

Microfinance in Practice: MCF Sunrise Bosnia and Herzegovina



Terwilliger Center for
Innovation in Shelter

Summary

Microcredit Foundation Sunrise was established in 1997 as a humanitarian organization after the war in former Yugoslavia ended. In 2007, it became a formally recognized microcredit foundation, registered under the Federation of Bosnia and Herzegovina's Registry of Microcredit Foundations. Sunrise is committed to serving economically active people in Bosnia and Herzegovina facing problems with access to financial services, particularly those excluded from formal financial services. With a portfolio of US\$24.7 million and over 18,000 clients, the institution ranks fifth in portfolio size in the highly competitive Bosnian microfinance market.



In response to market demand and intensifying competition, Sunrise began offering a housing loan in 2006, but stopped disbursements during the financial crises of 2008-09 because of the deteriorating financial performance and high credit risk of the institution's overall portfolio. With the revival of the market in 2014, Sunrise relaunched the housing product, but initial uptake was very low. In 2015, Habitat's MicroBuild Fund provided Sunrise with an investment of US\$1.05 million, complemented by advisory services provided by Habitat's Terwilliger Center for Innovation in Shelter. This engagement provided the support Sunrise needed to revamp its housing product. With improved product terms and conditions, a more strategic approach to market positioning, and a range of new educational materials for clients, Sunrise's housing portfolio grew to comprise 7.2% of its overall portfolio.

This case study will focus on the process Sunrise went through to develop and refine its housing product. In particular, it provides insights into how a client-centric strategy can strengthen alignment of the product with clients' needs. In particular, through a regimen of institutional and impact assessments Sunrise gleaned key insights into clients' needs and preferences and constraints in the product development process. These insights enabled Sunrise to develop an inclusive communications strategy, determine appropriate enhancements to its housing microfinance product and delivery process, and evaluate the utility of complementary nonfinancial housing support services, changes that led to increased product uptake.

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Institutional background

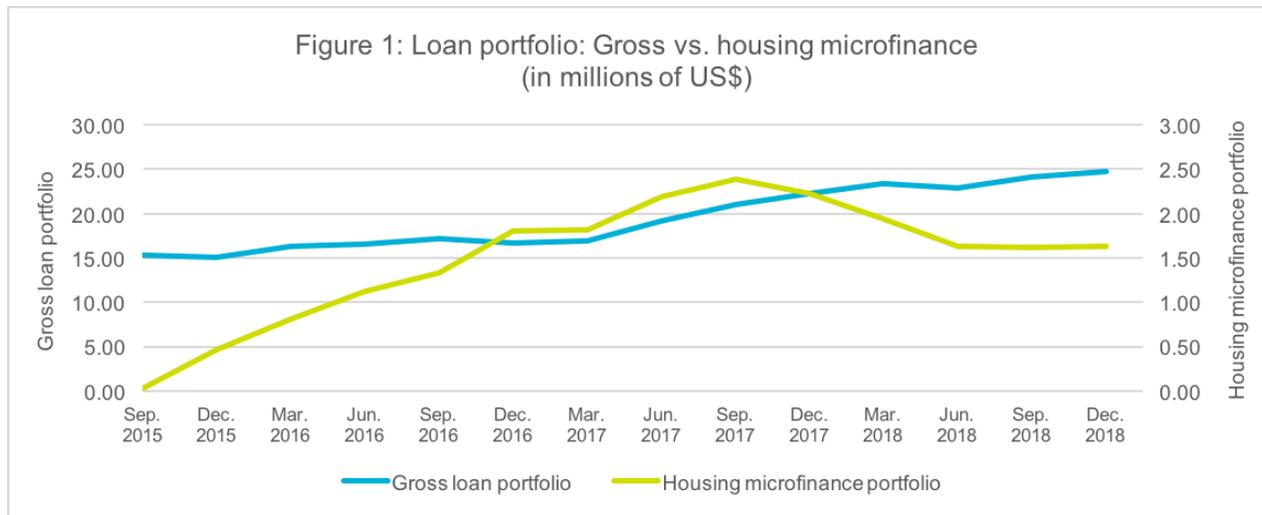
Microcredit Foundation Sunrise began operations as a humanitarian organization in 1997, after the war of 1992–95 in former Yugoslavia. In December 2000, it registered as a microcredit organization in line with federal registration requirements. Following changes in the regulatory framework, the organization changed its legal entity to a microcredit foundation in August 2007. Sunrise’s mission is to contribute to a reduction in poverty and an increase in employment in Bosnia and Herzegovina by offering microcredit to low-income clients who lack access to formal financial services.

