LFS Financial Systems GmbH (LFS) is an advisory and management firm based in Berlin, Germany. LFS specialises in banking and financial sector projects in developing and transition countries, with a particular focus on SME and microfinance.

LFS is owned by its three managing directors: Dr. Bernd Zattler, Dan Balke and Thomas Engelhardt.

Our projects can be broadly divided into three different categories:

- Establishing commercial microfinance banks from scratch and managing them (“greenfielding”);
- Setting up SME and micro lending departments in commercial banks (“downscaling”) as well as subsidiaries; and
- Other advisory or research projects on behalf of microfinance institutions, commercial banks or investors with interest in entering the microfinance industry.

LFS offers a broad range of services including the management of banks or non-bank financial institutions, advisory, staff training and IT services. Moreover, our head office consulting division provides our clients with central support in specialised business areas such as product design and implementation, credit and non-credit banking operations, internal audit, legal and regulatory advice, human resource management and learning & development.

In August 2006, LFS founded Access Microfinance Holding AG (“AccessHolding”), an investment company, which shares premises with LFS in Berlin. Since then, new international partners have joined AccessHolding as shareholders. AccessHolding’s mission is to build a global network of commercial SME and microfinance banks.

LFS is the technical partner and manager of AccessHolding and its network banks.

LFS works for a growing range of reputable clients from a variety of backgrounds. Recent clients include international financial institutions such as the German development bank KfW, the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), or the Asian Development Bank (ADB), as well as an increasing number of private commercial banks and investment funds.

LFS has built a distinguished track record for providing high-quality services and delivering impeccable project results even in difficult country environments. LFS has evolved into a leading provider of integrated service solutions for both “greenfielding” and “downscaling” projects.
Our long-standing specialisation in small business finance has enabled us to accumulate substantial in-house expertise in micro, small and medium enterprise (MSME) finance. Continual market research and cross-project experience exchange ensure that our centres of competence are always up to date in terms of product and process innovations.

LFS does not provide isolated experts or resources, but designs project and programme concepts in accordance to the client’s needs. Within our area of specialisation, we are able to provide integrated service packages. These full-service packages combine a range of inputs including management, advisory, training and IT services.

In contrast to other firms in this field, LFS works primarily with permanent staff rather than assembling freelancer teams on a project-by-project basis. New staff undergo introductory traineeships in one or more of our long-term projects to familiarise themselves with our working methodology, policy and systems. This enables us to maintain projects of a consistently high quality and to develop a strong organisational memory.

LFS assumes responsibility not only for the timely implementation of the agreed work plan, but also for the results of a project. Most of our service contracts include a variable fee component based on a set of quantitative and qualitative performance indicators. In greenfielding projects, LFS has also regularly participated in the financial risk by co-investing directly or indirectly in the newly created institution.

What sets us apart from other firms

In many aspects, the business model of LFS is fundamentally different from other consulting firms in our market segment.
Access Microfinance Holding AG (AccessHolding) is a commercial microfinance holding company managed by LFS. Its mission is to become a leading strategic investor in a global network of microfinance banks, and a recognised promoter of the commercialisation of the microfinance industry. The company is based in Berlin, Germany where it shares premises with LFS Financial Systems.

**Founders and Investors**
Created by LFS and its employee investment fund MicroAssets, AccessHolding has by now admitted a number of reputable like-minded investors such as the European Investment Bank, the German development bank KfW, the International Finance Corporation, the Omidyar-Tufts Microfinance Fund and the UK-based emerging markets fund CDC Group.

The owners of AccessHolding share the conviction that the microfinance industry needs to increase its professionalism and commercial orientation in order to be able to reach the scale required to provide the poor with broad access to adequate financial services. At the core of this process is the need to strengthen retail structures. Earlier waves of stand-alone microfinance institutions, whether newly created or “upgraded” from credit projects, have rarely been able to exploit the high potential for standardisation, synergies and economies of scale that is inherent in modern microfinance.

**The Network Concept**
AccessHolding’s network concept acknowledges and capitalises on this potential. Its network banks will not only share a common “AccessBank” brand identity, but are generally built upon a uniform set of systems, policies and technologies which are defined at the holding level. The holding company also provides central services and support in crucial headquarter activities such as product development, marketing or risk management, which frees up scarce managerial sources at the bank level. Strategic cooperation among network banks – especially within regional clusters – helps to train staff and implement new technologies at a greater pace and lower cost compared to a stand-alone institution. Finally, integration into the AccessBank network greatly facilitates the mobilisation of human and financial resources needed to sustain massive growth in the long term.

