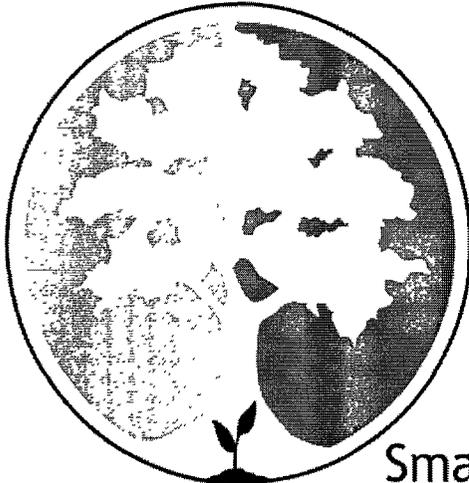


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FINCA KOSOVO



FINCA
Small Loans-Big Changes

107

USAID

Cooperative Agreement
(No. PER-A-00-99-00022-00)

FIRST SEMI-ANNUAL REPORT
October 2000 – March 2001

April 2001

INTRODUCTION

FINCA International's microfinance project in Kosovo, as approved by USAID, identifies FINCA's strategic objectives for the period from October 1999 to September 2002. This project was designed to create a self sustainable, locally run microfinance institution (MFI) in Kosovo that offers the widest possible client outreach while contributing to the economic revitalization of this war-torn area.

Post-war Kosovo has begun transitioning away from emergency relief efforts and towards an economic development phase. Many humanitarian organizations have closed or downsized their operations in Kosovo. During the past 6 months from October 2000 until September 2001, FINCA has made significant steps towards reaching its strategic objectives. FINCA has impacted two of the provinces more pressing needs. First, FINCA has improved access to working capital, the main problem for men and women trying to reactivate their small businesses. Second, FINCA has generated new small business development, which is essential for creating employment opportunities.

FINCA has developed a strong institutional foundation, with key decision making in the hands of local managers, that provides Kosovars access to credit – all within the accepted boundaries of institutional safety and soundness. In addition, Finca has also taken a leadership role in the developing microfinance sector.

As of March 2001, FINCA Kosovo has improved financial security and income generation for over 850 families and generated over 50 new small business jobs. In the coming periods, FINCA will continue to leverage these early successes.

**HIGHLIGHTS:
Outreach, Loan Portfolio, and Sustainability**

In the past six months of the cooperative agreement, FINCA Kosovo continued the progression toward the realization of project goals as outlined in the agreement. FINCA disbursed 857 loans since the start of the cooperative agreement. The outstanding loan portfolio has grown from \$190,883 to \$670,668, a 251% increase, in just six months. A summary of indicators as of March 2001 is provided below:

Indicator	Actual Sept 2000	Actual March 2001	% Growth/Change
# of VB Members	215	654	204%
# of SEL Clients	68	203	199%
Total # of Clients	283	857	203%
VB Loans Outstanding (DM)	119,810	410,996	243%
SEL Loans Outstanding (DM)	302,996	1,077,888	256%
Total Outstanding Loans (DM)	422,806	1,488,884	252%
Total Loans Outstanding (\$)	\$190,883	\$670,668	251%
Operating Self-sufficiency	23%	54%	31%

A set of performance indicators, which include a range of portfolio and outreach data, is in the attachment to this narrative.

Initially, the most significant obstacle to achieving a higher rate of return on operations was the competition with humanitarian relief organizations that distributed grants for projects as opposed to credits for business as well as "pretender MFI's" - humanitarian relief organizations that target specific regions and offer subsidized rates. FINCA Kosovo originally experienced difficulties offering sustainable, market-based, interest rates in an environment with over 300 registered humanitarian relief organizations.

However as Kosovo has started the transition from an emergency relief phase of post-war reconstruction towards an economic development, many humanitarian relief organizations have begun to downsize their programs. During this transition phase, FINCA repriced its products and services to reflect the true cost of operating a market-driven MFI. In addition, FINCA has emphasized cost control countermeasures to reduce administrative expenses as a percentage of outstanding loans and recognized the need to increase loan volume in order to achieve greater efficiency and profitability.

On January 5, 2001, FINCA Kosovo introduced its Financial Services Monthly Incentive Plan, which recognizes the performance of the credit officers as critical to achieving self-sustainability. This incentive plan has been designed to motivate and reward those staff members who make an exceptional contribution to the performance of FINCA.

Another obstacle to overcome has been the overall lack of a credit culture and a genuine fear of banks or lending institutions among the local population. As chairman of the Kosovo Customer Information Service and member of the

Kosovo MFI Association, FINCA has taken a leading role in the development of best practices among microfinance institutions, creating a credit culture among clients and staff and coordinating efforts with other MFIs to build industry infrastructure.