The Sunrise network covers all regions in the Federation of Bosnia and Herzegovina, along with most of the Republika Srpska. Sunrise’s strategy is based on local accessibility with 45 small neighborhood branches, averaging two to three loan officers per office. With 169 staff members in total, Sunrise serves just over 18,000 clients — individuals and families whose main sources of income are generated from their own businesses, typically micro- and small enterprises. Business and agricultural loans comprise 60% of Sunrise’s portfolio, while the rest is composed of consumption loans, including education, vehicle registration, housing, and loans for retired consumers. Sunrise lends exclusively via the individual method. In terms of client outreach, 61.3% of its loans are disbursed in urban areas, and about 41.9% go to women.

Sunrise ranks fifth in terms of gross loan portfolio, accounting for 5.8% of market share as of September 2018, but aims to become the third largest microcredit organization in the country. Excluding a period of crisis in the Bosnian microfinance sector between 2008 and 2010, the institution has been efficient and self-sustainable. At the beginning of the partnership in 2016, Sunrise had ambitious growth targets for the end of 2019. The expansion of the housing product contributed to Sunrise realizing 10% growth in the gross loan portfolio and number of loans by the end of 2016. The housing portfolio nearly tripled in 2016, peaked in 2017, and contracted slightly in 2018. Today the number of housing loans is four times the number seen in December 2016, and the housing portfolio has grown to roughly 2.5 times its initial size.

TABLE 1: BASIC INSTITUTIONAL DATA 31 DEC., 2018

Overall outstanding portfolio (US\$)	24.7 million
Overall number of outstanding loans	18,773
Housing outstanding portfolio (US\$)	1.6 million
Number of housing outstanding loans	921
Number of staff members	169
Number of loan officers	102
Number of branches	45



Market environment

Bosnia and Herzegovina is a small country with a total population of roughly 3.5 million.¹ The war of 1992-95 caused a dramatic change in the Bosnian economy. The destruction of physical infrastructure and large-scale population displacement devastated the economy; per capita GDP fell by 75%.² Today, consumption rather than production is the basis of the economy, fueled by remittances, averaging around 11% of GDP.³

The war resulted in damage to or destruction of over 450,000 housing units, with almost 80% of these homes labeled as uninhabitable.⁴ Privatization of housing left local governments without public housing units. Illegal settlements now litter the country.⁵ Additionally, the rapid reconstruction efforts after the war and slow economic development have led to high demand for home renovation as now, over 20 years later, homeowners seek to replace the results of hurried reconstruction with better quality materials and energy-efficient solutions.

With high unemployment (27.7% in 2015) and the prevalence of unstable jobs, affordability is a key barrier to accessing adequate shelter.⁶ Among adults surveyed in 2014, 16.7% had a mortgage outstanding from a bank, and only 14.4% when looking at the “base of the pyramid.”⁷ The average monthly salary of the banks’ mortgage clients is US\$630-945, but the average salary nationwide is only US\$440. Affordability is also a barrier to those in informal settlements who want to pursue legalization of their housing or settlement, which costs between US\$525 and US\$1,050 on average.^{8,9} Low-income clients, especially those whose main source of income is informal jobs or remittances, turn to a vibrant microfinance market for solutions to their financial needs.

Today, most leading microfinance institutions in Bosnia and Herzegovina offer dedicated housing loans with loan amounts of up to US\$5,250 (the upper limit according to federal regulations) and loan terms of two to four years. Housing portfolios typically represent 10-20% of an institution’s overall portfolio, with some exceptions, and serve to bridge the market gap in housing finance.

In 2014, just over half of the nation’s citizens (52.7%) had a financial account.¹⁰ This figure was lower for the “base of the pyramid,” with only 40.8% holding financial accounts. By 2017, these figures climbed to 58.8% and 47.5%, respectively, no doubt reflecting the diverse and well-regulated microfinance market in the country. However, increasing access still presents an opportunity for microfinance institutions; nearly 50% of those who did not hold a financial account said this was due to insufficient funds. Roughly a third responded that someone in the family already had an account. Intriguingly, lack of trust in financial institutions, expensive fees, and distance from financial institutions were also key constraints for roughly 7-9% of those lacking accounts — issues Sunrise was poised to address.