**The Role of LFS**
As manager of AccessHolding, LFS has the responsibility to continually review and develop best-practice operating standards, coordinate shared efforts within the network, and ensure the growth and profitability of the holding and its network banks. Through its equity stake in AccessHolding and a strong performance-based remuneration system, LFS participates directly in the commercial success of the network, and underlines its firm belief in the viability of this business model.

**Additional Information**
For further information on AccessHolding, please consult the company’s website www.accessholding.com.
LFS, as the technical partner of AccessHolding, is responsible for establishing ("greenfielding") new AccessBanks and managing the network’s existing banks. The role of LFS in such projects is invariably more dynamic and diverse than in a pure consultancy assignment. The pre-establishment process involves market and legal research, project design, business planning and forecasting, but perhaps most importantly the mobilisation of the financial and human resources required to set up and operationalise the bank. Potential investors and funding partners are brought together, and a management team is assembled for the work on site.

When the bank has opened its doors to the public, LFS as the managing company has full operative responsibility for putting the business plan into practice. In addition to overseeing the day-to-day activities of the bank, this includes the recruitment and training of staff, the gradual diversification of its product range, and the roll out of its operations to an increasing network of branches across the target country. A key task is also the implementation of an effective Management Information System (MIS) on the basis of the LFS MicroBank System®, our proprietary banking software.

As in the downscaling business, LFS places a significant emphasis on accepting only such assignments in which a set of key success factors and principles are shared by all partners. LFS-managed microfinance banks will therefore typically:

- operate either as full commercial banks or under another financial institution’s license permitting them to collect customer deposits;
- provide a broad spectrum of asset and liability-side products to the lower and middle income target group, with a focus on their core business of MSME lending;
- distinguish themselves from other banks or MFIs in their market through greater customer orientation, faster processing times and the ease of use of their services;
- have a decentralised organisational structure in which credit decisions are (within certain limits) taken by daily credit committees at branch or unit level;
- monitor credit quality and performance continually on the basis of real-time data exchange between lending units and the head office;
- apply the highest degree of transparency and performance-orientation in their staff promotion and remuneration systems, and, wherever feasible, giving priority to internal candidates when seeking to fill new vacancies.

The LFS advantage

Creating a new bank out of nothing is a complex and time-consuming process requiring a broad array of skills and resources over the lifespan of the project. Ample experience in this field has enabled LFS to build up a full spectrum of tested tools, systems and procedures that help to accelerate this process and economise on staff input. LFS also has in its ranks a large number of experienced bank managers, consultants and IT specialists which can be mobilised at short notice.

AccessBank Azerbaijan (ABA) was founded in late 2002 as the Micro FinanceBank of Azerbaijan. In 2008 it became renamed as AccessBank Azerbaijan as the premier bank of the AccessBank network. Its shareholders are AccessHolding, LFS Financial Systems, the German development bank KfW, the IFC, the EBRD, and the Black Sea Trade Development Bank. ABA is managed by LFS on the basis of a management service contract.

ABA has demonstrated strong growth from the beginning and quickly evolved into the leading provider of financial services to MSMEs in Azerbaijan. Aiming at being a “house bank” for its target clientele, ABA has successively broadened its range of products, which now includes various types of business and personal loans, customer deposits, money-transfer services as well as payment cards. A growing number of larger SMEs are also using advanced banking services such as salary payment facilities and easily accessible means of trade financing like bank guarantees and letters of credit.

After less than five years of operation (Q4/2007), ABA employed more than 620 staff members in 14 branches, and had built total assets exceeding USD 115 million, of which 80% are MSME loans. The bank plans to further expand its staff base significantly across the country in the coming years to sustain its fast growth. It aspires to become one of the leading banks in Azerbaijan without compromising its clear target group focus.
In downscaling projects, LFS assists commercial banks in developing or expanding their lending activities to small businesses. This occurs either by adding another product line or – ideally – by creating a separate business unit.

**The "Unit" Approach**

The idea to establish a specialized business unit bears in mind that the credit technologies used for best-practice MSME lending are conceptually distinct from techniques employed by "conventional" banks in their retail and corporate lending activities. For the commercial success of a downscaling project it is crucial that it is implemented into a "clean" environment, which is prepared to absorb the specific methodologies and tools that make small business lending work.

- Concentration on a limited range of highly standardised credit products to reduce operating costs and streamline lending procedures;
- A lean, decentralised organisation that assigns a high degree of autonomy and responsibility to the loan officer throughout the loan cycle, as opposed to classical back office/front office structures;
- On-site compilation of key financial data and other risk-relevant information concerning a client, rather than relying on fragmentary, outdated or inaccurate "official" data;
- Compensation for the lack of "conventional" collateral through rigorous loan analysis and strong, dynamic repayment incentives;
- Joint decision making in credit committees, which convene on a daily basis to keep processing times to a minimum;
- A transparent and highly performance-oriented staff remuneration and promotion system.

