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CROATIA GRANT PROGRAM REPORT, Quarter One, Year Four

Period from August 01, 1999 to October 30, 1999

To the United States Agency for
International Development

In fulfillment of the 1996-1999
AID/OPPORTUNITY International Grant
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Submitted by "NOA" SAVINGS AND LOAN COOPERATIVE, OSIJEK
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QUARTERLY REPORT: **NOA** August 1999 to October 1999

PRINCIPLE OBJECTIVES

1. **DEVELOPMENT STRATEGY**
2. **ANNUAL REPORT AND KPMG AUDIT FOR 1998**
3. **RESOLVE LEGAL ISSUES REGARDING TAXATION**
4. **RE-REGISTER NOA UNDER THE NEW LAW ON SAVINGS AND LOAN COOPERATIVES**
5. **COORDINATE EFFORTS WITH OTHER NGO'S**
6. **FINANCIAL RATIOS AND INDICATORS TO BE REPORTED**
7. **STRENGTHENING OF ENTREPRENEURS THROUGH BUSINESS TRAINING SESSIONS**

MAJOR IMPLEMENTATION ACCOMPLISHMENTS

Up to date we have received 1860 loan applications. Out of that, 1592 individual loan applications and 268 group loan applications. We have processed for the loan committee 1313 applications, which has approved 1161 loans to be disbursed. After loan approval, 188 persons withdrew from the application, mostly due to insufficient guarantee or some difficulty in possible loan realization (lack of business space, registration or location permit). At this time, 25 loans are in the procedure of disbursement. In the first quarter NOA has disbursed 75 loans, what from the beginning of the project totals 948 loans. Up to date 1446 jobs were sustained and 916 jobs were created. We also have 398 paid off loans.

ACTIVITIES

1. **Development strategy**

In the past quarter, NOA's strategy for next five years was considered in the way the portfolio structure to be changed. Agricultural loans need to be under 50% of the portfolio, we need to bring in loan repayment in monthly installments where ever the type of business enables it, to increase percentage of the group loans on 25% in the year 2000 with tendency of slight growth.

NOA has strategically decided to extend the agreement with USAID and Opportunity International on another 6 months, in the frames of same terms. During the following six months we will disburse 500.000\$ in Southern Croatia. Also, there is a possibility that Open Society Institute may, through NOA, disburse another 500.000\$ in Southern Croatia.

Funds we were expecting to get from the EU (1.000.000 Euro) were disbursed through Požeška bank, what was very disappointing for us.

2. **Annual report and KPMG audit for 1998**

In 1998 operating with available funds NOA realized total income in amount of 2.380.759,15 kunas and total expenditure in amount of 1.535.783,29 kunas, what indicates on a gross profit in amount of 844.975,86 kunas. After paying the income tax in amount of 312.107,89 kunas, we have a net profit in amount of 532.867,97 kunas.

KPMG has first time audited our activities in April and additionally in September and October. When the audit was done, we became aware of increasing delinquency, so in accordance to that KPMG has suggested that we should have loan loss reserves. We have complied with that suggestion, and now we are expecting the final Annual report that we need for the annual assembly, which will be held in December.

3. Resolve legal issues regarding taxation

Even at the end of 1998 NOA still didn't received the opinion of the Ministry of Finance regarding funds deposited from a foreign depositor (Opportunity International deposit), so before turning in the annual report NOA has asked one more time for a written opinion.

NOA was VAT exempted, and has paid income tax, as well as all regular taxes and contributions for employees (law obligatory on salaries).

Croatian Ministry of finance has rejected NOA's complaint regarding their decision that NOA has to pay tax on Opportunity International's deposit, so we had no choice but to take the Ministry of finance to the Administrative court, what we have done.

Ambassador Montgomery, Dr. Charles Aanenson and Ken Vander Weele have spoken with Minister Škegro regarding the taxation issue end of August. Minister Škegro has apologized because this issue still hasn't been resolved, and he promised to do that in September. At the time of writing this report, we still didn't get the answer.

4. Re-register NOA under the new law on Savings and Loan Cooperatives

After applying to the Ministry of Finance for working license December 1998, Ministry has eight times asked for application supplements with some additional data and decisions which issues local government about offices contending to health and technical conditions, what was promptly issued.

On September 17th NOA has finally get the working license from the Ministry of finance. In October NOA has registered in the Commercial court in Osijek. With this registration we have finally finished reconciliation in accordance to the new law on Savings and loan cooperatives. Out of 180 Savings and loan cooperatives in Croatia, only 56 have legalized their activities. NOA was the 18th.

5. Coordinate efforts with other NGO's

OI and NOA have coordinated with several organizations during this quarter including ICMC in Bosnia, EU, CFE in Osijek and Dubrovnik, OSCE, SEAF, IRC Yugoslavia, Japanese Emergency NGO Belgrade and FLAG.

6. Financial Ratios and Indicators

Please see attachment. NOA also produces a month by month cash flow.

7. Strengthening of Entrepreneurs through Business Training Sessions

NOA has contracted a local agency, the Center for Entrepreneurship (CFE) and Center for Entrepreneurship in Dubrovnik (DCFE) to work with clients in developing business plans and cash flow analysis. This training assists clients to think through the larger issues regarding manufacturing and marketing of products. Overall, the training helps to reduce the risks out plan, it helps everyone to succeed. Last winter were organized expert seminars for the clients in Beli Manastir, Pakrac and Vukovar about milk production, bull fattening and pig fattening. This training is also provided through a grant from the British Know-How Fund.

Loan officer education in Macedonia, as well as staff and Board member visit to UK Know how fund were also financed from the same resource.

PROBLEMS AND CONSTRAINTS

During the past quarter the number of late payments has increased to the troubled level. The Board of Directors and the Loan Committee discusses about the loan repayment issue on a monthly basis. It has been determined that most of the problems in loan repayment has occurred due to problems in entire Croatian economy, especially the ones in agriculture which are caused with the internal insolvency.

As the percussion in the current situation we are in a constant contact with our clients, and sometimes where clients is late in loan repayment due to some objective reason, we consider reprogramming the loan. If a client is consistently late, we are forced to turn the client to our Attorney and to file a legal complaint.

Most of the late loan payments are in the former Sector East (Vukovar, Vera, Bobota and Trpinja where the Serbs live, and in Baranya with Croats returnees). These two population groups are in a very bad material situation, what is the consequence of the insolvency in agriculture (they didn't get paid for pigs they have fattened, for bulls; for the produced milk, grains, sunflower or sugar-beet; for harvesting services they didn't get paid more then 6 months, so in cases like that we have no choice but to go for the collateral, what can cause a very bad publicity for NOA, as well as a negative reaction of certain civil unions (Serb and returnees).

We are proud to announce that up to now we don't have any problems with loan repayment in Southern Croatia, and very few in Western Slavonia.

We have managed to stop the delinquency rate in September. We have spoken with every single client who is 30 days late. We have evaluated possibilities for late loans to be repaid and in accordance to that we have turned some new clients to the court. First lawsuits were resolved in October, and the real estate sale has begun.

As our biggest success we have to emphasize that our continuous loan activity is based on our income, which reaches monthly up to 350.000 DEM, now, when the loan activities in Croatian Commercial banks and other Savings and Loan Cooperatives is almost frozen. Another success is also 398 completely repaid loans.