The impact of these managerial actions has seen FINCA Kosovo's operational self-sufficiency rise from 23% in September 2000 to 54% in March 2001. FINCA will continue to undertake managerial actions as needed to address the mission critical sustainability goal and implement further adjustments in its product offering in order to ensure that the end-of-grant targets are met.

PROGRESS TOWARDS OTHER OBJECTIVES

FINCA Kosovo has strengthened its internal capacities through the implementation and institutionalization of procedures and systems, which has enhanced transparency, efficiency, and quality of its lending operations. Steps toward this goal include installing FINCA International's proprietary accounting and financial system (SIEM), training and empowering local personnel, and retaining local staff throughout all levels of the institution vis-à-vis various incentive schemes and financial rewards.

Staffing

In March 2001, FINCA Kosovo promoted a local supervisor to Financial Services Manager and two additional local credit officers to supervisor level. These actions further empowered the local staff in key decision making roles and support the goal of creating a locally run microfinance institution.

Training

FINCA will continue to develop skills, capacity build and train local staff with the priority being to retain a highly motivated and skilled local team. Targeted training will be conducted locally and through the short-term rotation of microfinance experts from other FINCA programs in the NIS.

FINCA Kosovo has overhauled its internal financial services training course in preparation of its expansion to a new office in the American KFOR sector and the hiring of new credit officers in April 2001. The financial services training course is an internally administered professional-level course for new credit officers and supervisors. The immediate training aim is to provide new credit officers and other staff with the necessary tools and skills requisite for professional employment. The five-week training course includes two-weeks of intensive classroom based activities and, afterwards, supervised participation in the

lending process, from the initial evaluation of credit worthiness through final loan approval and borrower repayment.

FINCA continuously monitors its methodology, solidarity group dynamics, entrepreneurship and business plan analysis so that they meet the needs of Kosovo's specific environment. This monitoring includes an examination of the strengths and weaknesses of our lending process, consulting with current staff, and reviewing proven best practices by other FINCA affiliates.

In addition, local FINCA Kosovo staff attended the following training:

- Two local supervisors visited our FINCA Kyrgyzstan affiliate to share experiences and learn about their successful lending programs in December 2000
- One local supervisor attended a FINCA Small Enterprise Loan conference in FINCA's Georgian affiliate to better understand the similarities and differences in programs and create a template and manual.
- Two credit officers attend a one-week small business analysis training in Pristina, Kosovo by the Micro Finance Centre for Central and Eastern Europe and the New Independent States based in Warsaw, Poland. This small business plan analysis training was only possible through the efforts of the Kosovo MFI Coordination Group.

FINCA will benefit from having committed and well trained local managers that have a vested interest – financial, professional, and personal – in the overall success of the organization.

Capacity building

FINCA Kosovo's goal is to maintain the highest level of professionalism in the microfinance industry and to motivate local staff through loyalty, financial incentives and career opportunities. With emphasis on capacity building greater responsibilities have been given to local supervisors.

In addition the following managerial actions have been taken:

- Improved communications through weekly staff meetings, which allow local staff the opportunity to express their opinions or concerns, and for management to update staff on pertinent issues. This two-way dialogue has created a vehicle for cooperation, teamwork and dedication.

- Introduced a monthly incentive system for credit officers and annual goal for all employees.
- Promotion of a local Operations Manager by the end of the year, furthering the goal of empowering local staff

Promote Best Practices

FINCA has built a strong credit culture among staff and clients by reinforcing a credit philosophy and ensuring that clients understand the importance of loan repayment and savings linked to ongoing credit. FINCA will continue to modify financial systems, as needed, to ensure compliance with regulatory requirements.

FINCA has positioned itself as a microfinance leader in Kosovo by taking a leadership role as chairman of the Kosovo Credit Information Service (KCIS) and the MFI Coordination Group. The KCIS founding members were FINCA, Mercy Corps, ICMC, World Relief and Micro Enterprise Bank. The KCIS was implemented in mid-July 2000 after the founding members updated the central database with client information. The service has been vitally important for providing member institutions with vital information on potential borrowers past repayment behavior, and outstanding credits and enabling clients to establish credit histories that credible and able to be tracked. Against the background of poor legal enforcement mechanisms and the absence of a business registry and property rights, the availability of this information is crucial for the success of all microfinance institutions operating in Kosovo.

Safety and Soundness

FINCA will maintain the safety and value of its physical and financial assets, and operate according to sound financial and managerial policies in order to achieve the highest prudential standards possible.

