

## Mikrofin's Credit Scoring Methodology

### Mikrofin

#### Objective of Good Practice:

Use technological innovation through credit scoring to achieve higher efficiency and speed up the loan approval process.

#### Timeframe of Good Practice:

2015 - Ongoing

#### Keywords:

Credit Scoring

### Overview of Good Practice

With the intention of providing quality financial services to the people that are excluded from traditional financial sector, many MFIs aim to develop innovations that enable them to increase efficiency without diverting from their social mission. This is the case for Mikrofin in Bosnia and Herzegovina that has developed a digitalized credit scoring system for business and personal loans below EUR 1,500 for their target clientele of low income active clients.

Technological innovation can help to expand the productivity frontier of loan officers without overloading them or leaving behind poorer clients due to the high costs of small loans. Rather, these innovations introduce and integrate technologies such as credit scoring that can improve loan officer output and reduce transaction costs for the institution.

In the Mikrofin case, there are a number of "filters/information" in the MIS with important criteria and indicators with regards to client features such as: character, capacity, collateral and credit risk. Each of the categories have defined individual values, which ultimately provide the credit score. Some risk factors that Mikrofin takes into the consideration include: credit history, borrowing capacity, other sources of income, loan cycle, loan type, etc.

The key benefit for clients is the easier and faster loan approval process, whereby they can apply directly through Mikrofin's website. Clients simply input the required information for scoring. At the end of the process, they can view their score and see whether they qualify for a loan. Clients do not have to wait for any additional approvals, and if they prefer, they can fill the online questionnaire with the help of a loan officer. This spares clients the additional costs and inconveniences of traveling to the physical branch. Furthermore, for Mikrofin, this translates into savings for loan officer time and operating expenses.

### Innovativeness

For the moment, Mikrofin is the only microfinance institution in Bosnia and Herzegovina that applies credit scoring in its loan approval process. This is possible due to Mikrofin's operational scale and also validates the financial investment to develop their own system without any technical assistance or external assistance.

### Efficiency and Sustainability

The credit scoring system shortens the loan cycle by abolishing the credit committee and the on-site visit for a significant portion of loan applicants. Loan officers save significant amounts of time on paperwork that allows them to attend a higher number of clients. Furthermore, credit scoring allows microlenders to manage their portfolio at risk ratios more precisely than a traditional lending approach would allow. This could open the doors for an institution to gradually increase loans to particularly high-risk (but still profitable) clients in an attempt to increase Mikrofin's outreach.

Since the credit scoring system was developed by Mikrofin itself, the MFI is able to easily make changes and adapt features when necessary.

### Institutional profile

Operations began in Banja Luka in 1997 as a CARE programme supported by the World Bank. In 2001, Mikrofin officially became a registered local institution and is the largest MFI in Bosnia and Herzegovina with a market share of around 28%. With 75 branches across the country, it services most of the population. Experienced staff and well-tailored loan products make our offer attractive and accessible. The institution's primary mission is to provide suitable financial services to low-income entrepreneurs and enable them to become economically independent.

### Type of Organization

Non-Bank Financial Institution

### Country

Bosnia and Herzegovina

### Products & Services provided

- Financial: Business microloans, Personal loans

### Gross Loan Portfolio

EUR 89 million  
(As of 31 December 2017)

### Number of clients

57,000  
(As of 31 December 2017)

### Target Audience

Rural population, Urban population, Unemployed people or people on welfare, Women, People excluded from mainstream financial services

### Organization Website

[www.mikrofin.com](http://www.mikrofin.com)

## **Outcomes**

- Approximately 70% of loan applications using the credit scoring model are approved.
- 33% of total value of the loans disbursed are approved using the credit scoring system.
- The number of loans outstanding per loan officer is 345.

## **Lessons Learned**

Mikrofin's management sees this tool as a successful improvement of their loan approval process, resulting in substantially lower operational costs.