15.	Performance Analysis and Evaluation	CCU	By end of December 2007

### **13. Conclusion**

From the findings of the evaluation it may be concluded that a simplified credit policy and operational procedures are needed to make the project successful. It is found that the lease financing needs some collateral, which restricts access. 20% down payment is not realistic and is a burden for the clients because to start a business, they need more capital initially. Hence a more simplified credit policy is required.

To remove operational complexity, simple and less number of forms should be maintained for faster movement of the process.

Product diversification is essential with a view to meeting the market demand. The current leasing product is very much single-focused. Having one single product it is not so profitable or productive to address the market demand.

When lease amount is more, clients should be advised to open a savings account with a local bank as a condition of borrowing money from the BC & each month the client should save a certain amount mandatory to be blocked in case of default.

Institutional structure needed to create such a central fund with common interest. The central finance department and revolving loan fund department should be created for streamlined channeling the fund to the BC level as per need

The structure of management is should be effective to scale up the performance of each BC. For doing so there is a need for creating a mid-level management to follow-up, monitor, supervise and train the BC staff. This middle management should act as a bridge between local and central level units.

A decentralized management structure is needed with centralized leadership. Along with this, a unique single structure and chain of command should be introduced with a view to giving business centres institutional shape.

**Evaluation of JOBS Microfinance/Leasing Clients  
MLSP & UNDP- Bulgaria**

**1 Introductory Information:**

- a Name.....
- b Name of BC.....
- c Address/Location.....
- d Occupation .....
- e Gender  Male  Female
- f Status:  Married  Separated  Divorced  Others

**2 Product and Services Information**

- a. Year of Membership Joining .....
- b Do you think you had enough information on JOBS before taking up a decision to engage in credit?  
 1  2  3  4  5 \*
- c How many people have you employed?.....
- d Current loan amount you have received from JOBS Project .....
- e What is your opinion on the down payment?...  High  Low  Satisfactory  Preferred one...%
- f Rate of interest are you paying:  .....%
- g Do you think that charged interest rate is  High  Low  Satisfactory  Preferred One:.....%
- h Do you know the method of charging interest rate:  Flat Rate  Declining Rate:
- i Mode of payment:  Monthly Instalment  Bimonthly Instalment
- j Duration for your loan cycle:.....Anything else do you Preferred?.....Month
- k Total time required for the first loan processing & lending time: .....Weeks/Months?
- l Do you think that terms and condition for leasing is  Soft  Flexible  Hard and Explain Why?:  
.....
- m What kind of business you are running: .....
- n Total capital have you required for your business: .....
- o Do you need more money from JOBS:  Yes  No  How Much:.....
- p What about your monthly cost of living:.....
- q How much your monthly net income from your business: .....
- r Do you have any monthly Savings: .....

**3 Other Services:**

- a Did you have some training on business management before taking credit from JOBS? Do you feel such training is necessary?  Yes  No
- b What kind of training you require to improve your business capacity?  Financial Education  
 Project Management or  Vocational Training  Other Specific Areas.....
- c Do you have any skill on Computer & networking ?  Yes  No
- d Are you satisfied with loan procedures & lending time offered by the JOBS?  1  2  3  4  5 \*
- e Do you think JOBS has increased women's access to credit in Bulgaria?  Yes  No
- f Do you have any suggestion for future development of JOBS project? .....

Signature & Date of the Interviewer.....

Name...

\* satisfaction was rated from 1 (least) to 5 (best).

