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Development of User-Owned Rural Financial Institutions in FYR Macedonia

Assessment Team Report

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Overcoming Hurdles and Forging Ahead:

Recommended Models, Legal Strategies, Promotion Strategies, and Pilot Sites

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OVERVIEW AND EXECUTIVE SUMMARY

Overview

1. The idea of organizing Savings and Credit Cooperatives (SCCs) in rural Macedonia is a good one, based on a real need for savings and credit services in villages. The task of organizing SCCs, however, will be challenging, because villagers distrust financial institutions and prefer to hold hard currency for fear of denar inflation. Addressing these concerns and eliciting the necessary levels of deposits for financial viability will require a somewhat complex system of indexing and stabilization that will take hard work to develop. The system will be further complicated by administrative restrictions and tax and licencing requirements.

2. Macedonian banking law is also problematic, because it currently disallows the creation and registration of SCCs. The program will need to achieve an amendment to the banking law before it can begin to organize SCCs in villages, even on a pilot basis.

3. Together these organizational and legal challenges mean that it will be laborious for WOCCU to organize SCCs in Macedonia, particularly at the beginning. It will take strategic thinking, finesse, patience, and perseverance to overcome the numerous hurdles. The effort is worthwhile, however, because villagers need and want the financial services that SCCs can provide on a sustainable basis.

Summary of Chapter 2: The Institutional and Financial Model

4. The basic SCC model — a group of persons pooling their savings to make interest-bearing loans to each other — is appropriate. Each SCC should be democratically governed by its members but managed by a salaried manager.

5. Financial analysis suggests that 300,000 Deutsche-marks in assets are required for an SCC to earn enough interest to cover its costs in Macedonia. Three hundred members with 1,000 DM each in deposits would meet this minimum target.

6. To elicit sufficient deposits, SCCs will need to meet members' concerns about security and inflation. Security concerns can be addressed by creating a stabilization/insurance fund, initially managed by WOCCU's local office and eventually transferred to a Macedonian organization. Inflation concerns can be addressed by indexing denar deposits to the Deutsche-mark or by tying interest rates directly to exchange rates.

7. Loans should also be indexed to the DM and secured mainly through the co-signatures of fellow members.

8. Organizing SCCs in Macedonia will be somewhat complex, but clearly worthwhile.

Summary of Chapter 3: Legal Concerns and Recommended Legal Strategies

9. Currently there is no law under which SCCs can register and operate legally in Macedonia, even on a pilot basis. Consequently, WOCCU needs to focus its efforts in the first half of 1996 on the development and enactment of appropriate legislation.

10. The most promising avenue to achieve acceptable legislation is to develop a sub-section to the Banking and Savings House Act to be adopted as an amendment by Parliament. To do this, WOCCU should use the Program Director and short-term consultants to build understanding and support for such an amendment in the National Bank of Macedonia, the Ministry of Finance, and the Ministry of Agriculture.

11. WOCCU should develop a proposed amendment and present it and the overall SCC concept at a seminar for government officials. Afterwards, the program should work with a committee within the NBM to refine the amendment and make it acceptable to all concerned institutions. Once a draft amendment is finalized by the committee, WOCCU should take steps to facilitate its movement through the necessary procedures for passage into law.

Summary of Chapter 4: Additional Concerns

12. In addition to obtaining a licence from the NBM, each SCC will also need to register at the court as a legal entity. At this point, registration as a cooperative appears more promising than alternative legal forms, although tax obligations are liable to be similar — 30 percent of profits.

13. Once registered, SCCs should consider obtaining licences for exchange operations to make it easier for villagers with Deutsche-marks to change their money and open accounts. The licence is not hard to obtain but will require additional legal and administrative work.

14. SCCs will need to open giro accounts at the Central Payments Agency (ZPP) and learn to work constructively with this agency.

15. The law is not very specific about bookkeeping requirements, therefore WOCCU can develop its own system of bookkeeping for Macedonian SCCs, verifying it subsequently with NBM supervisors.

16. Outside injections of capital are unnecessary for Macedonian SCCs because local savings exist in the villages and can be mobilized for sustainable financial intermediation. Outside

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money can be more appropriately used to finance the stabilization fund needed to build confidence and deposits in fledgling SCCs.

17. The project should not plan for a federation of SCCs until its third year, when, if conditions permit, it should explore the creation of an apex organization to manage the stabilization fund, among other tasks.

Summary of Chapter 5: Timing Issues and Recommended Promotion Strategies

18. WOCCU should concentrate on legislative reform over the next six months, making it the first priority. Promotional work in villages should wait.

19. While WOCCU works on legislative reform, it can and should begin work on two other activities: (1) staff training, and (2) clarifying remaining ambiguities about legal and administrative concerns. These should be addressed before village promotion begins.

20. The Program Director should deal with most of the remaining legal ambiguities by contracting a local lawyer to investigate them. The question about how to best structure a stabilization fund, however, should be treated by an international consultant experienced in this issue.

21. Once significant progress has been made on the legislative front, and most of the outstanding research questions are answered, WOCCU should begin the promotion phase. Preparing promotional materials should be the first step of this phase, including a brochure, handbook, and accounting system for SCCs.

22. The next step should be selecting two or three pilot villages from the prioritized list presented later in this report. The number of pilot villages should be limited because of the complexities of the proposed model, limited senior staff resources, and the negative consequences any failure would have on subsequent project implementation.

23. Promotional work in each pilot village should involve the following steps:

- Identify village leaders and discuss the idea with them;
- Organize an initial small group study session;
- Hold an informational meeting for the community;
- Facilitate the formation of an organizing committee;
- Train the organizing committee through further study sessions;
- Hold a second community meeting to present the committee's plans;
- Assist in the application for a licence and court registration;
- Provide continuous technical assistance and training for SCC operations.

This program should be modified as local village conditions require; flexibility is important.

Summary of Chapter 6 : Selection of Initial Pilot Sites

24. Activities to identify pilot sites for initial SCC activities have confirmed the need for SCCs in rural areas and identified a number of potential locations that seem to offer good prospects for the development of future SCCs. Site selection efforts were targeted exclusively in rural areas and sought to maintain a rough balance between ethnic Macedonian and Albanian villages in order to make sure that at least one viable site was identified for each ethnic group.

25. Initial Phase I reconnaissance visits were undertaken to sites in eight different municipalities (*opstinas*) to make preliminary assessments of the receptiveness of different villages in these areas for future SCC promotion efforts and to identify potential "leaders" who could serve as a vehicle for introducing the Program to their communities;

26. Of these eight sites, six were selected for more detailed survey work in Phase II. The survey was designed to gather quantitative data on household incomes, savings behavior and credit needs as inputs in order to undertake more detailed site rankings. The six sites chosen for Phase II survey work were: the twin villages of Chegrane and Forine (Gostivar Opstina), Bogovinje (Tetovo Opstina), Neraste (Tetovo Opstina), Marino/Ilinden and Petrovec (Gazi Baba Opstina), Murtino and Monospitovo (Strumica Opstina) and Rosoman (Kavadarci Opstina).

27. Of these six sites, 3 are ethnic Macedonian (Marino/Ilinden/Petrovec, Rosoman, and Murtino/Monospitovo) and 3 are Albanian (Chegrane/Forine, Bogovinje and Neraste).

28. Separate prioritized rankings were established for Albanian and Macedonian villages based on analysis of the Phase II data combined with the qualitative impressions of the Team about the interest of leaders in the various communities for the idea of an SCC . Among the Macedonian villages, the highest ranked site was Marino/Ilinden, followed by Rosoman and then Murtino/Monospitovo. For the Albanian villages, Chegrane/Forine was judged to be the most promising venue, followed by Bogovinje and Neraste.

Summary of Chapter 7 : Conclusion and Summary of Twenty Recommended Actions for the Next Fifteen Months

29. Savings and Credit Cooperatives represent a promising mechanism to address the current scarcity of financial services in rural Macedonia. They offer a sustainable approach to mobilizing local capital for local investment and development. Establishing SCCs, however, will be a challenging and difficult task, because of the numerous hurdles that lie on the path to success. These hurdles include villagers' distrust of financial institutions, fear of inflation, the

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absence of an appropriate legal framework, and numerous regulatory and administrative requirements. WOCCU will need to overcome these challenges with strategic thinking, hard work, and perseverance. The goal is important and worth the effort.

30. The Assessment team suggests twenty actions to move the program forward over the next fifteen months. These are summarized at the end of Chapter 7.

CHAPTER 1: INTRODUCTION

Audience

The Assessment Team wrote this report specifically for the use of the WOCCU program staff in Skopje, principally the Program Director (Bruce Bjornson) and the Project Manager (Ljupco Dimovski). The Team also had in mind WOCCU's regional manager for Europe (Bill Dalrymple), other technical staff, and any short-term consultants that may work on the program over the next two years. The USAID representative and project officer are also considered part of the audience.

For this reason, the report is more practical than promotional. It assumes that the audience already supports the idea of promoting user-owned rural financial institutions.

The report was *not* written for Macedonian government officials or for villagers who may become involved in the management of Savings and credit cooperatives. These are different audiences which require different reports specifically tailored to issues that interest them written in tones appropriate for other purposes (either educational or promotional). Suggestions for future development of these materials can be found in this report.

Objectives

The overall objective of the Assessment Team was to provide useful guidance to the program's staff on how to refine and implement the program for developing rural SCCs which is described in WOCCU's grant agreement with USAID.

For this reason, the team analyzed those issues that represent the greatest stumbling blocks to successful implementation of the program and developed strategies to overcome them. The team worked closely with the Program Director and Project Manager throughout this process. Working together resulted in a healthy vetting of most of the ideas in this report, and an improved understanding of the complexities of the tasks that lie ahead in implementing this program. On several occasions, the team worked with the Program Director to begin advocacy work on behalf of SCCs in the offices of government officials. Although this activity didn't always provide useful information for the report, it did help in the process of preparing the way for implementation of future program activities.

Sub-objectives of this consultancy were:

- To develop an appropriate institutional model for SCCs in rural Macedonia;

- To suggest appropriate policies for SCCs to adopt in Macedonia;
- To conduct financial analyses to determine the parameters necessary for SCCs to reach financial viability (interest rates, asset and liability levels, etc.);
- To address the primary constraints to successful savings mobilization and lending practices;
- To analyze the existing legislative framework and legal requirements vis-a-vis the program model, and evaluate the feasibility of proposing new legislation;
- To develop a strategy to allow SCCs to be registered and chartered for legal operation;
- To examine other potential obstacles or complexities affecting the program's feasibility;
- To survey rural Macedonians to find out about their current savings and borrowing practices and determine their need for and interest in the financial services that SCCs can provide;
- To determine which villages are most appropriate for initial pilot project activities;
- To recommend a program of action.

Consultant Roles

The report was researched and written in January and February, 1996. Lawrence Kent was the team leader and principal author. He was in Macedonia for five weeks. Dale Magers was the senior member of the team, with many years of experience with credit unions in Central and Eastern Europe. He focussed on legal and financial issues and was in Macedonia for three weeks. Tom Lenaghan concentrated on field survey work and was in Macedonia for four weeks. Local legal expertise was provided by Pavlina Jankova and Nicola Cokrevski. Field surveyors were Herbi Elmaz, Afrodita Sulija, Vladimir Zajkovski, Bekim Causi, Vladimir Bajraktarov, and Zoran Andovski. Miljana Minovska and Olivia Georgievska assisted in translations.

Report Organization

The report consists of seven chapters. The introduction is first, followed by Chapter 2, which develops the institutional and financial model. Chapter 3 addresses legal concerns and

recommended legal strategies. Chapter 4 addresses additional concerns that arose during the mission or were raised by the Program Director. Chapter 5 presents recommended promotional strategies. Chapter 6 presents site selection recommendations, based on field survey results. Chapter 7 summarizes the team's conclusions and recommendations. Other issues are addressed in annexes, where much detail was relegated in order to make the main body of the report more readable.

CHAPTER 2 : THE INSTITUTIONAL AND FINANCIAL MODEL

Summary: *The idea of organizing Savings and credit cooperatives (SCCs) in rural Macedonia is a good one, based on a real need for savings and credit services in villages. The basic SCC model — a group of persons pooling their savings to make interest-bearing loans to each other — is appropriate.*

- *Each SCC should be democratically governed by its members with a volunteer Managing Board and a salaried manager for daily operations.*
- *Financial analysis suggests that 300,000 Deutsche-marks in assets are required for an SCC to earn enough interest to cover its costs in Macedonia. Three hundred members with 1,000 DM each in deposits would meet this minimum target.*
- *To elicit sufficient deposits, SCCs will need to meet members' concerns about security and inflation. Security concerns can be addressed by creating a stabilization/insurance fund, initially managed by WOCCU's local office and eventually transferred to a Macedonian organization. Inflation concerns can be addressed by indexing denar deposits to the Deutsche-mark or by tying interest rates directly to exchange rates.*
- *Loans should also be indexed to the DM and secured mainly through the co-signatures of fellow members.*
- *Organizing SCCs in Macedonia will be somewhat complex, but clearly worthwhile.*

The Need

There is a clear need for financial services in rural communities in Macedonia that is not being met. Banks and savings houses are absent from most villages, and the overwhelming majority of villagers have no dealings at all with the formal financial system. Villagers do not have access to formal investment or consumer credit, and they do not have savings accounts. Because they distrust banks and fear inflation, they generally convert their savings into foreign currency (usually Deutsche-marks) and hide them in their homes. As a result, villagers earn virtually no return on their savings, and the money that is hidden away under mattresses is inaccessible to those who need credit for agriculture, business expansion, and other activities. The lack of formal credit in rural areas, especially for small farmers, retards the development of a more dynamic rural economy. Occasionally villagers borrow from friends and relatives or buy supplies on credit from shopkeepers, but these opportunities are limited and insufficient.

Savings and credit cooperatives offer a promising solution to this problem. SCCs can provide a secure place for villagers to store their excess cash and earn interest. At the same time they can provide credit to finance investments in agriculture and other activities. SCCs can reach small farmers that other outside credit programs cannot, thereby promoting participation by small farmers in the ongoing economic transition in agriculture. And unlike foreign credit lines, SCCs mobilize resources already within rural communities, and thus offer a more sustainable solution. Properly managed SCCs operate at a profit or at least break even. Because they are democratically controlled, SCCs can also build a sense of democratic participation and self-reliance in small communities.

The fact that rural Macedonians have almost no trust in their current banking system presents both an opportunity and a challenge to the WOCCU project.

The opportunity is based on the vacuum that currently exists in rural financial services. Current needs are not being met and formal competition to WOCCU's program is practically absent. Our field survey indicates that rural heads of households typically hold 2,000-5,000 DM in their homes — savings that potentially could be mobilized by savings and credit cooperatives.

The challenge is based on the fact that rural Macedonians are very wary about *all* financial institutions and are reluctant to deposit funds. For WOCCU to succeed, it will need to convince rural Macedonians that SCCs are safe, and superior to banks, because they are based in their villages, locally and democratically controlled, well managed, and lending only to fellow members who live in the same community.

The Recommended Basic Model and Management Structure

Based on its research, the Assessment Team reaffirms the appropriateness of the institutional model described in USAID's original request for applications (RFA) and in WOCCU's application document. This model has proved successful in countries all over the world, including other countries in transition. After adaptation to local conditions, it will be appropriate for Macedonia.

SCCs in Macedonia should pool together the savings of a group of people (members) to make loans to each other at sustainable rates of interest. They should act as financial intermediaries between savers and borrowers in a community by providing interest-bearing accounts for savers and opportunities for loans to those who need credit. Through these services they should contribute to the development of the community.

The members of an SCC should be people who share a common bond, such as a profession, community, or workplace. As much as possible, they should know each other. Such a bond increases the ability of the members to cooperate productively in the management of the

SCC and to properly screen loan applicants. It also increases the likelihood of borrowers repaying their loans to the SCC. In Macedonia, WOCCU is charged with promoting SCCs in rural areas, therefore, the common bond should be the rural community itself.

People become members of an SCC by applying and buying a share. The payment is a sign of commitment to the organization as well as a means for the SCC to collect essential equity capital. The members are therefore the owners. The price of a share usually is determined by the internal statute of an SCC, although a minimum amount may be required by law. In Macedonia, the amount of a share should be set by each SCC itself, according to its own situation. In the beginning, however, WOCCU should consider promoting a share amount of 30 to 50 Deutsche-marks, as a means for new SCCs to collect sufficient start-up equity capital. Our surveys indicate that share prices in this range are acceptable to villagers. When the SCC makes a profit, it may decide to distribute a dividend on each share. Money invested in shares can only be withdrawn when a member ends his or her membership in the SCC.

SCCs should only take deposits from and make loans to their members. This differentiates them from purely commercial financial institutions such as savings houses.

SCCs should be governed democratically by their members. The ultimate authority in the organization should rest with the members/owners who constitute the general assembly. Each member should have one vote regardless of the size of his or her deposits or share subscriptions. The members should vote on and adopt a written statute to govern the SCC. A good model statute can be found in Annex 1.

The members should elect a Managing Board from among their own ranks and empower the board with authority to make policy decisions and oversee operations.[1] The board should be charged with the responsibility of seeing that the SCC operates in the best interest of its members. The number of board members should be fixed at between seven and nine persons. Board members should serve voluntarily, meeting as often as necessary to fulfil their duties, but at least once a month.

The Managing Board should select and hire a Manager to oversee the day-to-day operations of the SCC. The manager should be paid a salary and considered an employee of the SCC. He or she may work full-time or part-time depending on the needs of the SCC and its ability to pay the salary. Newly formed SCCs may want the full assembly to confirm the board's selection of the manager. Once hired, the manager should select and hire additional staff for the SCC. At first, a newly formed SCC may need and be able to afford only one additional staff member, perhaps a teller/cashier, working full or part-time. After maturing, the SCC may want to expand its staff.