¹ Federal Office of Statistics for the Entity of Federation of Bosnia Herzegovina and the Republika Srpska Institute of Statistics, Census 2013.

² Walsh, Martha. 1997. *Post-Conflict Bosnia and Herzegovina: Integrating Women's Special Situation and Gender Perspectives in Skills Training and Employment Promotion Programmes*. Geneva: International Labor Office, 9.

³ The World Bank. 2018. "Personal Remittances, Received (% of GDP) | Data". World Bank Open Data. Accessed July 2018.

<https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?end=2017&locations=BA&start=1998&view=chart>.

⁴ Bosnia and Herzegovina country profile. 2016. Habitat for Humanity International. Accessed July 2018.

www.habitat.org/sites/default/files/bosnia-herzegovina-2016.pdf.

⁵ The World Bank’s 2017 Ease of Doing Business survey only underlines these challenges. Overall, the country ranks 81st out of 190, but it ranks 170th in terms of “ease of dealing with construction permits” and 99th in terms of “registering property.”

⁶ World Development Indicators. 2017. World Bank Group. Washington, D.C. Accessed July 2018.

<http://databank.worldbank.org/data/reports.aspx?source=2&country=BIH>.

⁷ Financial Inclusion Index (FINDEX). 2017. The World Bank Group. Washington, D.C. Accessed July 2018.

<http://databank.worldbank.org/data/reports.aspx?source=1228>.

⁸ The Terwilliger Center for Innovation in Shelter. 2017. Mid-Term Evaluation of the Housing Loan Product of a Microcredit Foundation Sunrise in Bosnia and Herzegovina. Habitat for Humanity. Atlanta, Georgia.

⁹ Federal Office of Statistics for the Entity of Federation of Bosnia Herzegovina and the Republika Srpska Institute of Statistics.

¹⁰ Financial Inclusion Index. (FINDEX). 2017. World Bank Group. Washington, D.C. Accessed March 2019.

<http://databank.worldbank.org/data/reports.aspx?source=2&country=BIH>.

Housing finance product alignment

Sunrise launched its housing product in 2006 based on a clear assessment of market demand. Houses built before the war required reconstruction, and many houses built after the war required renovation because they were built quickly and often with poor materials. It was also a question of moving with the market: Sunrise's key competitors were already offering these loans, and Sunrise wanted to remain competitive. Sunrise created a housing loan product for the renovation, reconstruction and purchase of residential and business buildings.

Although initial performance of the housing product was promising, the quality of the institution's general portfolio declined after the financial crisis of 2008-10. As delinquencies rose, management and the board took steps to limit disbursements of all products, including the housing product. The institution's portfolio contracted from its peak in December 2008 at around US\$63 million to nearly a quarter of its size by December 2012. Sunrise also discovered that clients were diverting part of the money from their housing loans for consumption purposes, which placed further pressure on management to restrict issuances of the housing product. While Sunrise managed to maintain liquidity throughout the crisis (as opposed to many other microfinance institutions in Bosnia) and continued to meet its investors' obligations, it chose to cease disbursement of the housing product only three years after its launch.

When the market started to revive in 2012, Sunrise resumed a more proactive approach to addressing its clients' needs, though little growth in the portfolio was realized between December 2012 and 2014. Learning from the challenges of the earlier housing loan product and changing microfinance market, in 2014 the institution introduced a consumption loan for energy efficiency. Soon after, Sunrise realized that between 20% and 23% of its consumer loan clients and approximately 5% of its business loan clients were diverting funds for housing renovation purposes.¹¹ The clear demand, along with a dedication to remaining socially focused, Sunrise management reintroduced a dedicated housing finance product in March 2015. The new housing microfinance loan, which targeted individuals with a regular monthly income (business or salary), was designed to be used for any type of housing renovation, including building and rebuilding of housing stock, energy savings purposes, and purchase of furniture and household appliances. The product was piloted in three branches but resulted in the disbursement of only 50 loans.