## List of Leasing Clients and Other People Interviewed

No.	Name	Status	Location	Date
1	Georgi Kargov	Entrepreneur (transport)	Peshtera	2 April 2007
2	Rangel Ivanov	Entrepreneur (agriculture)	Peshtera	2 April 2007
3	Remzie Kurdjalieva	Entrepreneur (sewing)	Peshtera	2 April 2007
4	Pepa Stoycheva	Leasing committee member (bank)	Peshtera	2 April 2007
5	Sofia Uzunova	Leasing committee member (labour office)	Peshtera	2 April 2007
6	Yordan Mladenov	BC Team Leader	Peshtera	2 April 2007
7	Raina Krusteva	BC Financial Consultant	Peshtera	2 April 2007
8	Steliana Paunova, Ivanka Stoykova	Entrepreneurs (apparel)	Karlovo	3 April 2007
9	Todor Chanov	Entrepreneur (garage / auto service)	Karlovo	3 April 2007
10	Vulko Topchiiski	Entrepreneur (agriculture)	Karlovo	3 April 2007
11	Maria Topchiiska	BC Team Leader	Karlovo	3 April 2007
12	Tzvetana Stoyanova	BC Financial Consultant	Karlovo	3 April 2007
13	Pancho Panov	Entrepreneur (forestry/timbering)	Novi Pazar	4 April 2007
14	Nikolay Naidenov, Krassimir Vassilev	Entrepreneur (garage)	Novi Pazar	4 April 2007
15	Rumiana Krusteva, Ivelin Stefanov	Entrepreneur (dry-cleaning)	Novi Pazar	4 April 2007
16	Sirma Komitova	BC Team Leader	Novi Pazar	4 April 2007
17	Rangel Rangelov	BC Financial Consultant	Novi Pazar	4 April 2007
18	Svetoslav Slavov	Entrepreneur (dry-cleaning)	Dobrich	4 April 2007
19	Miroslav Tassev	Entrepreneur (printing)	Dobrich	4 April 2007
20	Nadezhda Petkova	BC Team Leader	Dobrich	4 April 2007
21	Georgi Tzonev	BC Financial Consultant	Dobrich	4 April 2007
22	Hristo Bozhkov	Leasing committee member (municipality)	Dobrich	5 April 2007
23	Vassil Atanasov	Leasing committee member (labour office)	Dobrich	5 April 2007
24	Anka Ilieva	Leasing committee member (bank)	Dobrich	5 April 2007
25	Elena Simeonova	Leasing committee member (vice-mayor)	Isperih	5 April 2007
26	Gyulshen Syuleiman	Leasing committee member (labour office)	Isperih	5 April 2007
27	Katya Yordanova	Leasing committee member (private sector)	Isperih	5 April 2007
28	Zeki Mehmed	Entrepreneur (agriculture)	Isperih	5 April 2007
29	Violeta Tzoneva	Entrepreneur (apparel)	Isperih	5 April 2007
30	Sevim Ahmed	Entrepreneur (dairy – failing business)	Isperih	5 April 2007
31	Emilia Germanova	BC Team Leader	Isperih	5 April 2007
32	Violeta Stilianova	BC Financial Consultant	Isperih	5 April 2007

### List of Participants: Meeting with BC Team Leaders, Karlovo, 3 April 2007

<b>Name</b>	<b>Business Centre</b>	<b>E-mail</b>
Petinka Petrova*	Shumen	<a href="mailto:office@abcshumen.org">office@abcshumen.org</a>
Petya Vassileva	Targovishte	<a href="mailto:office@bctargovishte.org">office@bctargovishte.org</a>
Veska Ivanova*	Kazanlak	<a href="mailto:office@bckazanlak.org">office@bckazanlak.org</a>
Stanka Gospodinova*	Nova Zagora	<a href="mailto:office@bcnzagora.org">office@bcnzagora.org</a>
Rangel Rangelov	Novi Pazar	<a href="mailto:office@abcnp.org">office@abcnp.org</a>
Stamo Yovchev*	Sliven	<a href="mailto:bcsliven@bcsliven.org">bcsliven@bcsliven.org</a>
Stoyan Mangarov	Aitos	<a href="mailto:office@bcaitos.org">office@bcaitos.org</a>
Vanya Ivanova	Haskovo	<a href="mailto:maritza@maritza.info">maritza@maritza.info</a>
Lilyana Vladeva*	Devin	<a href="mailto:bcdevin@abv.bg">bcdevin@abv.bg</a>
Boyko Dimov*	Samokov	<a href="mailto:info@bcсамokov.org">info@bcсамokov.org</a>
Maria Topchiiska*	Karlovo	<a href="mailto:office@bckarlovo.org">office@bckarlovo.org</a>

\* These are the team leaders who sent back their replies to the 5 questions.



## ORGANIZATIONAL STRUCTURE FLS