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[1]The term "managing board" is used instead of "board of directors," as this is the term used in the Bank and Savings House Act that will eventually govern SCCs in Macedonia.

Committees should be created and staffed by members who are appointed by the board or elected by the membership. The essential committees are the Supervisory Committee and the Credit Committee. Members should serve on the committees on a volunteer basis.

The general assembly should elect the members of Supervisory Committee. This committee's role should be to examine regularly the SCC's books and records and report to the membership at the annual general meeting. When an outside audit firm is engaged to perform an audit, the committee should provide it with assistance. Three to five volunteers should serve on this committee.

The Credit Committee's role should be to promptly act on loan applications submitted by members. It should follow the lending policies established by the board and described in the statute. It may also recommend changes in policy to the board. Three to five volunteers normally serve on the committee, meeting on a regular basis to review and decide on applications.

The SCC should be housed in a simple but secure office with a high-quality insured safe. Appearances should be professional and neat so that all who enter the premises perceive that the SCC is well-managed and secure.

Membership in SCCs should expand over time as more people want to join in order to deposit their savings in interest-bearing accounts and/or borrow money for consumer or investment purposes.

SCC Policies

SCCs should establish written policies that guide their lending, investments, and handling of deposits, shares, and reserves. Suggested policies for Macedonia are outlined in the model statute in Annex 1 and summarized below. More detailed policies will need to be developed later by the SCCs in collaboration with the program staff.

The policy on lending should stress safe loans. These normally will be relatively short-term loans, from 1 to 12 months, that are based on a careful analysis of loan applications, the borrower's character, and possibilities for security (more on this later). Loans should respond to the needs of the borrowers for either consumer or investment credit. Interest rates should be set close to market rates, currently about 2 percent monthly (for Deutsche-marks), because SCCs are dependent on interest income for their own viability. The WOCCU office in Skopje already has a detailed lending policy handbook that can be adapted to the needs of individual Macedonian SCCs.

The policy on savings should stress passbook savings accounts based on a monthly interest rate that can be adjusted as necessary by the manager, with the approval of the managing

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board. The interest rate should be close to market levels, currently about 1 percent monthly (for Deutsche-marks). Our village survey indicates that such a rate is in line with people's expectations. Members should be able to withdraw any portion of their passbook savings at anytime the SCC is open. Eventually, SCCs should consider offering fixed-term certificates of deposit of 1, 3, and 6 months duration, with higher interest rates fixed for the duration of the certificate. This will create more stability and allow matching the maturities of assets and liabilities (which is desirable to minimize risks). SCCs should not offer checking accounts, as such accounts are extremely difficult to manage in the current Macedonian context.

Investment policy should guide how an SCC can invest assets that are not tied up in loans. Initially, SCCs should restrict themselves to only the very safest investments, such as deposits in interest-bearing accounts or certificates in the country's strongest banks. Ideally, at least 75 percent of assets should be loaned out to members at any given time, and only 10-15 percent should be invested in safe outside investments in which the membership has confidence.

Each SCC should keep liquid funds equal to at least 10 percent of its total liabilities in quickly accessible liquidity reserves. These need to be available for withdrawals by passbook savings holders and probably should be held in cash in the SCC's safe. Each SCC should maintain a regular reserve equal to 6 percent of total liabilities. This regular reserve can initially be constituted of funds from members' shares, but over time a portion of the SCC's profits should be set aside to constitute this regular reserve. Special reserves should be constituted according to the law as a percentage of loans in arrears — this is the loan loss allowance.[2]

Financial Break-even Analysis

For an SCC to serve its clients on a sustainable basis, it must be financially viable. It must operate at a profit or at least break even.

This means that an SCC's revenues must exceed its operating costs and costs of funds. Revenues consist primarily of interest payments made by borrowers to the SCC. Operating costs consist primarily of salaries for a manager and a teller/cashier and office rent and utilities. The cost of funds is the interest that the SCC must pay to depositors on funds in savings accounts.

The Assessment Team constructed a financial model on a Lotus spreadsheet to determine what rates of interest and what levels of liabilities (deposits and shares) are necessary for an SCC to become financially viable. The model calculates an SCC's revenues and costs of funds under various scenarios. Given substantial fixed operating costs, and the need to keep interest

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[2]Formulas are defined in the decisions of the National Bank of Macedonia which are available in English in the WOCCU office in Skopje. See the following decisions: Feb, 28, 1994; March 3, 1995, and March 6, 1995.

rates near market rates, it is essential that an SCC have a sufficient volume of business to generate revenues to cover its costs. A healthy level of shares and deposits is essential.

The financial model demonstrates that an SCC must have approximately 300,000 Deutsche-marks in liabilities to break even in Macedonia. By lending 75 percent of this money to its members at a monthly interest rate of 2 percent, an SCC can generate enough revenue to pay a 1 percent monthly interest rate to its depositors and cover operating expenses of approximately 1,560 DM per month (mostly salaries).

Based on the spreadsheet analysis, 300,000 DM is a realistic target size for the financial viability of an SCC in Macedonia. This number will need to be increased if operating expenses are higher than expected, defaults are higher than expected, interest rates on loans are set lower than 2 percent monthly, or interest rates on deposits are set higher than 1 percent monthly. Conversely, the target number can be lowered if operating expenses are reduced, defaults limited, and higher rates charged on loans or lower rates paid on deposits. The spreadsheet model accompanying this report is designed to allow a wide variety of assumptions to be modified to evaluate their impact on financial viability. Ongoing modifications are expected as the program evolves. The impact of different assumptions is discussed in more detail in Annex 2, which presents the full model. For now, based on assumptions that we feel are the most realistic, WOCCU should consider 300,000 DM as the minimum level of liabilities for an SCC to be financially viable.

This minimum level of liabilities is helpful in forming a picture of the necessary size of a Macedonian SCC. Three hundred members with an average of 1,000 DM per member in deposits and shares would constitute the minimum level. Twice that many members — 600 — would constitute a larger capital base that would allow an SCC to build reserves and operate more comfortably. Other variations on these figures are possible, but these estimates provide a good basic picture of what a viable SCC might look like. WOCCU should promote SCCs only in villages that have the potential to generate more than the minimum break-even capital and mobilize more than 300 members, with 600 members being the best target.

It will take time for a new SCC to generate enough membership and deposits to reach the break-even point. If an SCC starts with 50 original members and grows by 15 percent every month, with levels of deposits also increasing over time, it will take almost 2 years to reach the break-even point. To allow an SCC to operate during the first two start-up years, WOCCU will need to provide an operating subsidy, as envisioned in the original RFA and grant application.

We recommend that this operating subsidy consist of a fixed budget of 1,000 DM per month for the first two years of operations. This sum will allow an SCC to pay its staff and expenses during the difficult start-up months without dipping into its share capital or deposits. During the first year the subsidy should cover virtually all operating costs. During the second year, when an SCC's expenses increase because of an expanded staff, the fixed subsidy will cover about half of operating costs. By this time, interest revenues will be sufficient to cover

remaining costs. By the third year, the subsidy should be ended, as revenues should be sufficient to cover all costs. This is demonstrated in Annex 4.

By fixing the subsidy at 1,000 DM per month, WOCCU will provide an incentive for good management. If an SCC allows its expenses to exceed the budgeted amount, it will have to pay the excess itself. If an SCC keeps costs low, it can more easily make a profit and begin to build reserves on its balance sheet.

Details on the financial model and the assumptions that went into it are presented in Annexes 2-4.

Further Adaptations of the Basic Model to Macedonian Economic Conditions

The basic institutional model for an SCC must be adapted to the economic conditions of Macedonia in three important respects. SCCs must:

- Create linkages to a stabilization and insurance fund established locally by the project;
- Index deposits and loans to the Deutsche-mark; and
- Develop alternative means to secure loans in the face of weak collateral laws.

These adaptations to the basic model are essential for success in the Macedonian context. Unfortunately, they complicate the task of promoting and organizing SCCs. They are necessary, however, for SCCs to mobilize sufficient deposits to reach financial viability and to make and collect loans effectively. Each is discussed in a separate section below.

Stabilization and Insuring Deposits

Macedonians interviewed by the team expressed concern about the safety of any deposits that they might make into a new SCC. Specifically, they asked whether deposits would be "guaranteed" or insured. Most expressed reluctance to deposit money in any financial institutions if their deposits were not insured in some way. Most have heard of banks and savings houses that have collapsed and failed to pay depositors. It is crucial to address these concerns before actual SCC promotion work begins.

To address these concerns (thereby encouraging deposits), and to minimize the chances of collapse of an SCC, the program needs to consider the possibility of providing or developing some form of deposit insurance and/or stabilization measures. Macedonian law may also requires such measures.

Private insurance is one option. Most private Macedonian savings houses pay for such insurance from one of three local companies offering it. The team interviewed an agent of the largest of these companies, "Makedonija", which operates in cooperation with a London-based insurer. The agent expressed willingness to insure small SCCs with a premium based on a percentage of total deposits. Such insurance probably could be purchased on behalf of SCCs, with the premium paid from earnings or from the program's start-up subsidy.[3]

However, private insurance has disadvantages. It is not designed to come to the rescue of a failing SCC; instead, it will only cover depositors funds once a "run" on deposits has occurred, liquidity is exhausted, and an SCC has collapsed. Also, private insurance is not likely to pay depositors' claims immediately after a collapse; instead, delays and legal battles are probable before actual payments occur.

A stabilization fund is preferable to private deposit insurance. A stabilization fund manages money which it can lend to a financial institution that is having liquidity problems due to, for example, defaults, poor management, or fraud. The stabilization fund takes action before the situation becomes acute, making a loan to the financial institution to ensure that liquidity is not exhausted, *under condition that the SCC agrees to take steps to remedy the management problem that provoked the crisis*. This condition may involve temporarily putting the SCC "under supervision," meaning that management decisions would be made by the stabilization fund manager rather than the SCC's own board, until things are put back in order. The fund also provides diagnostic and technical assistance to the SCC. A stabilization fund, thereby, helps a struggling financial institution to "work out" its problems. The loan is typically on soft terms, to be paid back as the financial institution rectifies its situation and generates earnings through recovering loans and receiving loan payments.

Properly functioning, a stabilization fund will ensure that a covered financial institution is unlikely to ever collapse, thereby reducing the need for deposit insurance. Some large stabilization funds, such as those in Canada, the United States, and Austria offer both stabilization services to avoid collapses and deposit insurance in case of collapses. Stabilization funds normally are capitalized through fees or premiums paid by covered institutions. They may be operated by governments or by federations of financial institutions.

Macedonian SCCs should build a relationship with a stabilization fund, ideally one that also offers deposit insurance. Currently such a fund does not exist in Macedonia. The Central Bank is planning to create a fund in the near future and require banks to pay premiums into it.

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[3]The rate quoted by the Makedonija agent was approximately 0.3 percent annually on average amount of deposits, plus additional fees. This surprisingly low rate was confirmed as "in the right ballpark" by a savings house manager. There was considerable confusion, however, about how this rate would be calculated and what real protection the policy provided. If this option is pursued, more thorough investigations will be needed.

However, officials at the Central Bank have expressed reluctance to allow newly-formed SCCs to be covered by these services, as this might overburden the Bank's supervision staff.

Given this context, Macedonian SCCs should eventually build their own stabilization fund, into which all SCCs will pay premiums, with an apex organization responsible for management. The apex organization, perhaps an arm of an SCC federation, would represent the interests of all member SCCs and the SCC movement in general.

It is clear that the creation of such a stabilization fund will be well beyond the means of fledgling Macedonian SCCs for several years and that SCCs must themselves become stronger before such an undertaking would be appropriate. But the goal is worthwhile for the long term. In the short term, however, the need for stabilization and insurance is evident, particularly as a means to generate willingness to deposit and to create initial confidence in new SCCs.

To overcome this dilemma, the team recommends that the WOCCU program itself set up a small stabilization and limited insurance fund in Macedonia, setting aside, say, 30,000 DM for each of the first 10 SCCs. Money was not allocated for this in WOCCU's original grant agreement, but it should be possible to pull money from other line items in the existing budget, if USAID approves, or to seek additional resources. This stabilization fund would hopefully never have to be used during the life of the program, but its presence would reassure members of fledgling SCCs and allow the movement to get started. The fund also would be available, should any SCC fall into financial troubles, to allow the program to "work out" the problems before a run or collapse could begin (something that would be severe blow to the program and the movement should it be allowed to occur).

Initially the fund would be capitalized and managed by the program, but SCCs would be required to pay annual mandatory premiums for coverage. The premiums would be small, but as the SCCs grew in strength the premiums would be increased to move towards a self-sustaining system in the long run. By the end of year three of the program, evaluators will need to decide if the SCC movement is mature enough to develop an apex organization that could assume control of the stabilization fund, or, if the stabilization fund should be folded into the Central Bank's stabilization fund at that point, on condition that the SCCs receive coverage. WOCCU clearly cannot operate the fund after the end of the program.

WOCCU should engage a short-term consultant to design a more detailed program to establish a stabilization fund in Macedonia. This April or May would be an appropriate time.

Indexing Accounts and Loans to the Deutsche-mark

Currently, villagers keep their savings at home in Deutsche-marks, because of fears of denar inflation or other unfavorable changes in the denar's status (the denar was just created in 1991, before that the currency was the Yugoslav dinar, and before that the Bulgarian leva —

each change hurt currency-holders). Consequently, villagers are reluctant to keep their savings in denars, and are unlikely to be enthusiastic about opening denar-denominated savings accounts at an SCC, *even at high interest rates*. Our survey results indicate that virtually all villagers would prefer to keep their savings in Deutsche-mark savings accounts.

The legality of Deutsche-mark accounts is unclear. According to the president of the Savings Houses Association, it is not legal for savings houses to manage Deutsche-mark accounts. Macedonian banking law does not explicitly permit such accounts, and this is interpreted by the regulators as a prohibition. Neither of the two savings houses visited by the team offered Deutsche-mark accounts. However, the association president said that a few savings houses may be offering such accounts "in a low profile way," and so far "they hadn't had problems with the authorities, but the risk is there."

Deutsche-mark-indexed accounts offer a possible solution for SCCs. Such accounts would be held in denars, however, their accounting value would be determined on the basis of the Deutsche-mark, and the interest rate would be calculated on the Deutsche-mark value. Thus a 100 DM deposit would be immediately converted into denars at the prevailing exchange rate at the time of the deposit. The account would earn a fixed interest rate based on the Deutsche-mark value, say, 8 percent annually, and at the end of a year the account would be worth the equivalent of 108 DM, but in denars. Withdrawals would be made in denar with the amount being determined by a calculation based on the prevailing exchange rate at that time. Depositors would thus be protected from depreciation of the denar and assured that their savings would retain their value even in inflationary times. And they would earn interest.

Deposit agreements would need to be written and explained clearly. Their legality would also need to be double checked. Under such an arrangement, the depositors are insulated from possible devaluations of the denar, which is good for attracting deposits. The SCC, however, is vulnerable to inflation/devaluation risks. To offset and balance this risk, it would be *essential* for the SCC to index its lending also to the Deutsche-mark, thereby shifting the inflation/devaluation risk to the borrower. By keeping its liabilities and assets in balance, the SCC will be better protected: when inflation is high, the SCC will pay more denars to its depositors, but it also will earn more denars from its borrowers. In Deutsche-mark terms, inflation will be irrelevant.

Indexing loans to the Deutsche-mark is simple. A loan for 100 DM would be disbursed in denars at the prevailing rate. An interest rate of 2 percent monthly, for example, would be charged on the Deutsche-mark value of the principal. After one month, the borrower would owe 102 DM converted into denar at the rate prevailing at that time. The exchange-rate/inflation risk will be borne by the borrower, not the SCC.

Savings houses occasionally make such Deutsche-mark-indexed loans. The indexing is written up in a side agreement to the main loan contract. There have been cases, however, when such agreements have not been respected by the court. One savings house director told the team how a disgruntled borrow, who suffered because of shifting exchange rates, refused to honor her

agreement. When the case went to court, the judge ruled that the interest rate should be calculated on the original denar value of the loan. This case was unusual, but if SCCs index their loans to the Deutsche-mark, they will have to face this risk. To be prepared, WOCCU should engage a lawyer to double check the legality of such agreements and draw up a model contract that is likely to be respected by the courts. WOCCU should also ensure that SCC credit committees carefully inform their borrowers of how indexing works and how they will be required to respect their agreements regardless of shifts in exchange rates. If significant exchange rate shifts occur while loans are outstanding, credit committees should contact borrowers to remind them of their commitments.

An alternative strategy to deal with the risk of inflation/devaluation, is for SCCs to offer only variable-interest loans and savings accounts. Interest rates would need to be tied directly to devaluation rates and allowed to vary on a continual basis.

On the loan side, this would involve indexing the interest rate to some standard indicator of inflation or exchange value. Given the ambiguity surrounding inflation measures, the best indicator would probably be the official denar-Deutsche-mark exchange rate. Interest might be set on such loans at a base rate of 2 percent monthly, for example, plus the percentage change in the exchange rate adjusted monthly. If the value of the denar fell by 5 percent in one month, the interest due for that month would be set at 7 percent (2 percent+5 percent). If the denar fell by 1 percent the next month, the interest rate would be set at 3 percent for that month.

Such loan agreements are almost identical to the Deutsche-mark-indexed agreements discussed above. However, they will be more difficult to handle from an accounting perspective. It is unclear if these agreements would have more legal clout than those discussed above. WOCCU should engage a lawyer to look into this question.