In a typical downscaling project, LFS helps the client bank to design and set up the new business unit, and advises or manages the unit during the start-up phase. A temporary outsourcing of management responsibilities to LFS is warranted especially if the client bank does not exhibit (or cannot spare) staff with experience in best-practice MSME lending technologies. Comprehensive training and staff supervision efforts serve to build up and identify management talent with potential to successively assume full responsibility for the business unit.

Upon completion of the long-term consultancy assignment, LFS remains available as an ad-hoc technical partner to client banks, and is prepared to provide follow-up training and IT services as required.

**Main Factors of Success**

In the Tajikistan Micro and Small Enterprise Facility (TMSEF), LFS assisted four leading Tajik banks and 40 of their branches in setting up MSE lending as a new business line. The corresponding departments were created from scratch in the client banks and their branches. Working under the "unit approach" described above, LFS assigned four long-term experts to the project. The TMSEF became the dominating and stable source of financing for Tajik MSME and agricultural enterprises. Over the course of the assignment LFS achieved the objective of building the skills and providing its client banks with the tools to make MSE lending a profitable business. Various types of loan products were implemented, such as express, micro and SME loans. In the framework of a subproject LFS introduced agricultural lending in the partner banks.

**Role and Services of the Consultant**

LFS' services comprised credit advisory and institution-building services, learning and development, strengthening of the bank’s internal audit and control functions, and developing and implementing a MIS for handling and managing respective loan portfolios and assistance in their processing.
LFS started in 1997 as a consulting firm for financial institutions and banks in developing and transition countries. Since then the company’s profile has broadened and management of such institutions has become an integral part.

Yet, consulting and the related services are still a bread and butter discipline of LFS. All of the consulting services find application in the aforementioned project types but are also offered as separate packages.

**Research**
LFS conducts comprehensive research to identify possible engagements and to determine their feasibility. Market research carried out by LFS is mainly in the field of operation, supported by desk information. This leads to a comprehensive feasibility study that allows the creation of a plausible business plan.

**Due Diligence**
Through its profound experience acquired in 10 years of operation LFS has gained expert knowledge in due diligence and valuation of banks and microfinance institutions.

**Product Implementation**
The backbone of LFS services is the implementation and development of MSME financial products. The core of the portfolio is composed of micro, small and medium sized enterprise loans. LFS also offers solutions for other loan products (such as agricultural and mortgage loans), as well as a multitude of non-credit products and services, for instance savings, money transfer and payment services.

**Information Technology**
LFS maintains a professional IT division that is able to provide the necessary hardware, software, maintenance and training support for banks and other financial institutions with a SME and microfinance background.

The highly flexible and modular LFS MicroBank System® is designed as an all around banking solution, which is adaptable to the requirements of commercial microfinance under very different legal, technical and economic conditions. It provides essential information for loan officers, bank managers, donor agencies and consultants.

Furthermore, in “downscaling” projects LFS uses its own Loan Tracking and Reporting System (LTRS). A software specialised in meeting the demands of “downscaling” projects, that covers loan processing only.

**Internal Audit**
In its projects and assignments LFS places high value on internal audit. It therefore puts emphasis on performing audits by its own staff members in projects and AccessBanks. An important aspect has become the training of bank staff and consultants in auditing.
The LFS Competence Centre in our Berlin office is the central information and service hub for Access network banks and LFS’ advisory projects. The Competence Centre provides expert advice in key areas, develops procedures, instruments and products as new standards for AccessBanks and assists in their implementation.

It works in close co-ordination with other LFS headquarter departments and AccessHolding as well as local project management.

As the future training centre of the AccessBank network it also identifies learning & development needs and helps the banks to set up efficient internal training and learning & development systems. The competence centre covers three main areas:

In the area of Human Resources Management and Learning & Development, the Competence Centre supports and advises banks on designing and implementing efficient HR/L&D systems. A particular focus lies in the identification and coaching of local middle management and on cross bank coaching, and learning and development within the AccessBank network.

In the field of Retail Finance / Banking Operations, we work with network banks in various areas, for instance in the card business, deposit taking, international and national payment systems, sales training and trade finance solutions.

Regarding Credit Operations, network banks receive support in the design and implementation of various credit products, such as micro and SME finance, low income housing loans, mortgage loans, consumer finance and agricultural and rural loans and in training respective credit staff.
Our client was the country’s third largest commercial bank and owned by the government of Trinidad and Tobago. To serve the MSE sector in Trinidad & Tobago’s fast-growing economy, the client bank considered establishing an MSE finance subsidiary. For this purpose the bank commissioned LFS to conduct a feasibility study and develop a business plan for the new subsidiary.