- In November 2000, FINCA Kosovo was externally audited by the firm of Deloitte and Touche which found FINCA's financial reporting and lending practices sound, accurate, and professional.
- In January 2001, Air Security International audited the overall security arrangements at FINCA Kosovo. They found FINCA's security preparations, awareness and procedures all to be of high quality.

Small Enterprise Loan Business Plan

FINCA Kosovo revamped its Small Enterprise Loan Business Plan, a major factor on loan approval decisions, in March 2000. The revised business plan was finalized and implemented, utilizing input from local supervisors and proven best practices from other FINCA affiliates.

Credit Operations

FINCA Kosovo is currently offering two distinct loan products. The first product utilizes a solidarity approach, or group methodology, that is offered in the smaller towns and villages of the Prizren region. The solidarity group-lending product provides immediate access to capital for entrepreneurs in small villages. The average size of the first loan is \$450 (4-month term). The second product is the Small Enterprise Loan, offered in the larger towns or municipal centers. This product is individual and collateralized thereby enabling small entrepreneurs to replace fixed assets, diversify inventory supplies and build capacity. The average size of the first loan is \$3,500 and the average employment per enterprise is approximately 5 employees. Both products target self-employed entrepreneurs engaged in income-generating activities such as service and trade activities and small-scale manufacturing. Likewise, both products provide shopkeepers, having lost inventory and fixed assets during the NATO intervention, with access to finance. In addition, FINCA Kosovo is evaluating the possibilities of offering a small-group collateralized loan product with initial loan sizes in the range between the previously described products. The third product will function as a pathway for credit-worthy clients to effectively transition from smaller solidarity loans to larger individual loans.

Expansion of Activities

FINCA Kosovo has expanded its operations from 6 municipalities in September 2000 to 12 municipalities by March 2001. FINCA is now working in 40% of all municipalities in Kosovo. This percentage will certainly increase as FINCA begins preparations for its expansion into the American KFOR sector. This expansion will enable FINCA to cover more than 50% of Kosovo from its three offices; Prizren, Gjakova and Ferizaj.

Summary

FINCA will continue to focus on sustainability, job creation and financial stability for families. Ultimately, organization longevity, the amount of new jobs created and the number of family businesses stabilized will measure FINCA's success.

FINCA KOSOVO
Semi-Annual Report
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Table One -- Financial Services
Simplified Activity and Financial Statement
In \$'s

Exchange rate for September 30, 2000 - \$1.00 = DM 2.22
Exchange rate for March 31, 2001 - \$1.00 = DM 2.22

	Apr 00 - Sep 00	Oct 00 - Mar 01
ACTIVITIES		
2. Amount of loans outstanding, end of period	\$190,883	\$670,668
4. Number of loans outstanding, end of period	283	857
5. Average loan size	\$674	\$783
6. Portfolio at Risk (>30 days)	\$5,151	\$0

INTEREST RATES		
7. VB Nominal Interest Rate (monthly flat %)	2.0%	2.0%
8. SEL Nominal Interest Rate (monthly declining %)	3.0%	3.0%
9. Inflation rate	n/a	n/a

CLIENT REVENUES		
10. Interest income from clients	\$15,524	\$83,225
11. Fee income from clients	\$4,701	\$26,251
12. Total client revenues	\$20,225	\$109,476

OTHER - EFFICIENCY		
13. Savings Ratio (savings as a % of loan portfolio)	9%	12%
14. VB Client Turnover Rate	11%	6%
15. Number of Clients per Loan Officer	12	61
16. Loan Portfolio per Loan Officer	\$8	\$48

FINCA KOSOVO
Semi-Annual Report
October - March 2001

Portfolio and Outreach

Portfolio and Outreach	Sep-00	Mar-01	% Change
Number of VB Loans Outstanding	215	654	204.19%
Number of SEL Loans Outstanding	68	203	198.53%
Total Number of Loans Outstanding	283	857	202.83%
Total # of Female Clients	40	104	160.00%
% of Female Clients	14%	12%	-2.00%
VB Loans Outstanding	\$54,090	\$185,133	242.27%
SEL Loans Outstanding	\$136,793	\$485,535	254.94%
Total Loans Outstanding	\$190,883	\$670,668	251.35%
Amount of VB Loans Disbursed	\$149,168	\$470,262	215.26%
Amount of SEL Loans Disbursed	\$267,898	\$874,869	226.57%
Amount of Loans Disbursed	\$417,066	\$1,345,131	222.52%
Ending Balance of VB Savings	\$38,010	\$185,240	387.35%
Operating Self-Sufficiency	23%	54%	31.00%
Portfolio at Risk (>30 days)	1.4%	0.3%	-1.10%
Portfolio Yield	29%	43%	14.00%
Number of Staff	43	40	-300.00%