On the deposit side, variable interest rates on denar accounts are also a possibility. Interest rates might be set at a base rate of, say, 1 percent, plus the percentage change in the exchange rate adjusted monthly. This is very similar to the Deutsche-mark indexing system discussed above. However, potential depositors might prefer the first indexing system, particularly if they have difficulty understanding the accounting used on the variable rates. This matter needs to be discussed with potential depositors in the area of each pilot SCC, as perceptions are important in attracting deposits. After considering the law and villagers' perceptions, WOCCU should choose the best indexing system and promote it.

WOCCU will need to pay close attention to inflation and indexing issues not just on deposits and loans, but also on other items on SCCs' balance sheets that are affected by inflation, such as borrowings, liquid holdings, and investments in certificates of deposit.

Indexing also will require the development of accounting and bookkeeping systems that are more complex than those used in countries with stable currencies. WOCCU should review

the indexed bookkeeping systems used by SCCs in other countries (such as Ukraine) before developing a standard accounting system for Macedonian SCCs.

Many Macedonian businesspeople are familiar with DM-indexed accounting. However, ordinary villagers are not. WOCCU will need to carefully explain how indexing works to all potential SCC members during the promotion phase. This promotional work will need to convince villagers that Deutsche-mark-indexed accounts are as "inflation proof" as Deutsche-marks themselves. Initial skepticism and reticence can be expected, but eventually overcome.

Securing Loans

The importance of developing effective methods for identifying creditworthy borrowers and loan administration techniques cannot be overemphasized. To be successful, each SCC will need to adopt carefully thought-out policies and procedures on lending. An excellent lending policy and procedure manual, available in the WOCCU-Macedonia office, can serve as a model to be adapted and adopted. Character loans should not be ruled out, but as much as possible, loans should be secured.

Alternative means of securing loans need consideration. Commercial savings houses in Macedonia accept the following as collateral:

- Mortgages on commercial buildings, such as shops or offices, valued at twice the loan amount;
- Jewelry, appraised at twice the loan amount, physically held in the savings house;
- Cars, appraised at twice the loan amount, physically held by the savings house in a secure garage;
- Hard currency, of an amount at least the value of the loan, held in the savings house;
- A check, for the amount of the loan and interest, which is held at the savings house and can be cashed in case of default (Macedonian law is reported to require that banks accept all checks regardless of amount in the check-writer's account).
- Deposit accounts in the savings house belonging to family or friends of the borrower who co-sign the promissory note.

Of these techniques, mortgages lead to the most problems, as court procedures for foreclosures take six to twenty-four months, tying up the saving house's liquidity. Furthermore,

the value of the seized property does not always cover the full obligation, after interest and late fees are assessed.

Savings houses generally will *not* accept as collateral:

- Residential property, because foreclosure is extremely difficult due to the court's "social bias" — unwillingness to rule against home-owners and/or unwillingness to execute foreclosure procedures.

- Land, because of foreclosure difficulties and difficulties selling land after foreclosure (one savings house interviewed could not find a buyer for a vineyard it foreclosed on, despite three auctions).

- Vehicles or machinery that are not physically held by the savings house, because of fear that they will be reported stolen before a foreclosure can be executed, and because of the unreliability and possible corruption relating to insurance covering this risk. In legal terms, there are no non-possessory pledges on movables.

Collateral law in Macedonia is currently governed by a Law on Obligations that most officials agree is inadequate. Because there is no central collateral registry, the unscrupulous can secure multiple loans on the same mortgage. The Ministry of Justice is developing new legislation on secured transactions, and a USAID-funded project called IRIS is beginning to work on this topic. It is unclear, however, if the new legislation will be enacted and operational before the year's end.

In this context, SCCs will need to be careful in deciding how to secure their loans, and each SCC will need to formulate its own policies in close coordination with the WOCCU program. Although some loans may be made on a character basis, most should be secured with co-guarantors or collateral. Collateral can reduce the SCC's risk of loss in two ways. The threat of losing the item helps strengthen the borrower's commitment to pay. If the member still won't or can't meet the terms of the loan, the SCC can take the collateral, sell it, and use the proceeds to cover the loss.

In the assessment team's opinion, the following two options should be considered to secure loans by SCCs:

Co-guarantors. This is probably the best technique. Loans should be secured to their full value (including interest) by funds in the borrower's and co-guarantors' accounts in the SCC, which should be blocked until full repayment. The SCC will need to ensure that co-guarantors co-sign the promissory note and that they fully understand their commitment. The SCC also will need to develop and enact internal administrative systems to ensure that blocked funds remain blocked until full repayment is made. Before it ceased lending in 1993, the Savings and Credit Union of Railway and Traffic

Workers reportedly used this technique effectively to secure its loans, typically with 2 to 3 co-signers per loan. The Soros Foundation is using a similar technique for its small credit program in Macedonia.

Mortgages. Using mortgages as collateral may be appropriate in certain cases; however, it requires more detailed study, consultation with the court in the jurisdiction of each SCC, and extreme care, particularly before the new secured transactions legislation is enacted. Commercial buildings should be preferred over commercial land which should be preferred over residential properties. The collateral agreement must be established by a lawyer, which may cost 500 to 1,000 DM, a substantial cost which would have to be borne by the borrower and would only be justified in the case of large loans (loans that are likely to be too large for fledgling SCCs with limited capital). The exact legal cost needs further research. It should be recognized that mortgages on residential properties may serve the first purpose of collateral (threat>commitment) but not the second (foreclosure to cover loss).

Other options are less attractive. Jewelry, vehicles and machinery should be considered and their potential as collateral should be further researched. However, their disadvantages are similar to those for mortgages, and savings houses' reluctance to accept vehicles as collateral suggests that extreme caution is appropriate. Jewelry can be difficult to have properly appraised, and can be risky to handle and hard to sell. Hard currency deposits are also unattractive, because those who hold sufficient hard currency do not truly need loans — they are merely trying to share exchange rate risk with the financial institution. Checks also are not promising as collateral, as virtually no one in a rural community has a checking account.

Institutional and Financial Model : Conclusion

SCCs represent a promising mechanism to address the current scarcity of financial services in rural Macedonia. The basic model for SCCs is appropriate, but must be adapted to deal with Macedonia's special conditions, particularly the widespread distrust of financial institutions, fear of inflation, and weak collateral law. These conditions require the development of a stabilization fund, indexing of deposits and loans, and use of co-guarantors to secure loans. Such adaptations complicate the basic model, making it harder to explain and harder to set up. However, they are essential for making secure loans and attracting sufficient deposits to become financially viable.

In addition to addressing the concerns raised in this chapter — a difficult but feasible endeavor — WOCCU needs to address other concerns relating to Macedonian law and administrative procedures. This too will be challenging, but feasible, if a strategic and systematic approach is taken. These concerns are explored in the next two chapters.

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CHAPTER 3: LEGAL CONCERNS AND RECOMMENDED LEGAL STRATEGIES

Summary: *Currently there is no law under which SCCs can register and operate legally in Macedonia, even on a pilot basis. Consequently, WOCCU needs to focus its efforts in the first half of 1996 on the development and enactment of appropriate legislation.*

- *The most promising avenue to achieve acceptable legislation is to develop a sub-section to the Banking and Savings House Act to be adopted as an amendment by Parliament. To do this, WOCCU should use the Program Director and short-term consultants to build understanding and support for such an amendment in the National Bank of Macedonia, the Ministry of Finance, and the Ministry of Agriculture.*

- *WOCCU should develop the proposed amendment and arrange to work with a committee within the NBM to refine it and make it acceptable to all concerned institutions. Once a draft amendment emerges from the committee, WOCCU should take steps to facilitate its movement through the necessary procedures for passage into law.*

Background and Description of the Team's Efforts to Evaluate Alternative Legal Strategies

The Assessment Team spent a considerable portion of its time searching for an appropriate way for SCCs to be registered as legal organizations. This included an analysis of how they could be registered and regulated best in the long term, as well as how they could be registered quickly in the short-term to allow pilot efforts to begin before long-term legal solutions were achieved.

It was clear from the beginning that legal registration was absolutely necessary, so that SCCs could write enforceable loan contracts and avoid legal challenges, fines, or closures. Villagers themselves brought up this issue and stressed its importance during field interviews, stating that they would be unwilling to deposit savings in institutions whose legal status was undefined. Government officials, with whom WOCCU needs good relations, also stressed the importance of legal registration.

The team reviewed the fundamental law governing financial institutions — the Bank and Savings House Act (BASHA) — and found that it contained several articles that would not allow the creation of SCCs in Macedonia. These articles required large amounts of founding capital, restricted lending to shareholders, and mandated non-democratic forms of governance (more on these articles later). The team then reviewed other laws in search of alternative avenues for legal registration of SCCs. These included:

- The Law for Social Organizations and Associations of Citizens (1990)
- The Law on Enterprises (1988)
- The Labor Law (1995)
- The Cooperative Law (1990)
- The National Bank of Macedonia Decision on Terms and Conditions of Performing Exchange Operations (1993)

None of these laws presents a viable avenue for legalizing SCCs in Macedonia. After reviewing them carefully, discussing them with officers of many donors and NGOs, and consulting with local lawyers, it became clear to the team that in the long run new legislation was necessary for SCCs to organize and operate in Macedonia.

Realizing that development of new legislation was necessary but could be a lengthy process, the team redoubled its efforts to find a provision in the law that would allow WOCCU to register and develop two or more pilot SCCs on a temporary basis while at the same time pushing for new legislation.

This effort led us back to the laws listed above. The Labor Law offered no hope. Nor did the Exchange Operations Decision. The Law for Social Organizations and Associations of Citizens offered only the slimmest of hopes. It allows for registration of associations engaging in economic activities, *only if they fulfill the conditions issued by the law for performing that activity* (presumably BASHA in this case, a law to which SCCs cannot conform in its present form). The Interior Ministry is responsible for registrations under the Associations of Citizens Law and is reported to be inflexible. It would be extremely difficult to register pilot SCCs under this law, and attempts to do so would risk annoying the NBM, an institution with which WOCCU needs good relations.

The team also examined the Law on Enterprises for a temporary solution. Under this law, SCCs could register as limited liability companies, and probably could make loans. Deposits, however, would probably be unlawful, and would need to be restructured as stock purchases. This would subject the SCCs to additional securities regulations. The law also would require awkward relations with the National Payments Agency (ZPP) and would not allow for the democratic voting principle of one member one vote. Attempting to pilot SCCs under this law would require severe contortions and distortions of the model, and would probably annoy the NBM, which could decide that BASHA applied anyway.

The Cooperative Law is also problematic. It mentions the term savings and credit cooperatives once, but it also states that cooperatives are subject to the laws governing the economic activities which they perform (again, BASHA). Consultations with a local lawyer indicated that it would be extremely difficult to register a SCC under the cooperative law unless one had obtained a license from the NBM, which would require meeting BASHA's stipulations. The Ministry of Agriculture is reported to be working on a new cooperative law, but progress is slow.

The upshot of this analysis is that attempting to go around BASHA and registering SCCs under an alternative law would be very difficult and unwise, even on a temporary pilot basis. Staff at NBM consistently state that all financial institutions should fall under their purview. They are likely to react negatively to any attempt to sidestep BASHA even during a pilot period. And WOCCU needs the NBM as a strong ally on the longer-term legislative front.

Faced with this situation, the team came to a preliminary conclusion that legislative changes were necessary before any SCCs, even pilot SCCs, could register or begin savings or lending operations. This was not what we had originally hoped to find, but it is the most sensible conclusion based on the current situation.

The question then became, how to achieve appropriate legislative changes quickly. Three options were identified and vetted:

1. Promote a new, separate law governing SCCs. This would be ideal as it would allow for a law meeting the special needs of SCCs as described in the WOCCU Content Guide for laws governing SCCs. Developing, promoting, and enacting a new law, however, would probably take a long time. It might also be hard to justify to Parliament, given that the SCC idea has not yet been field-tested in Macedonia. The NBM would need to support the idea for it to have a chance of success, but reactions to the idea of a new, separate law has been lukewarm at NBM. Officials there have expressed a preference for the next option.

2. Promote an amendment to BASHA that would allow SCCs to operate. This would take the form of a sub-section defining what differentiates SCCs from savings houses and banks, and exempting SCCs from the BASHA articles that are the most problematic. The form of the subsection would parallel that of the current sub-section on Saving Houses, making it familiar in style and concise enough to facilitate its passage by Parliament, possibly within the first eight months of 1996.

3. Promote a new, temporary law governing only those SCCs established under the auspices of the WOCCU project. The law would recognize the project's experimental, pilot nature and allow registration of SCCs for the life of the project. If the pilot experience were successful, permanent legislation could be developed later. The team floated this idea to get reactions. Unfortunately, reactions at the NBM were negative. Two officials told us that the idea was unusual and not as promising as that of promoting an amendment to BASHA. Villagers also expressed discomfort about the idea of a temporary law.

In light of the reactions received from the NBM and the Ministry of Finance, as well as the need for speed, the second option appears to be best and it is recommended by the Assessment Team. An amendment to BASHA seems to strike the most promising balance

between our twin objectives of proper legal recognition and relatively quick enactment, while at the same time maintaining constructive relations with the NBM.[4]

All of the seven officials and advisors with whom we met at the NBM, including the Deputy Governor, were receptive to the idea of promoting an amendment, if a good case was presented for its importance. The NBM lawyer explained that such an amendment would be defined by a committee within NBM which would forward it to the Ministry of Finance, which would sponsor it in Parliament.[5] Some officials even suggested that the amendment be developed immediately for submission along with a different amendment scheduled for consideration by Parliament this week (February 1st). All agreed, upon second thought, that it would be virtually impossible and probably unwise to rush to meet such a deadline. The suggestion, however, indicated that the NBM is willing to cooperate on an amendment.

Before presenting our suggestions on how to go about promoting an appropriate amendment to BASHA, it is necessary to analyze the law and identify those articles in it that are problematic and require exemptions for SCCs.

The Banking and Savings Houses Act (BASHA)

BASHA is a 1993 law that regulates the establishment, operation, and dissolution of banks and savings houses (smaller banks serving individual clients). It is scheduled to be amended in February 1996 in several ways, including raising the founding capital requirements. Within the context of BASHA, the NBM issues regulations (called "decisions") that are more specific on issues such as reserve requirements. Decisions do not need the approval of Parliament but cannot contradict laws passed by Parliament. Decisions can be modified directly by NBM if necessary.

Registering SCCs under BASHA would offer the benefit of secure legal recognition as a financial institution and a formal relationship with a knowledgeable supervision department at the NBM. In addition, the law will be amended frequently, providing opportunities to fine tune any future articles regarding SCCs. BASHA as it stands, however, has a number of articles that are problematic for SCCs. The proposed amendment will need to make exemptions to these

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[4]The door should not be closed completely on options 1 or 3. If attitudes shift substantially at NBM, these could be re-considered. For now, however, option 2 is the most promising. If option 2 becomes more problematic than expected, a fall-back plan is to try to insert a new section on SCCs into the new version of the cooperative law, stating that the NBM must approve registration of SCCs, but BASHA does not fully apply.

[5]The NBM lawyer Snezana "Jenny" Bundaleska typically heads the internal legislative drafting committee, and therefore is someone with whom WOCCU should try to develop excellent relations.

articles in order for SCCs to operate under this law. These six articles are the most crucial to address:

1. Article 27 states that the total amount of loans to shareholders cannot exceed the bank's guarantee capital. The intention appears to be to limit "insider lending"; however, this is problematic for SCCs because *all* borrowers from SCCs are shareholders. If this law is applied to SCCs, funds generated from voluntary deposits will not be able to be loaned to members.

1b. Article 27 also prohibits loans to any one shareholder to 10 percent of the guarantee capital, and board members to only 3 percent of the guarantee capital. For small, newly-formed SCCs with small amounts of capital, these restrictions will limit the size of loans to members to absurdly small amounts and effectively penalize members for volunteering to serve on boards. A fledgling SCC of 50 members each of whom have 50 DM in shares and 150 DM in deposits (10,000 DM total capital) could make loans of only 250 DM or less to regular members and 75 DM or less to board members.

2. Article 24 would similarly constrain new SCCs from making reasonably-sized loans. It states that the total amount of "big" loans (larger than 10 percent of guarantee capital) cannot exceed the total guarantee fund. This could be problematic for new, small SCCs. Following the example above, an SCC with 10,000 DM in assets would be required to limit most of its loans to less than 250 DM each, which is be too small for most rural investment projects.

3. Article 87 requires at least 150,000 DM of founding capital, which greatly exceeds the amount a fledgling SCC could hope to raise. This amount will be raised to 300,000 DM in February if the pending amendment passes. It would be difficult for an outside organization to supply/loan this founding capital to an SCC, because Article 8 states that the participation of an individual founder is limited to 20 percent of the founding capital. The idea of combining the capital of several SCCs to constitute the 150,000 DM is unattractive because it would require simultaneous coordinated founding of a large number of SCCs, add too much administrative and bureaucratic complexity, and weaken essential self-management principles.

4. Article 88 paragraph 6 requires that deposits be guaranteed through a mortgage on the founders' property — a requirement that would discourage potential founders from establishing an SCC.

5. Article 47 states that the stockholders of the bank have the right to vote depending on the amount of funds invested in the guarantee capital. This contradicts the SCC principle of one vote per member regardless of the amount invested .

6. Article 52 states that net debtors of the bank may not be members of the Managing Board or Supervisory Board of the bank. This is unworkable for an SCC, because board members are volunteers and will not want to exclude themselves from ever receiving credit from their SCC. If article 52 isn't amended, very few people will want to serve on these boards.