Product refinement

In May of 2015, Sunrise entered into a partnership with Habitat's MicroBuild Fund, which offered US\$1.05 million in investment capital bundled with institutional technical assistance provided by Habitat's Terwilliger Center, focused specifically on refining the housing product and increasing uptake. Over the course of eight months, the Terwilliger Center worked with Sunrise to conduct market, institutional and stakeholder assessments, adapt the product terms, improve the delivery process, and more effectively position the housing product for growth.

The work began with an **institutional assessment** to understand Sunrise's capacity to promote the housing product. This assessment revealed that weathering difficult market conditions had consumed the time and attention of management. Combined with turnover in key management roles, this led to insufficient time and focus dedicated to developing a promotional strategy for the product and ensuring that staff were sufficiently equipped to promote the product. Both Sunrise management and loan officers were discouraged by the product's performance but demonstrated a willingness to adapt and great creativity in addressing this issue.

The team also conducted a **stakeholder and product assessment** to understand clients' perception of the Sunrise brand, identify the institutional strengths and weaknesses in the delivery of the housing product offering, and further the understanding of clients' needs and preferences in regard to the housing product. This assessment revealed that aspects of the terms and conditions of the housing loan product were discouraging clients from taking up the loan and field staff from offering the product.

The following key barriers to growth were identified:

- There were too many documentary requirements for a client to meet in order to receive the loan.

¹¹ Numbers are based on the estimation of staff members after *Mid-term Evaluation of the Housing Loan Product of a Microcredit Foundation Sunrise in Bosnia and Herzegovina* was conducted as part of the advisory services from Habitat for Humanity.

- The product was not competitive enough against other products offered by Sunrise, which led clients to continue using other products for housing purposes, rather than using the differentiated product for housing.
- The staff was unfamiliar with how to communicate the value of the product to clients.

Other potential avenues for growth also were highlighted, including expanding the product’s use to include the cost of legalizing land tenure and purchasing furniture and other goods, along with targeting additional market segments, such as households receiving remittances and households with income from home businesses.

Adapting product features and processes

Taking into account the results of the assessment, Sunrise management quickly introduced changes to the product (see Table 2), which proved to be a turning point for the housing portfolio. The loan product was already priced lower than other Sunrise products, but clients benefited from a new fee structure (introduced for all products) and simplified requirements for confirming the purpose of the loan.

In the initial assessment, it was revealed that not only did the list of required documents feel burdensome, but some clients also felt that the required photos of the home were a violation of their privacy. Interestingly, these clients had no issue with providing proof of the use of the loan, but they were concerned about the visibility a visit from a loan officer would place on them. To address this, Sunrise changed the application process; rather than providing multiple types of documentation, clients were now able to choose the preferred type of documentation to validate their intended purpose for the loan. For types of documentation that may prove difficult to obtain, alternative options were included in the list. Given the context of the housing registration system in the country, many current and potential clients are unable to provide evidence of their ownership of a property. In these instances, producing a utility bill with the name of the client is sufficient proof to obtain a loan for the house or apartment, but it is complemented by a visit from a loan officer before the loan approval decision.

TABLE 2: CHALLENGES AND SOLUTIONS IDENTIFIED THROUGH THE 2015 ASSESSMENT

Key issue identified	Solution implemented by Sunrise
There were too many documentary requirements to be met by clients in order to receive the loan.	<ul style="list-style-type: none"> • Loan use verification requirements are easier for clients. Instead of providing all listed documents, a client can choose one option from an accepted list. • Eligibility for the loan was extended to clients who receive income as remittances from abroad.
The loan term was too short to be of use to clients, so product divergence continued to be an issue.	<ul style="list-style-type: none"> • The maximum loan term was extended to 48 months for existing clients. • The purpose of the product was expanded to include the purchase of furniture and equipment, and the cost of property legalization.
The staff was unfamiliar with the features of the product and how to market it to clients.	<ul style="list-style-type: none"> • Training of trainers was conducted with regional managers to: <ul style="list-style-type: none"> ▪ Familiarize the staff with product features and their value to clients. ▪ Help them understand incremental building and the budgeting process. ▪ Teach basic adult education techniques so that loan officers could support clients in planning and implementing housing construction and repairs.

Sunrise extended access to the loan product to a new market segment: households receiving income via remittances from abroad. The purpose of the product was also expanded to include use in purchasing furniture and equipment for the home, and for formally registering property.