This new approach of creating independent companies for MSE lending, rather than specialised internal units, enables commercial banks to pursue such business lines profitably and with appropriate lending technology, while keeping them operationally and financially separate from their core brand. A growing number of client institutions are showing interest for such a business model and contract us to develop it with them and to provide management services during the start up phase for the new subsidiaries.

In 2005 the Nepali government and the Asian Development Bank approached LFS to assess the SME situation in the country. LFS’s task was to estimate the feasibility of a commercial SME lending approach in Nepal’s commercial banks and give recommendations on its execution. As a result, LFS deemed a unit approach to be the most promising. In a subsequent report LFS gave recommendations to the Nepali government and central bank on the conceptualisation of a suitable regulatory framework for a commercial MSE lending project, in line with the needs of both banks and clients. In addition commercial banks and the aforementioned parties were made aware of the main issues and opportunities of downscaling.
Management and Staff

Staffing is the most critical ingredient in the success recipe for a good consulting firm, especially in the challenging country environments where LFS operates. LFS has since its inception placed a strong emphasis on building a motivated and competent staff base, and to successively develop our consultants through a range of training instruments.

Management Team

Our distinguishing element is that we work primarily with permanent staff rather than drawing upon a pool of freelancers and assigning them on an as-needed basis. New staff members at LFS are comprehensively prepared during introductory traineeships in one of our projects before being placed on assignments.

LFS is owned and managed by three senior financial systems experts:

Dan Balke has been working with LFS since 1997, the year it was founded. Prior to this he worked in the International Division of a Berlin based pharmaceutical firm. Mr. Balke has managed a variety of small business finance projects, both long- and short term, and consulting teams. In 2004 he invested in LFS and became Managing Director of the firm. Within LFS he is responsible for our Eastern European, Asian and African projects, with a particular focus on advisory service projects. He also manages the competence centre of LFS. Mr. Balke holds an MBA in Finance from the Manchester Business School and an M.Sc. in Economics.

Thomas Engelhardt has been with LFS since its foundation, and became a partner and Managing Director in 2004. Mr. Engelhardt currently serves as AccessHolding's Chairman of the Management Board. From 2002 to 2006, he was responsible for setting up LFS' first greenfield bank, the Micro Finance Bank of Azerbaijan (MFBA). Prior to that, he was a team leader in downsizing projects in Bosnia and Herzegovina and Uzbekistan. Mr. Engelhardt holds an M.Sc. in Economics from the Free University of Berlin.

Dr. Bernd Zattler founded LFS in 1997 and is the Managing Director and majority owner of the company. He is a member of AccessHolding's Supervisory Board and of several network banks’. Having started in 1987, Dr. Zattler is a pioneer of commercially oriented micro and small finance. He worked in technical and management positions of donor organisations and in the field. Before venturing into micro finance, Dr. Zattler was an internal auditor of a multinational company.

Heads of Departments at Headquarters

Jürgen Rausch
Head of IT

Claudia Müller
Competence Center:
Non-loan Banking Products

Sandra Blackaby
Competence Center:
Human Resources, Learning & Development

Ralf Draeger
Head of Commercial Department

Christoph Diehl
Member of AccessHolding’s Management Board

Jürgen Rausch
Information technology expert, Mr. Jürgen Rausch, joined LFS in 2007 after 17 years of experience in various firms of the Daimler Group, most recently as senior manager of IT at DaimlerChrysler Financial Systems. Mr. Rausch holds a degree in Business Information Technology.

Claudia Müller
Having joined LFS in 2005, Ms. Müller managed the non-credit operations department of AccessBank Azerbaijan before transferring to the LFS Competence Centre in 2007. Ms. Müller holds a M.Sc. in Business Administration and Intercultural Management and has worked for various international companies as a consultant.

Sandra Blackaby
In 2008 Ms. Blackaby joined the LFS Competence Center in Berlin as our expert in Human Resources and Learning & Development. She has extensive experience across the globe in Human Resources Management and Learning and Development, gained over 20 years in international consultancy and finance-related sectors.

Ralf Draeger

Mr. Draeger earned ample experience in 16 years as controller of an international agrochemical firm with management accounting and affiliate controlling duties. Holding a M.Sc. degree in Business Administration, Mr. Draeger joined LFS after working another year as a bank controller in 2002.

Christoph Diehl

Mr. Diehl joined LFS in 2000 and has more than 7 years of experience in senior management positions with LFS of which he spent 3 years as General Manager of Socremo Banco de Microfinanças in Mozambique. Other assignments included credit and bank management projects in Azerbaijan, Bosnia and Herzegovina, as well as Uganda. In September 2006, Mr. Diehl was appointed a member of AccessHolding’s Management Board with responsibility for projects in Africa.