These six articles are the most constraining and absolutely must be dealt with in the proposed amendment.

Additional articles in BASHA also may be bothersome for SCCs, and exemptions to them should be considered for inclusion in the amendment. However, SCCs can operate under this second group of articles if necessary. They are potentially constraining but not in a binding way. They include:

7. Article 15 paragraph 5 which asks for data on the "standings of the founders ...and their family relations," and paragraph 10 which asks for documentation upon which it is possible to assess the bank staff's technical and organizational capability..." These requirements would be bothersome to conform to and could slow the registration process, but they are not binding constraints.

8. Article 46 names the bank's bodies as the Assembly, the Managing Board, the Supervisory Board, and the Executive Body. These terms are similar but not the same as the ones usually used by SCCs in other countries (the article, for example, refers to the Manager as the "Executive Body"); however, they are terms that SCCs can live with if necessary.

9. Other articles that are either irrelevant or inapplicable to SCC are: Article 12 paragraph 5, Article 15 paragraph 5, Article 18, paragraphs 2 and 5; Article 19, paragraphs 1 and 3; Articles 53, 54, 55, 56; Article 88, paragraph 10; and Article 94. These articles mostly describe technical situations that are irrelevant to the SCC way of doing business. If explicit exemptions are not possible, SCCs can probably ignore these articles without any objections from the NBM.

This second group of articles is worth discussing during meetings of the committee to develop the amendment to BASHA. However, exemptions to these articles are not worth fighting for if it seems that these exemptions will overly complicate the proposed amendment or make it too long, thereby hurting its chances for speedy passage. During negotiations with the NBM, WOCCU needs to focus its efforts on the six most important articles where exemptions are needed. Exemptions to the second group of articles should be brought up only after consensus is developed on the "fundamental six." If the NBM is not receptive to exemptions to any of the articles in the second group, these should be shelved until a future date, when another amendment becomes possible.

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Developing and Testing a Sample Amendment

Based on the above analysis, the Assessment Team developed a "sample proposed amendment" to test the waters at the NBM, that is, to show a two-page amendment to officials there and ask "would something along these lines be workable?" The idea was to double check that our proposed strategy was valid and that the NBM would be willing to cooperate. This was done during informal discussions with a few officials, with the "sample proposed amendment" shown to the officials to get their reactions, but not left with them, because of its preliminary nature ("for discussion purposes only").

This sample proposed amendment was developed with the following criteria in mind:

- **Focus on the crucial exemptions**. The Banking Law is fundamental to the macro-economy of Macedonia and was painstakingly developed over many months in cooperation with the IMF and World Bank. The SCC amendment should not appear to ask for too many exemptions to that law, lest it be perceived as weakening the law in any way. Only the most crucial exemptions should be insisted upon at this point.

- **Brevity**. The Banking Law is 14 pages long, and the subsection on savings houses is 3 pages long. It might raise eyebrows and questions if the proposed subsection for SCCs was longer than the subsection for savings houses (which will be substantially larger institutions than SCCs for years to come).

- **Distinction from savings houses**. The NBM is concerned that exemptions granted to SCCs will be inappropriately exploited by savings houses — something that could make savings houses less safe and sound. To allay this concern, it is important to define SCCs in the amendment in a way that clearly distinguishes them from savings houses.

- **Familiar form**. The layout of the amendment should be similar to the layout of the current sub-section on savings houses. A familiar form is likely to be more appealing to the NBM, the legal community, and eventually to the Parliament.

Reactions to the sample amendment at the NBM were encouraging: "yes, something along these lines would be possible." Two officials recommended that a committee be formed within the NBM to work on the amendment in collaboration with WOCCU (more on this later). The text of the "sample proposed amendment" is printed below:[6]

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[6]A stand-alone version of the proposed amendment is also presented in Annex 5.

Figure 1: Sample Proposed Amendment

FOR INFORMAL DISCUSSION PURPOSES ONLY:

USER-OWNED SAVINGS AND CREDIT COOPERATIVES

Article 1

User-owned savings and credit cooperatives according to this act are cooperative financial organizations owned and operated by and for their members, according to democratic principles, for the purpose of encouraging savings, using pooled funds to make loans to members, and providing related financial services to enable members to improve their economic and social conditions. Members must share a common bond such as community membership, workplace, or other.

User-owned savings and credit cooperatives shall only lend to members and only accept deposits from members.

Membership is established through a minimum share purchase, the amount of which is defined in the statute of each savings and credit cooperative.

Article 2

User-owned savings and credit cooperatives are financial organizations with the title of legal person.

Article 3

User-owned savings and credit cooperatives acquire the title of legal person with registration in the court registry.

Article 4

User-owned savings and credit cooperatives carry out their activities within the framework and manners set by the National Bank.

Article 5

The provisions of this Act concerning the savings houses refer also to the user-owned savings and credit cooperatives unless otherwise specified by this Act.

Article 6

Article 87 does not apply to user-owned savings and credit cooperatives. Instead, the founding of a user-owned savings and credit cooperative can be carried out by any 25 or more residents of legal age, each of whom make a minimum share capital investment to be specified in the statute of the association.

Article 7

Article 27 does not apply to user-owned savings and credit cooperatives. Instead, the total loans outstanding to any one member of a user-owned savings and credit cooperative shall be limited to 10 percent of the association's total liabilities. Loans to officers and employees of the association must be approved by the credit committee and the managing board. The officer or employee applying for a loan cannot be present during the discussions of his or her application.

Article 8

Paragraphs 2-7 of Article 24 do not apply to user-owned savings and credit cooperatives. Instead, the total loans outstanding to any one member of a user-owned savings and credit cooperative shall be limited to 10 percent of the association's total liabilities.

Article 9

Article 47 does not apply to user-owned savings and credit cooperatives. Instead, all members of the user-owned savings and credit cooperatives constitute the general Assembly. The annual meeting of the general Assembly will be held at the time, place, and in the manner indicated in the statute. The statute shall specify the minimum number of members that must be present to conduct the business of any meeting of the members.

At all such meetings a member will have only one vote, irrespective of how many shares owned. No member may vote by proxy.

Article 10

Article 52 does not apply to user-owned savings and credit cooperatives.

Article 11

Paragraph 6 of Article 88 does not apply to user-owned savings and credit cooperatives. Instead, savings deposits in user-owned savings and credit cooperatives shall be guaranteed through deposit insurance or an alternative stabilization mechanism.

Other Concerns Related to the Sample Amendment

Questions about founding capital requirements will arise in relation to the amendment. Ideally, the amendment should not specify a minimum founding capital amount, instead leaving it to each SCC to specify this amount in its internal statute. This approach, written in Article 6 above, is ideal, but it may not be acceptable to the NBM or others concerned about undercapitalized financial institutions. Some officials have said that since the amount of banks' and savings houses' founding capital is specified, this should also be the case for SCCs. It may be necessary, during discussions with the NBM, to specify a minimum amount for each member to contribute in founding share capital and to incorporate that amount into the law. In the United States this amount is five dollars and in Australia it is two dollars. In Macedonia, we recommend 30 to 50 Deutsche-marks, because such a contribution will create a necessary equity base, but will not pose a significant barrier to membership. This issue is likely to be one of significant debate during the process of preparing the amendment. WOCCU must be ready to make convincing arguments and negotiate strategically to elicit an acceptable outcome.

Questions also will arise about the proposed article 11 in the sample amendment, which deals with deposit insurance. Our proposal is to meet the spirit of the original article, but to leave open the option of private deposit insurance or participation in a WOCCU-organized stabilization fund (more on this later). The head of the NBM Bank Supervision Department

suggested to us that the NBM does not want to be seen as responsible for insuring deposits in SCCs and suggested that we edit out the words "as approved by the National Bank" which originally appeared in the proposed article.

Another question about the sample amendment that may emerge is why it does not attempt to exempt SCCs from article 90 in BASHA, which limits savings houses to collecting deposits and making loans only to individuals, not enterprises. Our feeling is that attempting such an exemption would be unwise for two reasons. First, large enterprise depositors or borrowers could destabilize fledgling SCCs and threaten their democratic governance by exerting too much influence or distracting them from serving their individual members' needs. SCCs should deal with individuals who run enterprises, not the enterprises themselves. Second, and more importantly, enterprise borrowings have been the traditional source of instability in Macedonia's banking system. The NBM would be very wary of any attempt to loan directly to enterprises. WOCCU should therefore differentiate SCCs from banks and savings houses by consistently stating that SCCs will only serve individual members. This will result in more support and greater chances of success on the legislative front.

Recommended Program to Promote an Amendment Over the Next Eight Months

Given the absolutely crucial nature of obtaining legislative change to operate in Macedonia, WOCCU should make this effort its first priority over the next eight months. The effort will require hard work, attention to detail, good networking, and finesse. Other activities such as training can and should occur at the same time that WOCCU works on the legislative front; however, these activities should not be allowed to draw attention or effort away from the first priority: implementing a program to promote a favorable amendment to BASHA. A successful amendment is crucial before SCCs can start operations.

Step 1 : Hire Two Legislative Consultants and a Local Lawyer

WOCCU should identify two qualified international consultants who can make multiple trips to Macedonia over the next eight months to work with the Program Director to develop and promote the amendment. These consultants ideally should have experience in promoting SCC-favorable legislation in other countries, particularly Europe. They should be adept at dealing with government officials and building support for legislative changes. One should be prepared to work on legislative/legal issues while the other concentrates on helping the Program Director

to prepare and deliver a seminar on the SCC concept to government officials.[7] Draft scopes of work are presented in Annex 12.

The Program Director in Macedonia should select and hire a local lawyer on a retainer basis. Ideally, this lawyer should be well connected in the NBM, Ministry of Finance, or Law Faculty and be capable of helping with the legal review and drafting processes.[8]

We recommend that these steps be taken by early March.

Step 2 : Prepare and Implement a Seminar on SCCs

The consultants should work with the Program Director to prepare and implement a small, two-day seminar on the potential benefits of SCCs and the amendment necessary to allow them to operate. Preparations should be coordinated with USAID and the NBM, whose formal support will be crucial for a successful seminar. The first day of the seminar should focus on the benefits and modes of operation of SCCs. Approximately twenty invitees should represent the NBM, the Ministry of Finance, the Ministry of Agriculture, and the World Bank. The purpose of the first day should be to build understanding and support for the SCC concept.

The second day of the seminar should focus on the required legal amendment. It should be attended by a smaller group of lawyers representing the NBM, the Ministry of Finance, and the Ministry of Agriculture. The purpose should be to explain the need for a new SCC subsection in BASHA, outlining clearly the arguments for each article in the new proposed subsection, and beginning the process of review and discussion that will be necessary before the NBM will be satisfied with a draft. The model statute in Annex 1 should also be presented to give the attendees an idea of how SCCs will be internally regulated. During the seminar, WOCCU should encourage the NBM to establish the internal committee that will work on the draft amendment. If the seminar is successful, such a committee should be formally established at the close of the second day or shortly thereafter.

Preparation for this two-day seminar will require a coordinated effort between the consultants and the Program Director. During the weeks preceding the seminar, the following should be done:

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[7]Dale Magers can be contacted for suggestions. Tom Dimitrioff could be considered as legal/legislative specialist (contact through DAI in Bethesda or Don Manning in Skopje: 113-165). DAI's John Magill and David Luckock would be appropriate to help the Program Director on the seminar and general advocacy work.

[8]Pavlina Jankova and Nikola Cokrevski (tel: 164-794) are possible candidates. Other candidates should also be sought out and evaluated.

- The Program Director should write a precise ten-page report describing how SCCs operate, how they are different from savings houses, their potential benefits to Macedonia, the origin of the WOCCU project, and WOCCU's plans for the program. The report should be written to speak directly to Macedonian officials in the NBM, and the Ministries of Finance and Agriculture (it should be different from any materials prepared for villagers). After review and refinement, the report should be translated. A separate two-page summary of the report should also be developed and translated.

- The Program Director should prepare sufficient copies of additional supporting materials such as the Handbook and information on SCCs worldwide. If possible, these should be translated. He should also edit the draft model statue in Annex 1 and have it translated.

- The draft proposed amendment and its associated explanations (written by the Assessment Team, see Annex 6) should be reviewed, refined, and translated. The consultants, local lawyer, and Program Director should review and refine the draft, after which the office should arrange for translation.

- The Program Director should consult with the probable invitees to select an appropriate time and venue for the seminar and to build interest in the topic. He should distribute his ten-page and two-page reports to them. The consultants should follow up on these preliminary individual meetings the week before the seminar to encourage interest and attendance.

- One of the consultants should identify two village leaders (from different communities) who are interested in establishing SCCs and are articulate spokespersons. They should be invited to the seminar to speak of their belief in the SCC concept and its ability to coax Deutsche-Marks out of hiding places and into productive investments in their villages. Their oral contribution to the seminar should be discussed thoroughly and prepared to touch on the concerns of NBM officials.

Once the consultants are hired, the preparation of the seminar can begin. The Program Director should begin preparations in Macedonia, coordinating with the consultants by phone and email. Shortly thereafter, the consultants should visit Macedonia for three weeks to help in the preparation process, especially reviewing and refining the draft proposed amendment and explanations. The seminar itself should be scheduled during the final week of the consultants' visit. We recommend the following approximate timetable:

March 1-31:	Program manager begins preparations.
April 1-15 :	Consultants arrives in Macedonia and helps in preparations.
April 15-30:	Two-day seminar presented in this period.

Step 3 : Continue to Build Support for the Amendment

After the seminar, the Program Director and Project Manager should follow-up with each of the participants individually, addressing any concerns they may have expressed during the seminar and generally eliciting their support for the amendment. The Program Director may expand these follow-up visits to other officials in the concerned ministries upon the suggestions of those who attended the seminar. The Program Director should judiciously call on the assistance of USAID when necessary to help win over key high-level officials.

Overall, the effort to build support should be low-key to avoid any chance that the issue be politicized or misunderstood — it is important that the amendment be perceived as a technocratic issue, not a controversial one. Making a "big deal" of the amendment is likely to only complicate its eventual enactment.

If significant concerns are expressed during the seminar about the reactions of various interest groups to the proposed amendment, the Program Director may decide to have one of the consultants return to Macedonia to perform a "stakeholder analysis," identifying key constituent groups and developing a promotional strategy that takes them into account.[9] This step probably will be unnecessary if the issue remains purely technocratic and no serious opposition to the amendment is expressed.

Step 4 : Organize a Study Tour for Key Officials

As a way to build further understanding of SCCs and support for the amendment, WOCCU should consider sending four key officials on a study tour to a rural area of the United States to learn how SCCs operate and are regulated there. This should be a relatively short study tour of 7-10 days to allow for the participation of busy officials of some stature. They should be accompanied by WOCCU's Macedonian project manager, who can translate, answer questions, and build important personal relationships with the officials.

Potential participants are key NBM, Ministry of Finance, Ministry of Agriculture, or Parliamentary officials. Decisions about best candidates should be taken by the Program Director in close consultation with the legislative consultant and USAID.

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[9]If necessary, for example, WOCCU could work with the existing Savings and Credit Organization of the Railway and Traffic Workers to develop support for the amendment. Such a step, however, could be risky, because the Organization *might* turn out to be partisan, disliked, unwise in its statements, or in favor of a different agenda. Enlisting its help would imply some loss of control over the advocacy process. This step should only should be considered if necessary and after having checked carefully the reputation of the Organization. The same holds true for interested village leaders who believe in the SCC concept.

We recommend that the tour itself take place, if possible, sometime in May or June.

Step 5: Work with the drafting committee to develop an acceptable amendment

Two to three weeks after the seminar, the legislative/legal consultant should return to work with the local lawyer and the internal legislative committee in the NBM. Hopefully a decision to put the amendment on the committee's agenda will be taken at the two-day seminar or shortly thereafter. The international consultant, then, should time his or her visit to coincide with the period when the committee can work most intensely. The local lawyers' skills should be called upon during this period as necessary. If appropriate, the consultant should continue to meet other officials in the NBM and the Ministry of Finance to shore up their support for the amendment. A two to three week visit for the consultant will be sufficient.

We recommend that this step be carried out in late May or early June.

Step 6: Further follow-up

Depending on how things proceed, a third visit by the legislative consultant may be necessary before a good draft amendment can be finalized and meet the approval of the NBM and the Ministry of Finance.

Once an acceptable draft emerges, the Program Director will need to track closely its progress though the parliamentary system, including the traditional vetting by the parties and the Law Faculty at the University. The local lawyer should be called upon during this time to help track and facilitate these processes. If necessary, the legislative consultant could return to help on critical issues.

If all goes well, this should culminate in the enactment of the amendment in July, August, or September. WOCCU, however, will have to remain flexible on the timetable and be prepared to adjust the program to the various timing concerns of the NBM, the Ministry of Finance, and Parliament. Some delays and rescheduling are inevitable.

After the amendment passes, WOCCU should maintain its working relationships with the NBM, the Ministry of Finance, and other concerned institutions, so that future modifications of the amendment can be considered, when necessary, to meet the needs of SCCs as they grow and evolve over time.