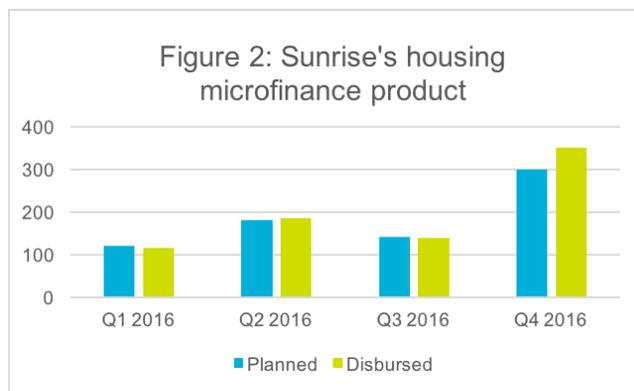
In addition to making the product more accessible and attractive, Sunrise wanted to ensure that it was lending in a socially responsible manner by incorporating a nonfinancial housing support services component for its clients. The institution chose an approach that is low-cost and presents a low operational burden in order to ensure competitiveness and sustainability of the product. To complement the housing loan product, Sunrise introduced educational brochures

that provide information to clients on numerous renovation and energy improvement projects, including door repairs, heating system upgrades, thermos-insulation, toilet and bathroom repairs, and repairing and replacing windows.

After changes were made to the product features, the Terwilliger Center conducted a training for key Sunrise staff (mainly regional managers) on both housing microfinance and basic adult education techniques. Those who attended the training then returned to their branches and trained their staff on the housing microfinance product. According to staff feedback, valuable elements of the training included housing intervention budgeting and understanding the basics of construction. The skills learned in the trainings enabled loan officers to feel comfortable marketing the benefits of the product and equipped them to conduct successful client project assessments and monitoring.

Continuing to assess product features and processes

After the refinement of the housing product, the Terwilliger Center supported Sunrise management in evaluating the housing product again, analyzing the outcomes of the changes introduced and suggesting further enhancement of the product. Both the change in product features and the staff training opened a new era for Sunrise's housing portfolio in which the number of disbursed loans met or exceeded Sunrise's targets.¹² The educational brochures introduced to complement the housing loan product were primarily used by field staff to promote the loan product to clients. In the view of the staff, this direct field promotion supported by the

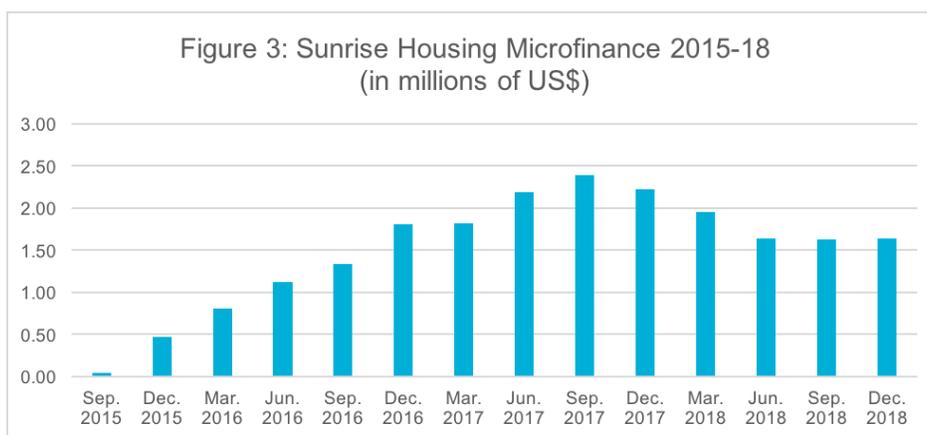


brochures was the most effective means of selling the housing loan. At the same time, the field staff reported finding the materials to be very helpful in deepening their own knowledge about construction, establishing their expertise on housing, and enabling them to better structure the conversations with clients about renovation.

Housing finance product performance

Financial performance

In the three years before the MicroBuild Fund investment, the housing portfolio was virtually nonexistent. After the infusion of capital from MicroBuild and the advisory services on product refinement from the Terwilliger Center, the housing product took off, gaining serious traction in the last quarter of 2016



(Figure 3). Within about a year (December 2016), the housing portfolio was serving 826 clients

(5% of Sunrise's active client base) amounting to US\$1,771,253 (10.6% of the overall portfolio).

