



## **CASE STUDY: THE RUSSIAN FEDERATION**

# **FORUS BANK: PURSUING SOCIAL GOALS IN A FINANCIALLY SUSTAINABLE WAY**

### **Summary**

The Fund for Support of Micro-entrepreneurship (FORA), created in 2000 by the microfinance-support organization Opportunity International, sought to eliminate poverty in the Russian Federation by giving economically active people access to small loans to support their businesses. Providing financial services to people excluded from commercial banks, FORA created opportunities for the poor, especially women, to become active in the economy through entrepreneurship, income generation and social empowerment. As businesses grew, FORA, together with Opportunity International and other partners, established FORUS Bank in 2005 to access commercial capital and reach more clients. The case shows the challenges in transitioning from a not-for-profit organization to a commercial microfinance bank—some specific to the Russian Federation, others with worldwide relevance.



### **Positive Outcomes for the Poor**

- FORUS Bank is enabling micro-entrepreneurs to develop their businesses, create jobs and improve their economic and social well-being. FORUS Bank works in unbanked areas and finances the smallest enterprises that other banks tend to ignore.
- Financing is one of the main obstacles limiting the development of Russian small enterprises. Therefore, it is a barrier to fostering broad-based economic recovery in the Russian Federation.
- FORUS Bank uses both solidarity group and individual lending methodologies that help build social capital and networks among small-scale entrepreneurs.

### **Positive Outcomes for the Business**

- End of 2006 FORUS Bank had a portfolio of over 16,500 loans with a value of over US\$36 million.
- In 2006 FORUS helped create 4,258 jobs and helped sustain an additional 19,950 jobs.
- FORUS' net income for 2006 was US\$1.7million.



## Key Constraints

- *Market information:* Lack of credit history by new borrowers.
- *Access to financial services:* As an NGO, FORA lacked access to traditional capital.

## Key Strategies

- *Adapt products and processes*
  - FORUS had a reward system for loan officers based on three variables, including the number of active clients, a combination of portfolio at risk and the percentage of interest due divided by interest actually paid.
  - FORA transformed into a commercial bank that had expanded access to market capital, thus enabling it to expand its portfolio and offer deposit and savings services to entrepreneurs.

## Strategy Matrix

		Strategies					
		FORUS	Adapt Products and Processes	Invest in removing market constraints	Leverage the strengths of the poor	Combine resources and capabilities with others	Engage in policy dialogue with government
Constraints	Market information						
	Regulatory environment						
	Physical Infrastructure						
	Knowledge and skills						
	Access to financial services						



## **Opportunities & Challenges for Scaling Up**

- Challenges include operating within the restrictive Russian legal environment, while finding the most cost effective ways to reach unbanked clients in distant locations.
- FORUS Bank's business model could be very relevant in other countries of the former Soviet Union with similar legislative and small business environments.