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CHAPTER 4 : ADDITIONAL CONCERNS

COURT REGISTRATION AND TAXATION, EXCHANGE OPERATIONS, ZPP, BOOKKEEPING, OUTSIDE SOURCES OF FUNDS, AND FEDERATION

Summary: *In addition to obtaining a license from the NBM, each SCC will also need to register at the court as a legal entity. At this point, registration as a cooperative appears more promising than alternative legal forms, although tax obligations are liable to be similar — 30 percent of profits.*

- *Once registered, SCCs should consider obtaining licenses for exchange operations to make it easier for villagers with Deutsche-marks to change their money and open accounts. The license is not hard to obtain but will require additional legal and administrative work.*
- *SCCs will need to open giro accounts at the Central Payments Agency (ZPP) and learn to work constructively with this agency.*
- *The law is not very specific about bookkeeping requirements, therefore WOCCU can develop its own system of bookkeeping for Macedonian SCCs, checking afterwards if it is satisfactory to NBM supervisors.*
- *Outside injections of capital are unnecessary for Macedonian SCCs because local savings exist in the villages and can be mobilized for sustainable financial intermediation. Outside money can be more appropriately used to finance the stabilization fund needed to build confidence and deposits in fledgling SCCs.*
- *The project should not plan for a federation of SCCs until its third year, when, if conditions permit, it should explore the creation of an apex organization to manage the stabilization fund, among other tasks.*

Court Registration and Taxation

Legal recognition as a savings house is a two part process : (1) one must apply for a license to operate as a savings house from the NBM, and (2) one must register with the court. A savings house is a not a legal entity until it is registered with the court.

According to BASHA articles 13 and 88, a savings house should have an NBM license before submitting an application for registration at the court. This is implied by the fact that the court application should include a copy of the NBM license. In practice, however, local lawyers informed the team that both processes typically occur simultaneously — the application for court

registration usually is accompanied by a copy of the *application* for the NBM license. If the NBM communicates to the court that it is viewing the license application favorably, the court registration moves quickly.

When banks register with the court, they register as stock companies. Savings houses have the choice of registering as stock companies, limited liability companies, or unlimited liability companies (in accordance with the soon-to-be-amended enterprise law). SCCs presumably will also have a choice of how to register. They may consider one of the above-mentioned commercial formats, or they may consider registering as a cooperative or as an association of citizens. The legal and tax advantages of these choices need further evaluation.

Based on preliminary research and advice from a local lawyer, registration as a cooperative may be the best option. Registration as a cooperative will further differentiate SCCs from savings houses — something that will appeal to the NBM as it tries to keep savings houses from claiming any exemptions granted to SCCs in the amendment. Registration as a cooperative may also lead to more favorable perception of SCCs in the eyes of government authorities, who may be less stringent in enforcing regulations on "community" organizations and more sympathetic to their arguments should disputes arise.

The tax advantages of one choice over another are not clear at this point. Consultations with a local lawyer indicated that virtually no domestic legal entities are currently tax-exempt, including not-for-profit associations, and that all must pay a 30 percent profit tax (see Profit Tax Law). Financial institutions are subject to an additional service tax, calculated on the basis of "the net difference between the interest earned and interest paid for the credit services" (article 22 of part III of the Sales and Service Taxes Law). This is reported to be 10 percent. English translations of the Profit Tax Law and key sections of the Sales and Service Taxes Law are available at the WOCCU office in Skopje.[10]

Skilled accounting techniques are said to minimize these tax obligations for most legal entities. Profit taxes probably will not be a major issues during the first two years of SCC operations, because they are not projected to make profits during this period. Nonetheless, WOCCU should have a local lawyer and an accountant conduct further research on these court registration and taxation issues.

In the Assessment Team's view, WOCCU should not seek tax-exempt status for SCCs at this time. Such an exemption cannot be part of the BASHA amendment because BASHA does not address taxation (it is treated separately in the Tax Law on Profits). Attempts to achieve special tax-exempt status for SCCs in other European countries have provoked negative reactions

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[10]Local lawyer Pavlina Jankova also reviewed for us two additional tax laws in the Macedonian language: the 1993 Property Tax Law, which is not relevant to SCCs, and the Personal Income Tax Law which taxes all personal income equally, whether it comes from earnings or dividends.

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from governments and the International Monetary Fund. If tax-exempt status is granted to cooperatives or associations in the future, re-registration may offer an avenue to reduce taxation and should be explored as an option. Special WOCCU efforts to amend the tax law, however, are not recommended.

Licensing for Exchange Operations

As described earlier, most villagers keep the bulk of their cash savings in Deutsche-marks. SCCs, however, will probably only offer savings accounts in denars, indexed to the Deutsche-mark. Therefore, villagers will need to convert their DMs into denars before depositing them. There are no exchange bureaus in most villages, however, making it somewhat inconvenient to change money. If SCCs become licensed to conduct exchange operations, it will become easier for villagers to change money and deposit it into SCC savings accounts.

To be authorized to change money, SCCs will need a license from the National Bank of Macedonia and a separate registration in court. This is a fairly straightforward process, and hundreds of exchange bureaus have been licensed in Macedonia. Most savings houses have also obtained licenses. Once they are registered as financial institutions (under an amended BASHA), SCCs should also be able to apply for and obtain licenses for exchange operations.

The requirements for licensing are laid out in the NBM decision of May 13, 1993 called "Terms and Conditions of Performing Exchange Operations." An English-language copy is on file at the WOCCU office in Skopje. The requirements are:

- appropriate premises
- a means to safekeep currency (a safe)
- a sign
- continuous posting of the exchange rates in effect
- insurance against theft, fire, forgery
- a minimum of 30,000 denars for operations
- a telefax machine, and
- a trained employee who speaks a second language

In addition, exchange bureaus are required to use receipt forms printed and distributed by the NBM. The law also requires them to sell the foreign currency they collect to the NBM or to a bank authorized for payments and credit operations abroad. Under certain conditions, they may be required to do this every day, under other conditions, once every ten days. Since the NBM is only in Skopje, a rural SCC engaged in exchange operations should probably sell its foreign exchange to one of the authorized banks that has a branch office closer to the village. Depending on the distance and the frequency, this requirement may be burdensome for some SCCs. They will need to charge exchange commissions to cover the costs involved.

There is another complexity that deserves mentioning. Consultations with a local lawyer revealed that savings houses cannot apply *directly* for exchange operations licenses. They are required to register as a separate legal entity in the court before being granted the exchange license. In reality, the company is the same and the banking and exchange services are provided at the same counters in the same offices; however, a separate court registration is required. One can expect that similar provisions will apply to SCCs. A good lawyer should be able to take care of most of this paperwork.

Applying for an exchange license is secondary to achieving the more fundamental goal of registering as an SCC under an amended BASHA. The exchange license, therefore, should only be sought once the primary SCC license is obtained and the primary court registration is completed. And a license should only be sought if the benefits appear to outweigh the added administrative requirements such a license imposes.

Working with the Central Payments Agency (ZPP)

The Central Payments Agency (known by its Macedonian acronym ZPP), headquartered in the Central Bank building, maintains an unusually important role in Macedonia. Unlike payments agencies in most western countries, which serve as clearinghouses for checks, the Macedonian ZPP attempts to track and control most commercial transactions, whether they involve checks (still infrequent), funds transfers, or cash movements in and out of accounts. The ZPP is also involved in tax collection. All Macedonian registered enterprises, banks, savings houses, and associations are obliged to maintain giro accounts at the ZPP, through which their activities can be tracked and transactions cleared.

An enterprise manager must physically visit the ZPP to issue a payment order from his own account to pay a supplier, and he must explain the purpose of the transaction before the transfer is authorized. At the end of each day, the ZPP informs the manager's commercial bank of his withdrawal so it can be booked to his account at the bank. Account-holders deal with the ZPP, which in turn deals with the banks.

Luckily, the system is more straightforward for savings houses, as it presumably will be for SCCs. Clients are allowed to deposit and withdraw cash directly from their accounts at savings houses, which keep a limited amount of cash on their premises. The savings houses must keep their excess cash on deposit at the ZPP where it earns no interest. If a large withdrawal or loan is to be made from a savings house, its manager must go to ZPP to withdraw additional cash to bring back to his office and then disburse it to the client.

The requirement that excess cash be deposited at ZPP presents a potential problem to SCCs, particularly if the nearest ZPP branch is at an inconvenient distance. Most municipal capitals (*opstinas*) have a branch. Problems may also develop if SCC members are unwilling to

have their excess cash stored at ZPP, given their distrust of banks, particularly "government banks."

There are no clear solutions to these potential problems at this point. The Assessment Team can only flag the issue, and recommend that the Program Director continue to gather information about ZPP regulations and how they will affect SCCs. These regulations are expected to change over the next year. The Program Director should use a local lawyer to assist in the process of tracking these regulations and consider their implications for SCCs, the SCC amendment, and any NBM decisions that may eventually be issued on SCCs.

Bookkeeping and Reporting

Consultations with a local lawyer suggested that Macedonian law does not specify in detail how a savings house should keep its books. The law does, however, lay out some minimum standards. One can anticipate the same standards will apply to SCCs.

The tax law states that every enterprise should maintain a system of "double-entry or simple bookkeeping" that includes the following:

- Book for the cahier's desk;
- Book for the giro account;
- Book for debtors and creditors;
- Book for fixed assets; and
- Book for products and goods.

These books are required to be kept daily and comprehensively. An English-language copy of the tax law (article 61) is available at the WOCCU office in Skopje.

Savings houses report that in addition to their own bookkeeping systems, they are required to maintain two separate forms provided by the NBM: one to track payments and the other to track receipts.

Once the SCC amendment to BASHA is passed, WOCCU will need to enter discussions with the Supervisory Department of the NBM to check if it has any special requirements for the bookkeeping of SCCs. At this point it seems unlikely that the Supervisory Department will be highly specific, so any sensible system will probably be acceptable. WOCCU, therefore, should develop and promote the bookkeeping system it feels is best adapted to the needs of SCCs.

The Program Director should be able to develop an appropriate system after reviewing systems used by SCCs in other countries, particularly ones that use indexing. The Madison office should be able to provide examples.

The reporting requirements of SCCs will also be an issue. Currently, savings houses are required to file reports on their transactions twice daily to the NBM, usually by fax. This requirement may or may not apply to SCCs, once they are established. The requirement is not part of the law itself; therefore, it will be up to the NBM to decide how often it wants reports from SCCs. If WOCCU builds a good relationship with the Supervisory Department at NBM, an appropriate level of reporting can be negotiated. SCCs will need fax machines.

Outside Injections of Capital

SCCs are designed to mobilize local savings for investment in local communities. This approach stresses true financial intermediation, self-reliance, and sustainability. It differs fundamentally from the approach of outside credit lines which distribute credit without mobilizing local deposits.

The SCC approach is more comprehensive but in many ways more difficult, because it is hard to build the systems and confidence needed to mobilize local savings. It takes patience to build a sustainable institution. Because of this difficulty, some observers have suggested accelerating the process of capital formation through outside injections of funds into SCCs, in the form of start-up grants or loans. This way SCCs can build their assets more quickly and thereby make more loans to villagers. The RFA for this program initially suggested an approach by which loans of outside capital would be made to SCCs as a function of their success in mobilizing local deposits — a type of matching program.

The Assessment Team feels that such outside injections of capital are probably unnecessary. They also run the risk of distorting villagers' perception of the purpose, ownership, and operations of their SCCs. For these reasons, we recommend that WOCCU avoid these types of outside capital injections. Our explanations follow.

Outside capital injections are unnecessary because large amounts of mattress money are already available in Macedonian villages. This was confirmed and detailed by the Team's survey work. Most villagers have money that they would be willing to deposit *if they were assured their deposits would be secure*.[11] They will not be enticed to make deposits by matching funds — their real concern is security. For this reason, we feel that outside money can be put to much better use if it is used to establish the insurance/stabilization fund described in chapter 2 rather than matching funds.

The second reason that we disfavour outside injections of capital is that they risk distorting the basic SCC model. This model is based on the concept that the funds in the SCC

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[11]The availability of mattress money and villagers' willingness to make deposits are quantified in the survey results described in Tables 6-3 and 6-4 of Chapter 6.

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belong to the members, therefore they should be managed, lent, and recovered with great care. If a perception develops that "donor money" is in an SCC, the spirit of care may be jeopardized. Members should join SCCs to earn returns on their savings or to borrow from their co-members on fair terms. They shouldn't be tempted to join to gain access to injected donor capital.

Our rejection of outside capital is not categorical. We believe, however, that the best role for outside capital is to finance an insurance/stabilization fund. This way, the capital will serve to reassure potential depositors and cause savings mobilization. In those cases when a stabilization intervention is necessary (hopefully rarely), the stabilization fund should be able to lend money to an SCC to assure its liquidity while "working out" any management problems. This is described in Chapter 2.

Once SCCs are up and running successfully, the idea of outside injections of capital can be reconsidered, especially if demand for credit far outstrips the amount of local deposits even at high interest rates and secure conditions. However, SCCs should only turn to outside capital with great caution and after several years of experience mobilizing their own funds. WOCCU's experience in other countries suggests that outside capital can distort and weaken SCCs if they rely on it too early in their maturation process. In cases where certain borrowers want larger loans than an SCC can provide, it may be best for the SCC to act as a broker by putting these borrowers in touch with other, larger institutions or programs.

Federation

As stated earlier in Chapter 2, the Assessment Team feels that it is premature to plan for a federation of Macedonian SCCs at this point. Individual SCCs must be organized and developed before the administrative and financial costs of a federation will make sense. For the first three years of the project, WOCCU should focus its energies on helping individual SCCs to become successful. During year four, if developments have been sufficiently successful up to that point, the project should explore the possibility of developing a federation that could lobby on behalf of SCCs, provide education, and most importantly assume management of a stabilization fund. A separate consultancy should be organized in year three of the project to look at this issue more carefully.

CHAPTER 5: TIMING ISSUES AND RECOMMENDED PROMOTION STRATEGIES

Summary: *WOCCU should concentrate on legislative reform over the next eight months, making it the first priority. Promotional work in villages should wait.*

- *While WOCCU works on legislative reform, it can and should begin work on two other activities: (1) staff training, and (2) clarifying remaining ambiguities about legal and administrative concerns. These should be addressed before village promotion begins.*

- *The Program Director should deal with most of the remaining legal ambiguities by contracting a local lawyer to investigate them. The question about how to best structure a stabilization fund, however, should be treated by an international consultant experienced in this issue.*

- *Once significant progress has been made on the legislative front, and most of the outstanding research questions are answered, WOCCU should begin the promotion phase. Preparing promotional materials should be the first step of this phase, including a brochure and a handbook. An accounting system for SCCs should also be developed at this time.*

- *The next step should be selecting two or three pilot villages from the prioritized list presented later in this report. The number of pilot villages should be limited because of the complexities of the proposed model, limited senior staff resources, and the negative consequences any failure would have on subsequent project implementation.*

- *Promotional work in each pilot village should proceed as follows:*

  — *Identify village leaders and discuss the idea with them;*
  — *Organize an initial small group study session;*
  — *Hold an informational meeting for the community;*
  — *Facilitate the formation of an organizing committee;*
  — *Train the organizing committee through further study sessions;*
  — *Hold a second community meeting to present the committee's plans;*
  — *Assist in the application for a license and court registration;*
  — *Provide continuous technical assistance and training for SCC operations.*

Timing in Relation to Legislative Initiatives

During the next eight months of the program (March-October) achieving the necessary legislative changes should be WOCCU's first priority. There must be a legal means for Savings and credit cooperatives to register and operate, before beginning actual promotion work in the villages. This is true for several reasons:

- Many villagers expressed a sophisticated understanding of the problems surrounding the legal status of SCCs and indicated that they would be leery of investing in one until the legal status was clarified;

- It would be unwise to raise hopes in the villages before a clear legal path is developed;

- Ambiguities will remain about how SCCs can operate in Macedonia until the changes in the legislation are finally adopted (founding capital, loan size, taxation, etc.).

WOCCU must concentrate its efforts on the legislative front during these eight months, as suggested in Chapter 3, and be careful not to be distracted from this priority by prematurely engaging in promotional work in villages.

Timing in Relation to Staff Training and Addressing other Concerns

While focussing on legislative reform is the first priority, the program can and should begin work on two other issues at the same time: (1) staff training, and (2) clarifying remaining ambiguities about legal and administrative concerns.

The Assessment Team has little to say about staff training, other than to support the plans that the Program Director has already mapped out, particularly the training abroad for the local Project Manager[12]. It makes sense for staff training to occur while legislative issues are worked out, and before promotion work in the villages begins. The hiring and training of *field* promoters, however, probably should be delayed until the Program Director can assess how the legislative reform effort is proceeding and thereby estimate when the conditions will be ready for actual field work to begin.

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[12]WOCCU should consider sending the local Project Manager on a study trip to Ireland or Hungary, because these countries have *rural community-based* credit unions similar to the rural community-based SCCs to be promoted in Macedonia.

The Assessment team has already identified ambiguities that persist on several legal and administrative issues. The Program Director should do his best to research these issues further over the next eight months, using his own time when possible but mostly contracting local lawyers and accountants to look into specific questions. For one of the questions, an international consultant will be needed. The answers will help to refine the institutional and financial model that eventually should be promoted. The issues that need further attention are identified throughout chapters 2, 3, and 4 of this report. They are, in summary:

- Re-checking the viability and costs of private deposit insurance for SCCs;
- Refining the operating expenses and other assumptions used in the financial model;
- Re-checking the legality of Deutsche-mark savings accounts;
- Further investigating the legality of DM-indexed account and loan agreements;
- Further investigating the legality of loan agreements that index interest rates to exchange rates;
- Evaluating villagers' perceptions of and preferences for different indexing techniques;
- Developing a legally-sound promissory note that allows co-signers to co-guarantee loans;
- Checking exactly how the profit and service taxes are calculated for savings houses and how registering SCCs as cooperatives would affect tax obligations;
- Identifying the locations of branch offices of banks that are authorized to purchase foreign exchange from exchange bureaus;
- Clarifying the ZPP's requirements and procedures for savings houses (and probably SCCs).