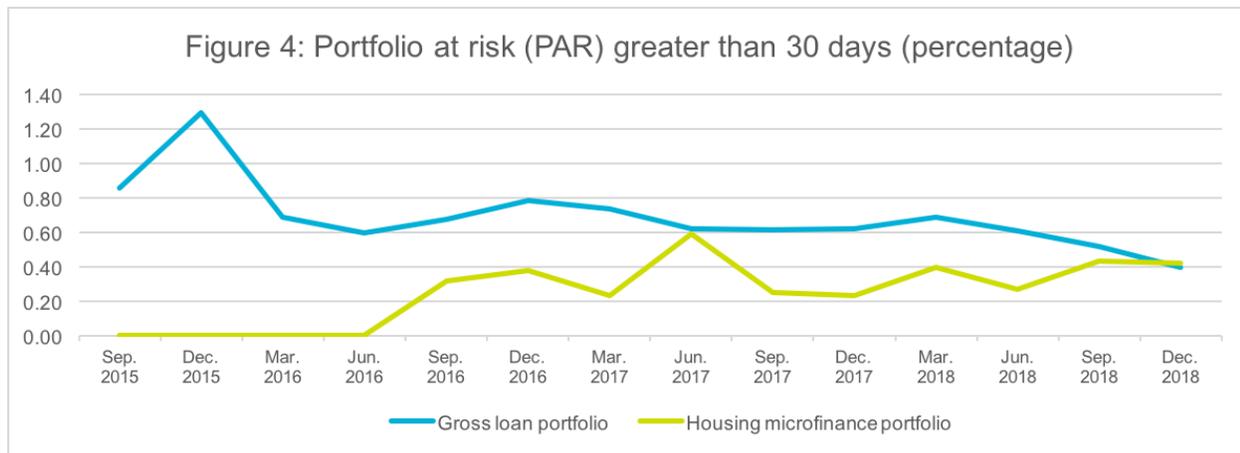
As of December 2018, the housing portfolio accounted for 6.6% of the total portfolio. Lack of long-term funding is the primary constraint and driver of the decline in the percentage of the general portfolio composed of housing. Sunrise has temporarily slowed down housing microfinance disbursement because of limited long-term funds. The growth of the

¹² The Terwilliger Center for Innovation in Shelter. 2017. Midterm Evaluation of the Housing Loan Product of a Microcredit Foundation Sunrise in Bosnia and Herzegovina. Habitat for Humanity. Atlanta, Georgia.

total portfolio also is a result of focusing on other microfinance institution priorities, including loans for agriculture and businesses in rural areas.

Despite the decline in the portfolio, Sunrise’s success is notable in that it has maintained such levels despite a decrease in the profit margin of its housing product (from 3% to 2.43%, compared with 7-8% on its other products) because of the higher costs associated with MicroBuild funding. These increased costs result in a lower yield than Sunrise’s average portfolio yield. However, the relatively modest size of the housing portfolio has prevented the decrease in income from creating an overall drag on the profitability of the institution.

Additionally, with the exception of the last quarter, the housing portfolio has consistently outperformed the gross loan portfolio in terms of portfolio at risk greater than 30 days. This demonstrates the housing microfinance portfolio’s contribution to a more stable gross loan portfolio.

