



## Social Performance Report of Agricultural Credit Cooperative (ACC) Smilian, Smilian, Bulgaria

### key data

gross loan portfolio (BGN)	828,000	average loan size per borrower (BGN)	3,047
total assets (BGN)	916,000	operating expense per loan (BGN)	224
total equity (BGN)	308,000	financial expense per assets (%)	1.3
active borrowers	272	PAR 30 days, 90 days (% of portfolio)	0.0 0.7
members	414	return on assets (%)	3.8
		number of permanent staff	3

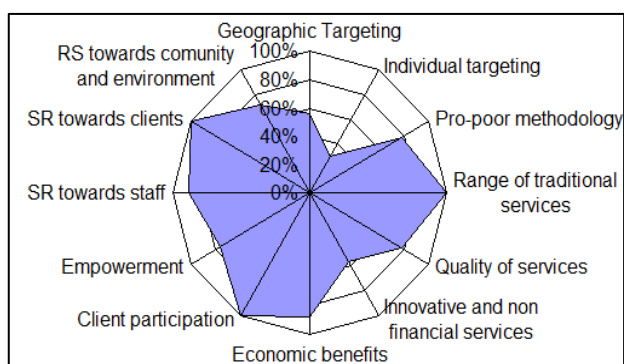
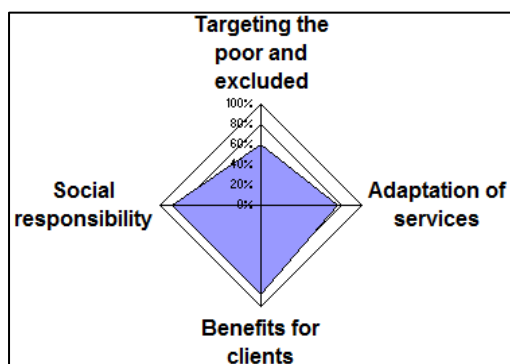
### specific strength

ACC Smilian operates in remote rural villages in a mountainous region. The cooperative successfully provides financial services and achieved to build up cooperation among micro and small agricultural producers.

### Mission

ACC Smilian has the mission of providing financial services to micro and small entrepreneurs in a disadvantaged remote rural area. The simultaneous objectives are the maximization of members' benefits and to maintain financial sustainability of the cooperative.

Independently of their economic status, all people can become members of the cooperative and apply for a loan. Following sound practices the management disburses loans and additionally supports clients, e.g. by consulting and by implementing cooperation among producers. With the acquisition of external funds, ACC Smilian diversified its portfolio and lends also to micro and small entrepreneurs in artisanry or tourism.



## History

In 1996 the cooperative was founded within the framework of a PHARE project of the European Union to serve small and medium agricultural producers. For the foundation 100 farmers paid in their share to start the cooperative and to receive additional funds of the project. Technical assistance was provided by the German Cooperative and Raiffeisen Confederation (DGRV) and local experts. ACC Smilian is a member of the National Cooperative Union of Credit Cooperatives Evrostart.

## Targeting

ACC Smilian operates in Smilian and 10 small villages in the vicinity. The population is isolated from external influences and forms a tight social network within the remote villages. Personal contact and mutual trust among the people, as well as shared common problems enable the cooperative to show its strengths. Client assessment can be based on reliable information from personal contacts, information on the current state of development and activity of the clients spreads in the network, and peer group pressure are used to enforce appropriate loan use and repayment.

The cooperative especially serves agricultural entrepreneurs but also extends its services to artisans, e.g. carpenters, or small enterprises in tourism.

Each year new members enter ACC Smilian, use loans and take part in the activities of the cooperative. As demand exceeds the possible supply of loans the cooperative can choose their clients according to their reputation, personal and economic potential. According to the clients, ACC Smilian is a unique source not only for loans but also for being integrated into a network of cooperation and mutual support.

The staff carefully observes the economic development of the clients and their environment. Secondly, simultaneously to every loan application, the economic status of clients is documented in the credit dossiers.

### Target groups

The target group defines itself by being located in a cut off region with scarce resources for agricultural production and economic development. With the loans and initiative of ACC Smilian artisans like carpenters achieved to build up their enterprise, farmers sell their products with a common brand, and family enterprises in tourism start running restaurants and small hotels.



## Adaption of services

ACC Smilian provides flexible loan products for each individual need. This includes flexible repayment schemes (e.g. yearly or seasonal repayment in agriculture or tourism), adapted maturities (short term loans for non-agri-business, long term investment loans for agricultural enterprises), and a loan size which is adjusted to the clients economic potential.

To simplify the loans products, the cooperative offers loans to an equal interest rate of 10.5%. Compared to the products of other financial institutions in Bulgaria, this interest is low, economically reasonable, and enables micro and small enterprises to achieve economic growth by using financial services. Only in the case of loans which are refinanced externally, the cooperative charges 12.5% to cover the higher costs.