The issue that requires an international consultancy is:

- Designing a detailed practical program to establish a stabilization/insurance fund for SCCs in Macedonia, to be initially managed by WOCCU's local office and eventually managed by a local federation. This consultancy would identify financing for the fund, define policies, set membership fees, and address legal requirements. May or June would be an appropriate month for this assignment.

By organizing and overseeing these short-term investigations, the Program Director and his staff will develop a fuller understanding of the many important details that will influence the development of SCCs in Macedonia. The results will help the staff to define more clearly the best strategies to overcome the hurdles that new SCCs will face, and prepare the staff to address the difficult questions that villagers will pose during the promotion phase.

Promotion Phase

Once significant progress has been made on the legislative front, and most of the outstanding research questions are answered, WOCCU should begin the promotion phase. Preparing promotion materials should be the first step of this phase, taken in June or July, assuming good progress has already been achieved in the legislative and research areas. It is essential that the program be well prepared and the model be well defined before field promotion begins. Villagers need to sense that the program staff is confident in the model and well prepared, so that they too can gain confidence in the model — something that is essential to garner the necessary deposits. Given past problems with financial institutions, villagers are skeptical and are unlikely to be comfortable with ambiguous or unconvincing answers to any of their questions.

Preparing Materials for Promotional Work

Three types of material should be prepared.

First, the Program Director should develop a brochure that can be handed to village leaders during early promotion visits. The brochure should be carefully crafted to speak to Macedonian villagers, translated into Macedonian and Albanian, field tested with villagers, then refined. The brochure should answer these questions:

- What is an SCC?
- What is the model for SCCs being promoted in Macedonia?
- What needs to be done to form an SCC?
- What is the "User-owned rural financial institutions project"?
- What is WOCCU?

The brochure should be written to provide specific information about SCCs to villagers — something that can be left behind after face-to-face meetings have already introduced the idea. To serve this purpose and answer the above questions properly the brochure will need to be four to eight pages long.[13]

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[13]A clear explanation of WOCCU's identity is necessary to allay the suspicions of many village leaders, particularly in Albanian areas. Some of these leaders fear that WOCCU has an ulterior commercial motive and that it may try to trick them out of their savings. To address these concerns, WOCCU should explain that it is a humanitarian organization that is well funded by the US Government to carry out this program, and it does not need to take any money out of the villages. Standard WOCCU brochures are inadequate for this purpose. They need to be adapted to local needs and made more specific.

Second, the Program Director should re-write WOCCU's "Credit Union Handbook" to adapt it to the Savings and credit cooperative model proposed for Macedonia. It will thus become the "SCC Handbook for Macedonia." This document should be as specific and detailed as possible — a document that will be of practical use to the managers of SCCs and to those who want to learn more details about the SCC idea and structure.

Creating the "SCC Handbook for Macedonia" will be a time-consuming undertaking, because it will need to integrate the results of the present report as well those of the other short-term investigations. Once a good draft is ready it should be translated. The handbook, however, will need to be considered a "living document" that can be updated and modified as the lessons of experience are collected.

The third item that the Program Director should prepare before beginning field promotion is a basic accounting system for SCCs. This needn't be finalized, but a good simple system should be ready to show to villagers when the right time comes. This will need to be Deutsche-mark indexed as discussed in Chapters 2 and 4.

Selecting Two or Three Pilot Sites

WOCCU should begin promotional activities in two or three pilot villages selected from the prioritized list presented and explained in the next chapter of this report.

The program should initially be limited to only two or three villages for several reasons.

First, WOCCU does not have extensive experience in Eastern Europe with the SCC model proposed for Macedonia — rural, community-based, indexed, and facing a wary public. The Macedonian model is somewhat complex and needs to be tested and refined before being spread to too many villages.

Second, the pilot nature of the Macedonian model means that its promotion will require a large amount of time and attention from the senior staff, i.e., the Program Director and Project Manager. Demands on their time will be substantial during the promotion phase and even heavier during the period when the first SCCs actually begin operations. At the beginning, they will not be able to delegate too many tasks to junior staff members, given the need for experience, quick-thinking, and flexibility until all the wrinkles of the pilot model are ironed out. These factors suggest that it would be unwise for the Program Director and Project Manager to begin operations in too many villages. They should not spread themselves too thin.

Third, the program cannot afford to have a failure — government officials have been burned in the past by the collapse of financial institutions, and they are liable to cease support for SCCs if any one of them fails. Similarly, villagers have been burned by collapses and fraud in financial institutions. If a new SCC fails and the word gets out, it will be nearly impossible to

regain villagers' confidence in these institutions. Word of this failure would spread quickly to other areas, damaging the program's credibility throughout Macedonia.

Only after the first two or three pilot SCCs have six months of practical experience should WOCCU begin promotion efforts in other villages — perhaps another two or three for the first six months of 1997, and another two or three for the latter six months of 1997. If these are successful, the growth rate can be increased to meet the four-year twenty SCC target originally envisioned by WOCCU. Clearly, the program will need to be flexible based on its experience.

The Project Director should select the two or three pilot villages based on the prioritized list presented in the next chapter. If during promotion efforts it becomes clear that one of the selected villages is not receptive or ready to organize an SCC, promotion should be curtailed there, and the Project Director should choose a replacement village from the prioritized list.

Identifying Village Leaders and Discussing the Idea with them

Program staff should follow up with the leaders identified during the field work carried out for this report. These tasks should be carried out by a team consisting of at least one senior staff member and one field promoter. Visits should be arranged to further explain the SCC idea and to discuss the prospects of setting up an SCC in their village. As many prominent village residents as possible should be visited individually for discussions, including local elected officials, administrators, successful farmers, businesspeople, lawyers, teachers, religious leaders, NGO officials, and other respected persons. During these discussions, staff should explain that they work for a "humanitarian" organization that is funded by the US Government. They should then discuss the lack of financial services in the village and the solution that SCCs represent. Mention should also be made of SCCs' experience in over 90 countries. Staff should listen carefully to villagers' concerns and be prepared to answer their questions thoughtfully and frankly.

Experience in Eastern Europe shows that leaders who are willing to volunteer the countless hours of work needed to establish an SCC come from all professions. The purpose of the initial visits should be to open a dialogue, begin to build support, and identify those who are most likely to spearhead an effort to organize an SCC. Copies of the brochure mentioned above should be given after each meeting.

Those individuals who appear most interested and most influential should be paid a second visit to discuss the idea in more detail. Some of these people should be potential organizers. After these meetings, they should be invited to a group study session, organized by WOCCU in the village at a time convenient to all (perhaps in the evening).

An Initial Small Group Study Session

During this study session, WOCCU staff should describe more of the mechanics of establishing and operating an SCC, including policies and organizational and financial structures. Handouts and overheads should be prepared beforehand. The objective should be educational, beginning to prepare these individuals to help explain the idea to others in their community. At the end of the initial study session, WOCCU should ask for help in organizing a wider community meeting — the next step.

An Informational Meeting for the Community

All residents should be invited to this meeting, organized with the help of local leaders at a convenient time and location for all. The Project Manager should be the principal presenter (in local language), with support from the Program Director, the field promoter, and any local leaders who are ready to speak on behalf of the idea. The purpose should be to explain the concept, build support and interest, and create an organizing committee that can take the next steps. The key issue of deposit security should also be addressed at the meeting, with explanations about the mechanisms to insure security, such as active participation of members in the SCC's supervision, control measures, insurance, and stabilization.

The presentation should be made with visual aids such as overheads and slides of SCCs in other countries. The main speaker should explain the concept concisely (30 minutes), followed by short supporting statements from the other presenters (5 minutes each). This should be followed by questions, answers, and discussions (limited to 45 minutes). The individual meetings held earlier will enhance the quality of these discussions. At the scheduled end of the discussion period, the presenter, or better yet a community leader, should propose the formation of an organizing committee. Villagers should be given about one week to decide who should be on the organizing committee. Presumably some of the leaders identified earlier will join the committee as well as some people who became interested through the community meeting.

Training the Organizing Committee through Further Study Sessions

After the committee's membership is organized, WOCCU should meet with the members and chart out a series of training sessions for them, fixing dates and times for regular sessions. These sessions should be carefully prepared in advance and should address all organizational, financial, legal, and policy issues related to SCCs.

Program staff will need to map out the content of these sessions, perhaps using the "SCC Handbook for Macedonia" as a guide. The Program Director is highly qualified in this area and an experienced teacher. Depending on the ability of the committee to absorb material and how often they can meet, these sessions may continue for two months or more. Towards the end of

these sessions, WOCCU should help the committee adapt the model **statute** to their situation and draft a **business plan** for their community's SCC.

A Second Community Meeting to Present the Committee's Plans

This meeting should be led by members of the committee with support from WOCCU staff. It should be the moment when the committee explains its plans to establish an SCC, describes the proposed statute, and elicits the support of the community. The meeting should be followed-up by a **survey of potential members** of the SCC — results of which should be presented along with other materials in the application for license to the National Bank of Macedonia.

Application for License and Court Registration

WOCCU should provide legal help to the committee to prepare its application. Exact requirements cannot be defined at this point, because the amendment to BASHA is not finalized. Most likely the application will need to contain information similar to that currently required of applications for savings houses, as described in Article 88 of BASHA:

- The founding act and the statute;
- The description of activities and the operative plan for the next two years;
- Amount of founding capital;
- Statement of the founders that they will pay the money assets as founding capital into a provisional account at the ZPP;
- Evidence that savings deposits will be insured;
- Data on the financial situation of the founders;
- Data on persons who will manage the institution and their qualifications;
- Documentation upon which it is possible to evaluate whether the institution is capable of managing the activities described in the founding act.

WOCCU will need to intermediate between the committee and the NBM officials that review applications to move the process along and make sure all concerns are met.

At the same time that the application for the license is submitted, WOCCU should also help the committee register their SCC in court, as described in Chapter 4. This will require the services of a local lawyer.

Operations and Continuous Technical Assistance and Training

Once licensed and registered, the SCC should hold an open general assembly at which people can become members by buying a share, then vote for a Managing Board and adopt the statute. Presumably the Managing Board will be composed mainly of members of the organizing committee.

Afterwards, the Managing Board should hire a manager and begin to set up shop. The temporary WOCCU operating subsidy will need to begin at this point, and WOCCU should consider helping with some of the capital investments that will be necessary to equip the facility, such as a high-quality safe and other security equipment.

At this point, WOCCU should be providing almost daily technical assistance and training to the manager and the most active members of the Board to set up all operating systems. If appropriate, WOCCU should send the manager and some board members on a short study/training trip overseas. Once basic training is completed, WOCCU should help the SCC to undertake a membership and deposit drive, and begin taking loan applications. Full operations can begin next, with WOCCU working very closely with the SCC's management on a daily basis to help them to learn and conduct activities correctly. Continued technical assistance and training should be provided until the end of WOCCU's program, with contact made at least on a weekly basis. Exact programs of support should be mapped out by WOCCU in annual training and work programs.

CHAPTER 6: SELECTION OF INITIAL PILOT SITES

Summary: *Activities to identify pilot sites for initial SCC activities have confirmed the need for SCCs in rural areas and identified a number of potential locations that seem to offer good prospects for the development of future SCCs. Site selection efforts were targeted exclusively in rural areas and sought to maintain a rough balance between ethnic Macedonian and Albanian villages in order to make sure that at least one viable site was identified for each ethnic group.*

- *Initial Phase I reconnaissance visits were undertaken to sites in eight different municipalities (opstinas) to make preliminary assessments of the receptiveness of different villages in these areas for future SCC promotion efforts and to identify potential "leaders" who could serve as a vehicle for introducing the Program to their communities;*

- *Of these eight sites, six were selected for more detailed survey work in Phase II. The survey was designed to gather quantitative data on household incomes, savings behavior and credit needs as inputs in order to undertake more detailed site rankings. The six sites chosen for Phase II survey work were: the twin villages of Chegrane and Forine (Gostivar Opstina), Bogovinje (Tetovo Opstina), Neraste (Tetovo Opstina), Marino/Ilinden and Petrovec (Gazi Baba Opstina), Murtino and Monospitovo (Strumica Opstina) and Rosoman (Kavadarci Opstina).*

- *Of these six sites, 3 are ethnic Macedonian (Marino/Ilinden/Petrovec, Rosoman, and Murtino/Monospitovo) and 3 are Albanian (Chegrane/Forine, Bogovinje and Neraste).*

- *Separate prioritized rankings were established for Albanian and Macedonian villages based on analysis of the Phase II data combined with the qualitative impressions of the Team about the interest of leaders in the various communities for the idea of an SCC . Among the Macedonian villages, the highest ranked site was Marino/Ilinden, followed by Rosoman and then Murtino/Monospitovo. For the Albanian villages, Chegrane/Forine was judged to be the most promising venue, followed by Bogovinje and Neraste.*

Pilot Site Assessment Activities

The Assessment Team sought to identify SCC pilot sites through a distinct two step procedure. The first step, Phase I, consisted of a number of short reconnaissance visits to potential sites throughout the country. In Phase II, the Team conducted more detailed surveys in six specific areas that were identified in Phase I to gather more detailed data on household

incomes, savings and credit behavior. This chapter briefly discusses the results of both Phase I and Phase II investigations and closes with a ranking of the proposed sites. A more detailed discussion of the site selection process and Phase II survey results can be found in Annex 7.

Phase I: Initial Leadership/Reconnaissance Visits

Phase I visits to different possible project pilot sites were conducted with the twin objectives of:

(1) assessing the overall appropriateness of the areas visited as possible project pilot sites in order to target more detailed surveys in Phase II; and

(2) identifying possible "leaders" who could help introduce and promote the idea of community based savings and credit cooperatives at subsequent stages of project development.

Given the fact that there are more areas which could eventually support and benefit from SCCs in Macedonia than the Assessment Team could possibly visit, the Team sought to visit a limited number of potential sites in which it was able to arrange visits with prominent local farmers, businessmen or elected leaders in coordination with local NGOs that are active in rural areas. Priority was also given to areas around Skopje, since this will make it easier for WOCCU staff to provide crucial follow-up support that will be required to help the first pilot sites reach an operational status.

Phase I visits were made to villages in eight different municipalities (*opstinas*): Skopje/Gazi Baba, Sveti Nikole, Kocani, Gostivar, Tetovo, Kavadarci, Radovis, and Strumica. Several potentially fruitful areas, with rich agricultural potential such as Struga, Resen, and Bitola were not visited because of the desire to cover areas closer to Skopje in greater depth. One trip was taken to Radovis and Strumica, both of which are more than an hour away from Skopje in order to sample at least one region that is relatively remote from the capital and which benefits from the favorable southern climate permitting the cultivation of early vegetables.

Appropriateness of Areas Visited for Possible Pilot SCC Activities

Only rural areas were considered, given the program's mandate to serve a rural target population. The team also sought to visit a sufficient number of ethnic Macedonian and Albanian areas in order to gain information about the specific issues and concerns of each community with regard to SCCs. Besides this rural focus and the desire to maintain a rough ethnic balance between Macedonian and Albanian areas, a mixture of criteria were used to rank the different areas visited in Phase I as candidates for further attention in the Phase II surveys. These were:

- **Population**. Areas with a greater concentration of populous villages were favored over areas with smaller villages. In general, according to the financial model developed in Chapter 2, an SCC needs at least 300 members depositing 1,000 DM each to break even. To flourish, it should have around twice as many members—maybe 600. Assuming that only 50 percent of households in a given area join the SCC, a region should ideally have around 1,200 households. These figures are not hard cut-off points. Indeed these population targets can change with variations in family size, average deposit amounts, and the numbers of accounts that might be opened per household. But as a rough guideline, it is clear that an area with more people and households probably offers more favorable possibilities for SCC development than do less populous areas.

- **Average Income**. Richer areas received priority over poorer areas in the initial Phase I interviews because of their greater potential for generating savings.

- **Diversity of Economic Activities**. Areas where most households engage in very similar economic activity, such as the cultivation of the same crop, present several difficulties for potential SCCs. First, households in such areas tend to have very similar financial needs, making it more difficult for a SCC to carry out financial intermediation between households with different characteristics. Secondly, SCCs in areas characterized by a single dominant economic activity are more vulnerable to fluctuations in the market for the major product. Therefore, preference was assigned to areas which exhibit a high degree of economic diversity.

- **Community Cohesion and Organization**. Some degree of cohesion in pilot communities will be crucial to the success of initial SCC development activities. In some communities, the existence of substantial community investment projects, such as the construction of roads or community-funded Mosques (in the Albanian villages), was taken as an indication of the communities' ability to contribute towards a common project.

Summary of Phase I Field Visits

Of the eight opstinas visited in Phase I, three were not selected for further attention in the Phase II surveys. The sites dropped were in the Sveti Nikole, Radovis and Kocani opstinas. Sveti Nikole and Radovis were both dropped because the villages visited seemed to be significantly less wealthy than other areas visited. Kocani showed slightly more promise, but its basic characteristics seemed less favorable than those of other sites visited..

The six sites retained after the Phase I visits are briefly profiled below.

Skopje (Gazi Baba *Opstina*)

The Team visited two ethnic Macedonian villages in the Gazi Baba *Opstina* to the South and East of the City of Skopje—Mirsevci and Petrovec. According to interviews, virtually every household has at least one member engaged in salaried employment in nearby Skopje. The region is both a zone of agricultural production (mainly dairy and wheat) and a far suburb of Skopje. This area is attractive on a number of accounts. It has a diverse economic base, with a good mix of incomes from salaries and agriculture. It is also relatively densely populated with several villages of 5,000. In addition, because of its proximity to Skopje, villagers tend to be well educated. Mirsevci was not retained as a site for Phase II because of its small population (around 1,000), but Petrovec (3,000) was selected along with Marino (5,000) and Ilinden (5,000). All three villages are within 20 kilometers of Skopje. Marino and Ilinden are contiguous and both are within 10 to 12 kilometers of Petrovec. Ilinden and Marino show particular promise. They have been selected as sites for developing small private industries. There are already 10 or so small industrial enterprises that each employ around 20 to 30 employees in the area. This sector is also expected to grow in coming years. The Secretary for the Gazi Baba Opstina, who lives in Marino, expressed strong interest in the SCC concept during Phase I contacts.