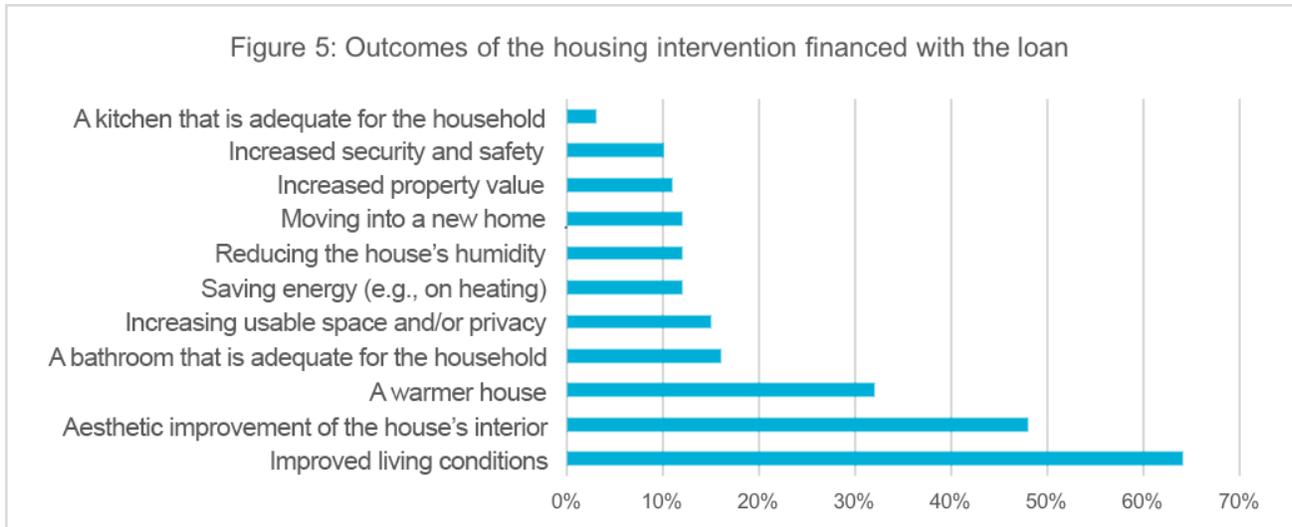


Social impact

Through the housing finance product, Sunrise has been able to provide access to housing finance for low-income households, with the average monthly income per household member of housing loan clients at US\$288. While some clients were borrowing for general improvements planned for their homes, others clients borrowed to repair their home after a disaster or damage. Regardless of the reason, most clients build incrementally and are able to finalize the construction or renovation of their home within a few cycles of housing loans.

According to a product evaluation survey conducted on a sample of 105 housing clients, an impressive 99% of respondents stated positive outcomes. The majority (64%) reported improved living conditions. Forty-eight percent reported aesthetic improvements to the interior of their home, and 32% experienced a warmer house. Field staff were also encouraged by the positive outcomes of housing loans and expressed that seeing these was similar to seeing a microenterprise client’s business growing, but that in the case of a housing loan, the positive impact could be seen in the short term. As one loan officer summarized, “When you can help a client in need (after a fire or flood, for example), you help to fix things which were ruined and need to be rebuilt. People thank you for that.”

Figure 5: Outcomes of the housing intervention financed with the loan



Conclusion

There is a clear demand and market gap in terms of housing finance for low-income people in Bosnia and Herzegovina. Sunrise, a top microfinance institution, responded to this need early on. Despite ups and downs in the early years, including a halt on disbursements during the financial crisis of 2008-10, Sunrise maintained liquidity and had developed a strong level of trust with its clients that enabled the institution to bridge the gap.

Sunrise's major strength is its client-centric approach. Sunrise really cared about the client relationship and was known for its transparency and responsiveness. The support from the MicroBuild Fund and Habitat for Humanity's Terwilliger Center for Innovation in Shelter in 2015 built on and enhanced this strength by conducting multiple assessments of different stakeholders (management, staff members and clients) on the challenges and value they deemed in the housing product. By listening to clients' needs and challenges and then making adjustments to the product based on the knowledge gathered, Sunrise was able to adapt the product to improve client accessibility and uniquely position it for its target market. After investing the time and resources in more adequately training staff on this new sector, Sunrise was able to ensure that loan officers were equipped to respond to clients' needs, supporting them in housing decisions and creating a better experience for clients.

While the housing product demonstrated initial success after these improvements, Sunrise conducted the housing product evaluation to once again assess whether the implemented changes were adequately addressing client and staff concerns and to identify any new pain points or opportunities for growth. This routine revisiting of the product allows Sunrise to keep pace with changes in clients' needs, creating a truly client-centric product. Developing a strong institutional assessment process has been a crucial factor in Sunrise's success.

With the improved product and enthusiastic loan officers, the institution has easily met its disbursement targets. The lower profitability of the product compared with other products is expected to be offset by the potential scalability of the product. Sunrise expects to increase the overall portfolio by 65% by the end of 2019. Lack of long-term funding, however, constrains the expansion of the housing microfinance product for the time being and has forced the institution to focus on the growth of other loan products. If long-term funding were to be identified, then Sunrise would like to increase the share of the housing portfolio as a percentage of the overall portfolio in the near future, as its financial performance and social impact are evident.

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