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CROATIA GRANT PROGRAM REPORT, Quarter One, Year Five

Period from August 01, 2000 to October 30, 2000

To the United States Agency for
International Development

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AID/OPPORTUNITY International Grant
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Submitted by "NOA" SAVINGS AND LOAN COOPERATIVE, OSIJEK
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QUARTERLY REPORT: NOA May 2000 to July 2000

PRINCIPLE OBJECTIVES

1. **DEVELOPMENT STRATEGY**
2. **FINANCIAL ANNUAL REPORT**
3. **COORDINATE EFFORTS WITH OTHER NGO'S**
4. **FINANCIAL RATIOS AND INDICATORS TO BE REPORTED**
5. **STRENGTHENING OF ENTREPRENEURS THROUGH BUSINESS TRAINING SESSIONS**

MAJOR IMPLEMENTATION ACCOMPLISHMENTS

Up to date we have received 2304 loan applications. Out of that, 1905 individual loan applications and 399 group loan applications. We have processed for the loan committee 1752 applications, which has approved 1558 loans to be disbursed. After loan approval, 294 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, 10 loans are in the procedure of disbursement. In the first quarter NOA has disbursed 165 loans, what from the beginning of the project totals 1325 loans. Up to date 2111 jobs were sustained and 1175 jobs were created. We also have 710 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 for another year, ending December 31st 2000. During this period NOA will get additional 500.000 \$ for Southern Croatia, initiating the tourism.

NOA has signed a Minutes of understanding with BIP (Business Innovation Programs), a Norwegian Government Institution, for helping the returnees in Eastern Slavonia. We are talking about 300.000 DEM on a 5-year period for crediting returnees according to NOA's terms.

A decision about encouraging especially good clients was brought at the Annual Assembly, in a way to lower the interest rate on 10%, extend the repayment period on 36 months and to increase the loan amount on 50.000 DEM.

2. Financial annual report

At the Annual Assembly was adopted NOA's Annual report for year 1999. Also, a resolution to place the profit in amount of 480.505,00 kunas into the base capital was brought. Audit for year 1999 and 2000 will be done by Ernst & Young Audit.

In the past quarter we had inspection of the Health Insurance Department, who controlled if NOA makes prompt payments for health insurance of the employees. Everything was excellently evaluated. Also, we had supervision from the Tax Department.

3. 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.

NOA has through FLAG disbursed 44 group loans in the village of Vera, where a pig-fattening co-operative was established.

4. Financial Ratios and Indicators

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

5. Strengthening of Entrepreneurs through Business Training Sessions

NOA has continued cooperation with the Center for Entrepreneurship in Osijek and Dubrovnik. They help in organizing training for making a Business plan.

PROBLEMS AND CONSTRAINTS

Economic situation in Croatia has been worsening during last 3 years, and it culminated in past 9 months. Reciprocal debts are huge, payments have almost stopped in the whole country, and the rate of unemployment is 22%. In our region over 31.500 people are registered as unemployed (there are probably more that are not registered), which is the highest unemployment rate in last 50 years.

All mentioned problems have reflected on loan repayments in NOA, so delinquency rate has raised up to an apprehensive level. As a consequence of non-payments, we had to turn to the court 50 clients, and we will collect the debt through the legal procedure of selling their collateral.

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).

The largest debtor is the state (Ministry of Finance, Ministry of Reconstruction and Development and Ministry of Social Security), in amount of 9,5 Billion kunas. Up to date, two billion has been paid, and the rest is to be reprogrammed till the end of year. After that we are expecting much better loan repayment.

During the past three quarters, we have expected new directions in the politics, which was supposed to initiate and create new jobs and debt payments, and to encourage development. Changes expected still did not come to life, because the debts and unpaid bills which the last Government has left are much greater then the new Government has expected.

In the meantime, NOA joined the union of Savings and loan Co-operatives and influences through the Union changes of the Law on SLC's in the Ministry of Finance. Changes would go towards increasing savings guarantees, reserve funds status and the interest rate on obligatory reserve funds, possibility to collaborate with citizen coalitions and insurance institutions.

The Ministry of small Entrepreneurship and craftsmanship has disbursed big funds into loans for small entrepreneurs, by using the commercial banks as distributors, and not SLC's.

NOA has managed to decrease the late loan payments in the most critical areas, so all new loans disbursed in past two years are being paid-off promptly.

As a constraint in the past period, we definitely need to mention completely repaid 710 loan, 2111 sustained jobs and 1175 new opened jobs. Another success is also continuance of loan activity with the old clients, whom we trust and who trust us. In the last quarter we have disbursed 165 new loans.

The biggest success is definitely out new business location, which was bought out of profit, after payment of the profit tax. Staff has moved into new offices exactly on the four-year anniversary of NOA's activities on October 20th 2000.