Rosoman (Kavadarci *Opstina*)

Following a suggestion by the local NGO, MCIC, the Team visited the village of Rosoman located about one hour south of Skopje in the *opstina* of Kavadarci. The village has a population of 3,800, most of whom are ethnic Macedonians. Rosoman is located in a rich agricultural zone where farmers make extensive use of irrigation. The major crops grown include early vegetables and grapes for wine making. The village is also a center for more progressive private farmers — in contrast to neighboring Gradsko (7 kilometers distant), which depends heavily on state-run industry and *agro-kombinat* farming. The Team interviewed two village representatives to the *Opstina* Council who stressed Rosoman was better-off economically than other villages in the region; they estimate the average household in Rosoman has 2,000-4,000 DM hidden in the home. They expressed interest in the SCC concept.

Murtino/Monospitovo (Strumica *Opstina*)

The zone around Strumica contains some of the most fertile land in Macedonia which benefits from both an extensive system of irrigation and a moderate climate that favors the production of early vegetables. With these advantages, the region is one of the leading agricultural areas in Macedonia and contains a relatively dense network of prosperous villages with populations around 2,000 to 3,000. In addition, because of its strategic location near the Bulgarian and Greek borders, many people in the *opstina* are engaged in trade related activities. Interviews were conducted with the former village President from the villages of Kuklic, a village located southwest of Strumica and with the President of the village of Vasilevo, a town

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north of Strumica. These interviews confirmed the general prosperity of villages in the irrigated region north and east of Strumica and the possibilities for profitable investments in trade and agriculture in the area. However, neither of these villages was selected for attention in Phase II, since they were both relatively small and did not have any larger villages within 4 or 5 kilometers with which they could be grouped. Instead, two other villages were selected for further attention in Phase II: Monospitovo (population 1,860) and Murtino (population: 2,169). With the neighboring village of Bansko (population: 1,640), the three villages contain over 5,600 people within a radius of 5 kilometers. All villages are populated mainly by ethnic Macedonians.

Forine/Chegrane (Gostivar *Opstina*)

The contiguous ethnic Albanian villages of Forine and Chegrane are located in the Gostivar *opstina* in the rich belt of land between Tetovo and Gostivar. With over 12,000 inhabitants in both villages, Forine and Chegrane constitute one of the largest centers of rural population in Macedonia. An interview with the members of the village council in Forine confirmed that, as with other Albanian villages, most households have family members working in Western Europe or North America who regularly send cash remittances. This source of income has contributed greatly to a boom in the construction of new houses and has also served to finance small business start-ups in such areas as construction materials supply, restaurants and cafes, transportation and agricultural trade. Village leaders indicated that approximately 20 percent of families in the area received most of their income from agriculture — although virtually every household maintains livestock for personal consumption and makes occasional market sales of dairy and meat products. Village leaders in Chegrane expressed somewhat more interest in the concept of an SCC than did leaders in Forine.

Bogovinje (Tetovo *Opstina*)

Bogovinje, like Forine and Chegrane to which it bears much resemblance, is also an ethnic Albanian village located in the Tetovo-Gostivar corridor. It, too, enjoys significant inflows of money from its residents who work in Western Europe who have financed much of the construction seen in the town. Village inhabitants include farmers, traders, salaried workers from Tetovo and retirees who have returned to the village from Western Europe. As in Neraste, the village is organizing to carry out a community project — in this case construction of a large Mosque. The town is also a trading center for the fertile agricultural lands surrounding it and hosts a number of private traders who export local produce to Greece and other nearby countries,

Neraste (Tetovo *Opstina*)

Neraste, a large village of 4,285 situated to the northwest of Tetovo about 4 kilometers off the road to Kosovo, presents many of the characteristics common to the other ethnic Albanian

villages visited in Phase I. It receives significant inflows of foreign exchange from town residents working in Denmark and other Western European nations (500,000 DM per month, according to the village President). It is well organized as witnessed by the village's ability to collect contributions to improve the road linking it to the major Tetovo-Kosovo artery. The village President, who expressed strong interest in the idea of a SCC, is a businessman who owns travel agencies in Tetovo and in Denmark who is thoroughly familiar with western banking practices and financial concepts.

The basic characteristics of these six sites are presented in Table 6-1.

Table 6-1
Basic Data on Sites Retained for Phase II

Type of Data	Bogovinje	Chegrane/ Forine	Marino/ Ilinden/ Petrovec	Murtino/ Monospitovo	Neraste	Rosoman
Ethnic Group	Albanian	Albanian	Macedonian	Macedonian	Albanian	Macedonian
Population	6,146	13,400	10,000	4,029	4,285	5,225 a/
Households	1,200	2,050	2,000	887	500	1,085 a/
Major Crops	Cereals, Vegetables	Cereals, Vegetables	Winter Wheat, Vegetables	Early Vegetables, Cereals	Cereals, Vegetables	Grapes, Early Vegetables, fruit
Percentage of Surveyed households with at least one person:						
Sending remittance payments	36.7%	32.1%	0.0%	4.0%	72.0%	0.0%
Receiving salary or pension payments	86.7%	50.0%	93.3%	60.0%	80.0%	70.0%

a/ Includes surrounding villages

Phase II Site Surveys

Detailed surveys were conducted in the six sites listed in Table 6-1 over a period of one week. During these surveys, WOCCU enumerators held interviews with heads of households to gather the basic economic and financial data needed to further evaluate the potential of each site for future SCC promotional efforts.

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Methodology

A total of 168 interviews were held in the six sites with between 25 and 30 interviews in each location. Households were selected from lists of families in each community that were provided by the local government authorities. Initially, the Team sought to obtain complete lists of all households in each village and select names at random from these lists. However, only in Neraste did the local government authorities actually have at their disposal a complete list of village households. Elsewhere it was necessary to develop stratified samples with representative numbers of poorer and richer farm households, households that rely on private business income, and those that rely on salaries. These lists were drawn up with the input of the local community Presidents or Vice-Presidents Interviews were conducted mainly in the respondents' homes in Macedonian villages. In the Albanian villages, a variety of locales were used, since the interview period fell during Ramadan and it proved quite difficult for enumerators to gain entry into peoples' homes. In Neraste, the WOCCU enumerator was given an office in the village hall and respondents were summoned for interviews by the village authorities. In Bogovinje, the majority of interviews took place in an empty restaurant. In Chegrane and Forine, most of the respondents were interviewed either in a restaurant or in the enumerator's car.

Phase II Survey Focus: Refined Site Selection Criteria

In addition to the four criteria described above that were used to evaluate sites in Phase I (population, average income, diversity of economic activities, and community cohesiveness), two new criteria were introduced in Phase II:

- **savings potential**, which was measured by questions in the Phase II survey asking households to estimate the cash reserves held by people in the village and by their own stated willingness to make deposits at a SCC in their village; and

- **leadership interest**, which was assessed through discussions held by the WOCCU enumerators and the Team members with various key figures in the different sites.

The Phase II survey questionnaire itself was used to obtain quantitative data on income, savings potential, and the economic diversity of the different sites. Population data presented in table 6-1 was obtained from local government authorities. Leadership interest and community cohesiveness were assessed in a somewhat more subjective fashion, based on interviews and on reported household contributions to community improvement projects.

Phase II Results

Results of Phase II surveys and discussions are presented below according to each of the six Phase II selection criteria.

Population

With the data shown in Table 6-1, the rankings of the sites according to their population characteristics is straightforward. Marino/Ilinden, together with Chegrane/Forine, present the most favorable population profiles. Bogovinje and Rosoman have somewhat less favorable population characteristics, but they still each have nearly 1,200 potential member households so that they both score relatively well. Murtino/Monospitovo and Neraste, on the other hand, score distinctly less well. Murtino and Monospitovo would likely have to be grouped with a third nearby village, Bansko, if the an SCC in this site is to have access to a potential population of over 1,000 households. It would also be quite hard for an SCC in Neraste to reach a level of 600 members.

Income

Households in the six sites were asked to estimate the annual gross incomes of poorer and richer households in their villages. The responses to this question are shown in Table 6-2.

Table 6-2
Annual Income

Village(s)	People per Household	Annual Income (DM)			
		Gross Household Income		Income Per Household Member	
		Poor Households	Rich Households	Poor Households	Rich Households
Bogovinje	7.0	No data	no data	no data	no data
Chegrane/Forine	8.5	2,137	42,826	251	5,038
Marino/ Ilinden/ Petrovec	4.1	2,152	16,219	525	3,956
Murtino/ Monospitovo	5.8	2,645	12,000	456	2,069
Neraste	10.5	1,788	66,960	170	6.377
Rosoman	5.2	2,250	11,466	433	2,205

The responses shown in Table 6-2 clearly indicate that richer households have significantly higher levels of income in the two Albanian villages for which we have data (Chegrane and Neraste). This is true both in gross terms and in per capita terms. At the same time, there appears to be little difference in the incomes of poorer households between any of the sites. When the larger size of Albanian households is taken into consideration, per capita incomes of the poorer households seem to be much smaller than in Macedonian villages.

Given these differences, it is logical to classify the income data in Table 6-2 separately for each group.

Macedonian villages. Incomes in Marino seem to be significantly larger than in Murtino or Rosoman. The average reported income level for rich households in Marino is almost twice those in the other two villages. Incomes for poorer households are also higher.

Albanian villages. The data in Table 3 seem to indicate that income distribution is more unequal in Neraste than in Chegrane. In either case, however, given the "rough estimate" nature of the question posed to respondents, it would be a mistake to read too much into this. In all cases, it seems clear that richer households have significant incomes which could lead to deposits in a village SCC. This is also probably true for Bogovinje, although no useable income data was collected there. Thus, there is little to distinguish the different Albanian sites in terms of income.

Savings Potential

The willingness and ability of households to deposit cash at potential SCCs was assessed in two ways. The first was to ask respondents to estimate the level of cash reserves held within the home by most households in the village. The second way was simply to ask them, at the end of the interview after they had had a chance to discuss the feasibility and organization of a village SCC with the interviewer, how much cash they would be willing to deposit in such an institution. The responses to these two questions are shown below in Tables 6-3 and 6-4.

As shown in Table 6-3, some households in all villages indicated that they kept significant levels of cash reserves. Reserves are the highest in Neraste and the lowest in Marino/Ilinden/Petrovec. The reported low level of cash reserves in Marino is somewhat surprising, given the relatively high income levels reported for it in Table 6-2. This likely reflects the difficulties the enumerator in Marino had in obtaining frank responses from many of the households.

Data on potential deposits from Table 6-4 generally support the thesis that households in the village have significant levels of cash reserves and would be willing to deposit at least a portion of them in an SCC. Again, willingness to deposit seems to be significantly higher in the three Albanian villages. This is probably reflective of two things: (1) the presence of a

significant number of private businessmen in these communities who have large amounts of cash on hand and are generally quite interested in the concept of a village SCC; and (2) the uneven inflows of cash remittances from overseas which come in bunches grouped around the Christmas and summer holidays and create temporary pools of excess liquidity.

Table 6-3
Distribution of Household Cash Reserves

Estimated Level of Cash Reserves in Household (DM)	Distribution of Responses					
	Bogovinje	Chegrane/ Forine	Marino/ Ilinden/ Petrovec	Murtino/ Monospitovo	Neraste	Rosoman
0 to 500	3.4%	0.0%	40.7%	8.7%	0.0%	0.0%
500 to 1,000	13.8%	3.6%	33.3%	30.4%	0.0%	10.0%
1,000 to 2,000	10.3%	28.6%	3.7%	13.0%	4.0%	16.7%
2,000 to 5,000	34.5%	53.6%	18.5%	30.4%	20.0%	56.7%
5,000 to 10,000	17.2%	14.3%	0.0%	8.7%	28.0%	13.3%
10,000 to 20,000	13.8%	0.0%	0.0%	8.7%	20.0%	3.3%
20,000 to 50,000	6.9%	0.0%	0.0%	0.0%	20.0%	0.0%
over 50,000	0.0%	0.0%	0.0%	0.0%	8.0%	0.0%
Percentage of Households Reporting Reserves:						
Below 1,000	17.2%	3.6%	74.1%	39.1%	0.0%	10.0%
Above 10,000	20.7%	0.0%	3.7%	8.7%	48.0%	3.3%
Median Cash Reserves (DM)	2,000 to 5,000	2,000 to 5,000	500 to 1,000	1,000 to 2,000	5,000 to 10,000	2,000 to 5,000

Table 6-4
Reported Levels of Probable Deposits in a Village SCC (in DM)

	Bogovinje	Chegrane	Marino/ Ilinden/ Petrovec	Murtino/ Monospitovo	Neraste	Rosoman
Average	5,488	12,982	1,384	1,358	14,405	1,680
Median	4,000	3,750	300	1,000	10,000	1,000
Maximum	25,000	100,000	10,000	5,000	50,000	5,000
Minimum	700	0	0	200	200	0

Economic Diversity

Data collected in the Phase II survey on the primary sources of income of households in the six sites makes it clear that Chegrane and Forine have the most diverse economic base, as the households surveyed there exhibited a distribution of primary income sources that is fairly evenly spread between agriculture, private business, salaried employment and pension income, and foreign worker remittances. Households in Bogovinje, Rosoman and Marino/Ilinden/Petrovec also had a relatively wide range of income sources, although each one had a single clearly dominant source (agriculture for Bogovinje and Rosoman, salaries and pensions for Marino). Neraste and Murtino/Monospitovo exhibited the narrowest economic bases, as Neraste depends quite heavily on worker remittances (the primary source of income for 68 percent of households surveyed) and Murtino/Monospitovo on agriculture (96 percent of households surveyed).

Community Cohesiveness

As an indicator of the degree of community mobilization and ability to work towards a common goal, the survey asked households for data on contributions for community projects such as roads, schools, churches or mosques. Little differentiation between the sites appeared in these responses as in virtually every village, except Rosoman, most households reported making contribution to such projects within the last two years. Still, average household contributions were the largest in Chegrane and Neraste. This concurs with the anecdotal evidence collected by the Team in its discussions with community leaders, which made it clear that Neraste, in particular is an extremely well organized village.

Leadership Interest

With a total of six survey sites, it was not possible for the Team to devote the same degree of attention to meeting community leaders and potential SCC members in every site. Therefore, any assessment of the receptiveness of individual communities is somewhat influenced by the time that Team members spent in each location. Even with this problem, however, it was clear to the Team that the community leaders in Marino and Neraste had the most interest in the project. In Neraste, the village President, who owns a travel agency with offices in Tetovo and Denmark, is an extremely strong supporter of the idea and has enlisted the support of the village council and key community members. In Marino, a triumvirate composed by the Secretary of the Gazi Baba *Opstina* (who happens to reside in Marino), a leading businessman who owns a small factory and the village Secretary has exhibited a similar strong interest and willingness to support an SCC. In all the other sites, leaders also expressed interest. In particular the village President in Rosoman and the Vice President in Chegrane also seem to be strong supporters and to enjoy substantial status in their communities.

Site Rankings

Rankings of the six sites, together with a recapitulation of their strong and weak points are presented in Table 6-5. Separate rankings are presented for Albanian and Macedonian villages. This was done for two reasons. First, there are significant differences between the Albanian and Macedonian villages surveyed, particularly in terms of income and savings potential. Thus it makes more sense to group villages and rank them within their ethnic category. Secondly, the Team has consciously sought to maintain a rough balance between these two ethnic groups and thinks that it is important for WOCCU to initiate pilot activities in both Macedonian and Albanian communities. Presentation of separate rankings for Macedonian and Albanian sites is thus consistent with this approach.

The two highest ranked sites are Chegrane/Forine and Marino/Ilinden. Each of these sites score extremely well in terms of population, income, economic diversity and leadership interest. They are also each contiguous villages with large populations that should be able to work together to build and manage a common SCC. Although Marino/Ilinden does not score well on the savings potential indicators, it is our belief that this is reflective of biases introduced by the individual enumerator (who experienced some difficulties in putting people at ease) and does not indicate a real lack of savings to be mobilized. It is also our recommendation that initial promotion activities in Marino and Ilinden not include nearby Petrovec, since it is not contiguous with Ilinden or Marino and trying to include it in the same SCC would lead to complications. Furthermore, this would not serve any real purpose, since Ilinden and Marino already have more than enough households to make a viable SCC.

Table 6-5
Site Rankings

Phase II Sites	Positive Factors	Neutral Factors	Negative Factors
Macedonian Sites			
1. Marino/Ilinden	Population, Income, Economic Diversity, Community Cohesiveness, Leadership Interest		Savings Potential
2. Rosoman	Income, Savings Potential, Economic Diversity, Leadership Interest	Community Cohesiveness	Population
3. Murtino/ Monospitovo	Income, Savings Potential, Leadership Interest	Community Cohesiveness	Population, Economic Diversity
Albanian Sites			
1. Chegrane/ Forine	Population, Income, Savings Potential, Economic Diversity, Leadership Interest	Community Cohesiveness	
2. Bogovinje	Population, Savings Potential, Economic Diversity, Community Cohesiveness, Leadership interest	Income	
3. Neraste	Income, Savings Potential, Community Cohesiveness, Leadership Interest		Population, Economic Diversity

CHAPTER 7: CONCLUSION AND SUMMARY OF TWENTY RECOMMENDED ACTIONS FOR THE NEXT FIFTEEN MONTHS

Conclusion

Savings and credit cooperatives represent a promising mechanism to address the current scarcity of financial services in rural Macedonia. They offer a sustainable approach to mobilizing local capital for local investment and development. Establishing SCCs, however, will be a challenging and difficult task for WOCCU, because of the numerous hurdles that lie on the path to success. These hurdles can be grouped into three categories.