The average loan size is 3000 BGN and the largest outstanding loan is 15.000 BGN. The cooperative also grants very small loans of 800 BGN. Although the cooperative is specialized on agricultural loans, it adapts to social needs of clients. One example is a small loan to a student to finance his master studies.

To enforce repayment ACC Smilian makes use of the tight personalized social network, its information flows and informal peer group strategies. Loans are mainly secured by mutual guarantees instead of physical assets.

For all clients, the staff provides appropriate financial education and a small “book of the cooperative” in which the clients document their repayments.

According to the clients, the loan products and procedures are easily comprehensible and fit to the needs of rural entrepreneurs. Additionally the cooperative requires only a necessary minimum of documents. In many cases the staff consults the clients in addressing public administration to reach an appropriate state of documentation of their business.

To mitigate risks the cooperative actively promotes insurances and offers insurance services to its members. Further non-financial services of the cooperative are the close discussion of the clients’ business plans and the development of a sustainable financial planning as well as the creation of an active network for knowledge exchange among the members.

### Benefits to clients

The main benefit for clients is the access to financial services at economically reasonable rates. The cooperative offers a personalized relationship lending service to customers who are situated in a disadvantaged remote rural area. Clients receive intensive financial consulting and get involved into a social network of members. Further they enjoy consulting in administrative tasks like the registration of their businesses, information support in application for subsidies, and access to insurance services (health care and social insurance).

The low interest rate of 10.5% was implemented by the staff and the membership. It reflects the optimization between providing as supportive financial services as possible and still maintaining financial sustainability in the cooperative. Combined with the non-financial services, the clients enjoy a loan product which enables them to achieve economic growth without risking over-indebtedness.



#### Example

“We began our business with a restaurant. With loans from ACC Smilian we started our step by step expansion and soon we will open our own family hotel for tourists. Smilian is an active community and offers touristic attractions like traditional artisanry, regional food specialties, a beautiful nature and hiking routes. Everybody here tries to make a living and somehow contributes to the economic development of our village. The cooperative provides us much more than only financial services and initiated many improvements for the community.”

ACC Smilian has a unique involvement to its clients business as the manager of the cooperative is also the major of Smilian. He initiated collective action among agricultural producers. One achievement is the establishment and certification (according to regulation of the European Union) of a protected regional brand for beans from Smilian region (“Smiliansky Fassul”). Further on, the manager organized cooperation in buying high quality seedlings from the Netherlands for potato production, free soil analyses for famers, etc.

The yearly general assemblies as well as the close contact to all staff members offer each member an ongoing possibility to contribute suggestions for improvements, complaints or to discuss current issues. According to the law on cooperatives, each member, independently of economic size, has an equal right to vote.

### **Social responsibility**

The membership and the staff of ACC Smilian implemented two unique features of the cooperative. They reduced the interest rate to 10.5% and thus created a loan product which makes the use of financial services responsible and meaningful for micro and small businesses in a disadvantaged remote rural area. The second feature is an emergency fund which is deducted every year from the profits and serves for smoothing economic shocks in single cases. Examples are unexpected death or illness of economically crucial members of a household.

All employees of ACC Smilian work in their positions since the foundation of the cooperative. Beyond a professional education in either agricultural production or finance (or both), they also have a long-term, manifold working experience. They all show a high commitment to the mission of the cooperative and form the base of the cooperative’s social network with its members.

Staff members and the manager regularly attend seminars for further education. The most important supply of such seminars is provided by the local DGRV office in Sofia (German Cooperative and Raiffeisen Confederation).

### **Procedure of Social Performance Measurement (SPM)**

- Introduction of the Cerise SPI tool (questionnaire) to the managers of Agricultural Credit Cooperatives and discussion of the application
- In each cooperative the questionnaire was filled out and discussed by the management and staff members.

An external review of the 8 participating cooperatives was conducted by Florian Amersdorffer and Ivan Boevsky.

- For clarifications and to ensure the proper understanding of the SPI tool, the questionnaire was discussed with the management and staff members of each cooperative.
- Interviews with the managers and staff members were conducted to compile an external evaluation of the cooperative’s self assessment.
- In each cooperative 3-5 clients were visited on the spot. They were interviewed concerning their relation and experience with the cooperative, their participation in the cooperative, and their role and participation in the cooperative’s social network.

As the cooperatives have different target groups, the representative clients were selected to provide information on small scale borrowers as well as on clients with medium and larger sized enterprises. In case the cooperative diversified its portfolio, clients of other industries than agriculture were included in the interviews.

The outcome of the external review is documented in the reports on each cooperative as well as in the revised SPI questionnaires.