

SERVICING MICROENTREPRENEURS IN ALBANIA

ALBANIA GRANT REPORT SEVENTEEN

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To the United States Agency for International Development

In fulfillment of the 1998-2003

USAID/Opportunity International Cooperative Agreement

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Submitted by Opportunity International

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PRINCIPLE OBJECTIVES

1. External CGAP accredited Rating by Mikrofinanza
2. Activity Based Costing (ABC) exercise based on CGAP practices
3. Human Resource Consultation and review
4. Development and Implementation of Internal Audit Function
5. Prepare Application to at least one local bank for commercial funding
6. Opportunity International E. Europe CEO and Board Training
7. New Product Pilot Phase for loans under 150,000 Leke (1,100 USD)
8. Developing small guarantee fund in Shkodra region with ETIMOS

1. External CGAP Rating

PSHM undertook an in-depth external rating by the CGAP accredited microfinance rating institution "Mikrofinanza." A rating of A+ out of a possible AAA shows a "Strong capacity to meet its financial obligations. Very good operations. Stable even if it could be affected by major internal or external events." The rating focused on six areas: Strategic Objectives, Financial and Operational Results, Financial Structure, Financial Products and Asset Quality, Governance and Management, External Environment. Key strengths included Diversified products, Loan Assessment, Human Resources, and Ownership/Governance. Risks identified included low growth in 2002, low profits in the first 8 months of 2002 and centralized decision making.

To assist PSHM in these efforts, CGAP will provide a grant of \$7,200 to help defray some of the costs of the rating. The rating led directly to a \$200,000 loan from Blue Orchard Finance and will enable PSHM to more effectively access international commercial funding in the future.

2. Activity Based Costing exercise based on CGAP practices

A team of PSHM staff and management was organized to carry out the ABC exercise with the assistance of Tracey Taletino, an OI specialist. The purpose of the exercise was to understand the cost structures at PSHM and its products, identify viability of products, identify inefficiencies and offer suggestions for improvement, and create the framework for continued use of this or similar tool in the future.

The most expensive activities include Administrations, Delinquency Monitoring, Loan Application, Disbursement and Loan Monitoring. From this several recommendations were made including delegating more administrative functions from Loan Officers to administrative staff to increase Loan Officer loading, better budgeting at the branch levels including authorities for incurring budgeted expenses, more effective use of existing administrative staff, and time management training.

3. Human Resource Consultation and Review

Opportunity International specialist Nicholas Colloff reviewed key HR issues facing PSHM as well as interviewing key managers and staff to assess capacity for growth. Suggestions include the shift of the management of the SME product from Business Development to Operations, creation of an independent HR function, review of the reporting of MIS to minimize risk of fraud, involvement of all 3 members of the senior management team in Board decisions, tightening of job descriptions to reflect PSHM's work environment. Many

of these actions have taken place, others will be addressed in the first half of 2003. In addition, an assessment of training needs was identified by position.

Overall, the initial assessment shows that PSHM has several members of staff with the capacity for growth that will require management to ensure new challenges are presented to staff to encourage growth. Concerns raised include the reservation of key staff about stepping into their roles and taking the responsibility expected and given to them as well as some positions carrying significant capacity, but at times still young and therefore developing skills. Further Organizational development work is planned for February 2003.

4. Development and Implementation of Internal Audit Function

An internal audit function was developed to assist management and the council of supervisors to better assess areas of potential fraud and organizational risk. At a minimum, the internal audit will take place at each branch at least once per quarter to ensure PSHM policies and procedures are followed. In addition, a monthly audit of the finance department will take place to ensure proper and timely entry of records and financial transactions.

In addition to minimizing organizational risk, the role of the internal auditor will allow PSHM to strengthen its operations and procedures to improve client service, adherence to policies and procedures, viability and organizational development. The rewards should lead to a much more effective and efficient organization.

5. Prepare Application to Local Bank to develop local funding source

PSHM is in the process of developing a relationship with the American Bank of Albania to provide a local source of debt financing to ensure access to additional funds as the organization grows. The application to the ABA is an initial request of \$300,000 based on a pending guarantee through a Deutsche-Bank Micro Credit Development Fund set up to encourage and leverage local funding sources. It is expected that this will enhance PSHM's ability to raise funds when required as well as reduce costs and transactions with borrowers outside of Albania. PSHM also received positive feedback from the National Commercial Bank (BKT). Both local institutions offer PSHM flexibility and the potential of a long term bank partner.

6. Opportunity International Eastern European CEO and Board Training

A three-day training took place with all Opportunity International partners in Eastern Europe attending. Three of PSHM's council members and the CEO attended the training focusing on improved governance and oversight of the microfinance partners. Special attention was given to the obligations of board members in meeting legal requirements and setting the strategic direction for local organizations. The importance of the training is significant given PSHM's increased activities and search for additional commercial funding sources.

7. Pilot Phase of new "CORE" loan product

PSHM developed a new core product to meet the needs of the smallest of the entrepreneurial class in Albania. The "Core" product is expected to fill the need for loans of up to 150,000 Leke (about 1,100 USD) to clients including small traders, working professionals, laborers and others requiring additional funding for existing business activity. It is intended to complement PSHM's group loan by reaching many of the same target clients but with faster and more

flexible procedures. A key reason for the speed and security of the loan is the new movable properties law and the ability of lenders to secure loans with inventory and working capital. The initial product was tested in Vlora and first indications show strong demand when offered to the target market. The product will be developed and offered in all branches at the beginning of 2003.

8. Development of Guarantee fund with ETIMOS in Shkodra region

Initial talks ended with no new guarantee fund with ETIMOS. PSHM continues to look for new activities and expects to expand lending in rural Shkodra through improved cooperation with the local NGO – Albania Foundation of Training and Development (AFTD). PSHM and AFTD are reviewing options that will allow for group loans to farmers seeking to increase mechanization through the purchase of tractors and other machinery. AFTD expects to increase its guarantee fund to enable increased lending to the above mentioned farm groups.

Other Activities:

1. Senior Management Operational/Strategic Plan for 2003.
2. 3 PSHM staff attend World Bank training on Movable Properties Law
3. 2 PSHM staff attend training on Accounting and Financial Analysis for Micro Finance
4. 2 loan officers hired to cover growing demand and activity in Durrës
5. Continued staff development in conjunction with SME lending activities
6. ABA-CEELI training on citizen's rights to information

DIFFICULTIES AND CONSTRAINTS

Loan officers report concern about the economy and hesitation of clients to take loans for growth. This seems to be related to the slowdown in the world economy.

Energy issues are becoming somewhat problematic as the winter season approaches. Lack of electricity is a key issue in Shkodra.

State offices continue to process paperwork slowly causing delays in mortgages.

FUTURE ACTIVITIES

1. IRIS Training on Human Resource development and management
2. Review and revision of PSHM job descriptions
3. Identification and hiring of Human Resource and Training Coordinator
4. Time Management Training
5. Continued development of American Bank Loan and Deutsche-Bank guarantee
6. Opportunity International Annual CEO conference
7. Roll out of Core product under 150,000 Leke
8. Development of operations in Korce Region

PROGRAM INDICATORS

As of December 31, 2002

Number of Active Micro-Clients: 1,773
Number of Micro-Loans Made This Period: 450
Cumulative Number of Micro-Loans Made: 6,254
Amount Lent This Period (Micro): US\$1,124,462
Cumulative Amount Lent (Micro): US\$10,115,096
Current Loan Portfolio: US\$ 2,267,103
On-Time Repayment Rate: 96.7%

Note: (1 USD = 135 Leke)