First, there are those relating to villagers' widespread distrust of financial institutions and fear of inflation, as described in Chapter 2. It will not be easy to convince villagers to deposit their savings in SCCs, especially if this requires converting their money from Deutsche-marks to denars. And substantial deposits — about 300,000 DM — are required for an SCC to become financially viable . There are mechanisms to address these concerns, as laid out earlier in this report, such as indexing deposits and creating a stabilization fund. These mechanisms, however, add to the complexity of managing SCCs and managing the WOCCU program. They will have to be promoted with patience, careful training, and technical assistance.

Second, there are hurdles relating to the banking law. Currently, SCCs cannot register or operate legally in Macedonia. WOCCU must change the law before its program can proceed. The Assessment Team feels that the legislative strategy described in this report has a good chance of success. However, changing laws is a tricky business, and one cannot precisely predict what obstacles may manifest themselves on the road ahead. WOCCU will need to focus hard on this effort until it is successful, making it the number one priority, and bringing to bear substantial resources on the issue. These resources must include senior staff time from the Skopje office, experienced international consultants, funding for study tours for key officials, and, when appropriate, strategic support from the USAID Representative. Convincing legal arguments, sensitivity to the concerns of different officials, persistent advocacy work, good networking, and political savvy will all be necessary to achieve the required legal change.

The third set of hurdles relate to a variety of additional legal and regulatory issues. These include the weakness of current collateral law, the administrative requirements to register in court, the rules governing exchange operations, the requirements of the ZPP, various tax obligations, and accounting and reporting regulations. None of these problems are binding constraints, but they will add unwelcome bureaucracy and expense to establishing and managing SCCs in Macedonia. WOCCU will need to be systematic and patient to overcome these hurdles, turning frequently to local lawyers and accountants for help. After the first few SCCs are established, the procedures to conform to these diverse regulations will become more familiar and less time-consuming.

In sum, there are a lot of challenges ahead, but the goal is important and unquestionably worth the effort.

Summary of Twenty Recommended Actions for the Next Fifteen Months

This is a summary list. Details and rationales can be found in the body of the report.

Months 1, 2, and 3:

1. Hire two legislative consultants (short-term international) and a local lawyer to help implement the legislative strategy; International consultants should make multiple trips;

2. Prepare and organize a seminar on SCCs for key officials from the NBM, Ministry of Finance, and Ministry of Agriculture;

3. Continue to network and build government support for the amendment to BASHA;

4. Continue staff training, particularly international internships;

5. Develop short scopes of work for a local legal consultant to clarify four of the legal and administrative ambiguities listed in Chapter 5, i.e.:

   - Re-check the legality of Deutsche-mark savings accounts;
   - Further investigate the legality of DM-indexed account and loan agreements;
   - Further investigate the legality of loan agreements that index interest rates to exchange rates;
   - Evaluate villagers' perceptions of and preferences for different indexing techniques.

Months 4, 5, and 6:

6. Organize a study tour for key officials to encourage their support for the amendment;

7. Work with the drafting committee to develop an acceptable amendment;

8. Continue to network and build government support for the amendment;

9. Organize an international consultancy to design a detailed practical program to establish a stabilization/insurance fund for SCCs in Macedonia.

10. Develop short scopes of work for local legal and accounting consultants to clarify the remaining six legal and administrative ambiguities listed in Chapter 5, e.g.:

- Check exactly how the profit and service taxes are calculated for savings houses and how registering SCCs as cooperatives would affect tax obligations;
- Clarify the ZPP's requirements and procedures for savings houses (and probably SCCs);
- Develop a legally-sound promissory note that allows co-signers to co-guarantee loans;
- Re-check the viability and costs of private deposit insurance for SCCs;
- Refine the operating expenses and other assumptions used in the financial model;
- Identify the locations of branch offices of banks that are authorized to purchase foreign exchange from exchange bureaus.

Months 7, 8, and 9

11. Continue to network and build government support for the amendment;

12. Establish the stabilization/insurance fund;

13. Prepare materials needed for promotional work in villages: brochure, handbook, accounting system;

14. Select two or three pilot sites;

15. Hire and train field promoters familiar with the proposed pilot regions.

Months 10, 11, and 12

16. Continue to do what is necessary for the passage of the amendment;

17. Begin promotional work once the amendment passes or at least is close to passage. In each village this should involve some variation of the following steps:

- Identify village leaders and discussing the idea with them;
- Organize an initial small group study session;
- Organize an informational meeting for the community;
- Form and train the organizing committee through further study sessions;
- Help the committee draft a statute and business plan;
- Hold a second community meeting to present the committee's plans;
- Facilitate the application for license and court registration.

Months 13, 14, and 15

18. Intensify technical assistance and training to managers and board members of pilot SCCs that are ready to begin operations. This may include international study tours or internships.

19. Begin the operating subsidy and help upgrade the physical facilities where SCCs are housed, particularly in regards to security measures.

20. As SCC operations get underway, continue to provide technical assistance and on-the-job training to managers, board members, and committee members. For the first two months, contact should be made almost on a daily basis; thereafter, twice weekly, and more if needed.

ANNEX 1: SAMPLE STATUTE (BY-LAWS) FOR A MACEDONIAN SAVINGS AND CREDIT ASSOCIATION

STATUTE OF THE _____COMMUNITY SAVINGS AND CREDIT ASSOCIATION.

Article 1: Name, headquarters, purpose and common bond

a. The name of the Savings and Credit Association (SCA) shall be _____ Community Savings and Credit Association, hereafter known as the _____ SCA.

b. The SCA is located at_____

c. The purpose of this SCA is to promote thrift among its members by offering them various share, savings, and other accounts, and to create for them a source of credit for various purposes.

d. Membership and common association shall be open to all individuals who reside or work in the Community of_____ consisting of the following_____

Article 2: Membership rights, obligations and authority

a. Each individual seeking membership must apply for membership on the forms provided by the SCA and purchase at least one share. Applications must be approved by the managing board or by a membership officer/employee appointed by the board. Membership officers must submit a monthly report to the managing board giving names of applications and action taken.

b. Members exercise democratic control over the SCA by attending regular annual and special assembly meetings, and by electing the managing board. Each member has one vote by secret ballot and members may not vote by proxy. Voting may also be conducted via mail based on ballots issued by the managing board. A simple majority of the members' voting constitutes a decision of the savings and credit association.

c. The annual meeting of the SCA shall be held within 90 days of the close of the calendar year. Notice of any meeting of the membership shall be posted in public places and/or mailed by the secretary of the board, at least ___ days prior the meeting date.

e. A majority of the managing board may call a special meeting of the members. The secretary of the managing board must call a special meeting after having received a written request, with ten percent or at least 50 of the members' signatures. The purpose of the meeting shall be stated in the meeting announcement and request for the meeting.

f. The order of business at the annual meetings of members shall be:

1. Role call and establishment of a quorum;
2. Reading. correction and approval of the record of the last meeting;
3. Report of managing board, committees, and financial reports;
4. Unfinished business from prior meetings;
5. New business other than elections;
6. Elections of managing board;
7. Election of officers from among themselves;
8. Setting of meeting schedules for the year;
9. Adjournment.

g. Fifty members shall constitute a quorum at annual or special meetings of the assembly in addition to committees and the managing board. If a quorum is not present, the meeting shall be recessed for not less than 7 days nor more than 21 days. Notice of recessed meetings must be given as described under section "d" above. When a recessed meeting is convened, 25 members constitute a quorum. If a quorum is not present the recessed meeting, the meeting shall be recessed for not less than 7 days nor more than 21 days, with notice given as above. If a quorum is not present at the third recessed meeting, the managing board may decide on all matters in the declared agenda with the full powers of the assembly.

h. A nominating committee consisting of not less than 3 persons who are not officers of the SCA, will be appointed at a regular meeting of the managing board, not later than 8 months prior to the annual meeting. The committee will nominate a complete list of candidates, who have interviewed regarding their qualifications and willingness to serve, for managing board and committee positions. Candidate names and qualifications will be presented to the board prior to the end of the calender year and to the general assembly for vote at the annual meeting.

I. In addition, members have the right to make nominations from the floor for the various volunteer positions, prior to taking the vote.

j. Managing board and supervisory committee members shall be elected for three years on a staggered term.

k. All members of the loan review committee shall be appointed for a three-year staggered term.

Article 3: Managing Board - Term of office, filling vacancies, voting, officers, duties, powers and responsibilities

a. The managing board shall consist of voting members who shall be elected by the members of the SCA during the annual meeting. At the first founding meeting of the assembly,

1/3 of the board members will be elected to serve for one year, 1/3 to serve for two years and 1/3 for three years. In seceding years, each board member will be elected for a term of three years.

b. The managing board may declare a board or committee position vacant when a board member misses three consecutive meetings or more than four meeting during a calendar year. Vacancies occurring on the board between elections shall be filled until the next election by majority vote of the managing board.

c. The managing board shall hold monthly meetings at the place, time and date set by the board. A majority of board members shall constitute a quorum. The board shall elect from among their numbers a chairman, vice chairman, treasurer and secretary.

d. The managing board is responsible for the general management and control the SCA and may set policy and procedure as outlined below:

1. Establish operating policies and procedures;
2. Elect board officers;
3. Appoint credit committee and other committees as authorized in the statutes;
4. Appoint membership officer and the executive committee;
5. Hire and fix duties and compensation of the manager;
6. Maintain confidential relations with members;
7. Act on membership applications and issues;
8. Determine classes of accounts in conformity with law and the services of the SCA;
9. Fix share requirements, over and above minimum levels established by law;
10. Fix subcategories of savings, term deposits and other similar accounts;
11. Set credit policies regarding loan maximums, interest rates, maturity, and security;
12. Establish collection polices and procedures and late charges;
13. Authorize borrowing and investments;
14. Designate depository of funds;
15. Authorize insurance;
16. Act on loans to directors as required in law , bylaws and statute;
17. Ensure records preservation and required reporting;
18. Develop statute amendments for approval by the assembly and the National Bank of Macedonia (NBM).

Article 4: Executive Committee - Officers and powers

a. The managing board elects from among its own number, the executive committee who serve as volunteers. The committee shall consist of the chairmen, the vice chairman, the secretary and the treasurer.

b. The executive committee is empowered to act on behalf of the managing board between meetings.

Article 5: Official duties and responsibilities of the Managing Board and Executive Committee

a. The Chairman shall:

1. Preside at all meetings of the board;
2. Sign such instruments as may require his signature;
3. Call meetings of the board and fix the agenda;
4. Cast a vote only to break a tie vote of the managing board.

b. The Vice Chairman shall, if the Chairman is absent, perform the chairman's duties, and other duties that the managing board may prescribe. The Vice Chairman becomes the Chairman, if the chairman is unable to complete his term for any reason.

c. The Secretary shall keep or cause to keep correct records of all meetings of the members, board and committee reports. The Secretary shall give notice of all meetings of the members in the manner prescribed by the bylaws and shall perform all other duties associated with the office.

d. The treasurer shall be the custodian of the funds, securities, and books of the SCA.

Article 6: Audit/supervisory committee - Duties, authorities and responsibilities.

a. The assembly shall elect a supervisory committee consisting of not less than 3 members, who are not also serving on the managing board or other committee.

b. The supervisory committee's major responsibility is to audit or cause an audit of the SCA at least annually and to verify the accounts of the members with the records of the SCA on a periodic basis. The committee shall also review the performance of officials and employees and make recommendations to the managing board for improvement in the operations of the SCA.

c. The duties and responsibilities of the supervisory committee are:

1. Make or cause an audit at least annually;
2. Submit audit reports to the board of directors, to the NBM supervision department and summaries to the members at the annual meeting;
3. Verify with members their account balances at least annually;
4. Suspend or cause to suspend managing board members, officer or credit committee members for cause under the law;
5. Call special membership meetings for cause under the statutes and under the law;
6. Maintain the committee's records;

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7. Report its activities and finding to the board each month;
8. Request board approval for compensation of clerical and auditing assistance;
9. Request the NBM to audit and examine the financial records and affairs of the SCA.

d. The supervisory committee may employ certified auditors to perform auditing, account variation, and clerical work under its supervision.

e. By unanimous vote, the supervisory committee may suspend until the next meeting of the members, any managing board member or any managing board officer for cause. In the event of suspension, the supervisory committee shall call a special meeting of members within 14 days of the suspension, to act on the suspension. The chairman of the supervisory committee, may act as chairman of the meeting only on the issue of suspension, unless another chairman is elected to act as chairman of the meeting by the assembly.

f. The supervisory committee may call a special meeting of the members to consider any violation of the provisions of the banking, savings house and savings and credit association act; violation of regulations and this statute; or to consider any practice which the committee may deem to be unsafe or unauthorized.

Article 7: Credit Committee - Formation, authority, duties and responsibilities

a. The credit committee of not less than 3 persons is appointed by the managing board from among the membership. A credit committee member may not serve on any other committee during the same period of time.

b. The credit committee implements the credit policies established by the managing board. The credit committee shall establish and follow written procedures for implementing credit policies.

c. The credit committee shall:

1. Meet at least monthly and maintain detailed records of its decisions;
2. If desirable, appoint loan officer (s) from among the employees, and delegate limited authority;
3. Counsel members in wise use of credit;
4. Act on applications for loans;
5. Act on requests pertaining to collateral;
6. Act on requests for extensions and refinancing or rescheduling of loans;
7. Act on appeals of loans denied by the loan officer(s);
8. Report monthly to the managing board and audit/supervisory committee;
9. Record in writing, the approval and denial of loans.

Article 8: Shares, deposits and transactions.

a. The minimum value of one share shall be equal to 50 DM. The minimum amount of shares, savings or deposits which may be held on account by one member shall be established from time to time by resolution of the managing board, subject to the law. Members may withdraw the share account only if they withdraw their membership from the SCA.

b. Passbook savings, shall be offered to all members, with limits on the size or number of deposits or the total amount. Members may withdraw any portion of the deposits at any time.

c. Term deposits are offered for periods of time which are set from time to time by the managing board. Early withdrawal of term deposits is permitted with prior notice and with fines for lost interest payments which are established by the managing board.

d. Special purpose accounts with special terms may be offered from time to time by decision of the managing board.

e. Transaction accounts may be offered to members by decision of the managing board.

f. From time to time, the managing board shall set interest rates which the SCA may pay on shares and various types of deposits, factoring in transaction costs and prevailing market rates.

g. No officer, managing board, employee, committee member or member is allowed to purchase shares from another member, whether filed for withdrawal or not. Share may only be withdrawn with withdrawal of membership.

h. Shares and deposits may be received in the name of a minor (less than the legal age) except that the minor may not vote.

I. Shares and deposits may be received in the joint name of husband and wife or another direct family member, with the same rights as shares issued to individuals.

Article 9: Loans and credit

a. Loans shall be made to individual or joint members for provident and productive purposes in accordance with applicable law, regulations, the statutes and loan policies.

b. The managing board shall approve from time to time the interest rates, the length of maturity, terms of repayment, the security, and the maximum limits which may be credited for each category, within the limitations of applicable law and regulations.

c. The managing board shall approve, from time to time, the rate of interest refund, if any, to be made to the members.

d. The managing board may approve, if desired, reduction of interest on existing loan balances outstanding, to be consistent with interest rates on new loans.

e. The board may grant the loan committee the authority to match or negotiate interest rates on loans offered to members by other legally registered financial institutions, not to exceed 2% of the current rate, and must be with the limitations and standards set in the loan polices.

f. During periods when loans funds are limited, the loan committee shall give preference to smaller loans or pro-rate the amounts available among several applicants.

g. The SCA may make loans to other SCAs, with the approval of the managing board, not to exceed 10% of the lender's paid-in unimpaired capital. Such loans may be made, only if the borrowing SCA offers collateral in a form and amount suitable to the managing board, and only if the demand for loans to members is satisfied.

h. The SCA may not make loans to other financial institutions, or companies as legal persons.

i. Loans made to members shall be limited to not more than 10% of the liabilities of the SCA. In addition to the limits set above, loans to officers, managing board members, committee members and employees are subject to the approval of the managing board, who may apply to the credit committee, and then remove themselves from the decision process.

Article 10: Investment and borrowing of funds

a. The liquid funds, reserves and surplus funds of this SCA shall be deposited with institutions which have been rated as safe and secure investments by the NBM, with the blanket approval of the managing board, by its treasurer or designated employee.

b. The managing board may authorize borrowing from other financial institutions for the purpose of increasing loans to its members, and the provision of improved services, and to expand its services to members.

c. Investments and borrowing shall be conducted within the policies and procedures prescribed by the managing board. In the absence of such polices, the SCA may not make investments or borrow outside its own field of membership.

Article 11: Liquidity, regular reserve, undivided profits

a. The SCA shall keep liquid funds equal to 10% of its total liabilities in quickly accessible liquidity reserves. The managing board may increase the liquidity from time to time, if need be, in preparation for seasonal demand.

b. At the end of each accounting period, and before payment of dividends, the board shall set apart from earning, a regular reserve, 1% of total liabilities each year until the regular reserve reaches 6% percent of total liabilities.

c. At the end of each month, the managing board shall set aside an amount of money as a loan loss allowance, with debits and credits to the appropriate accounts of the SCA. The amount will be calculated as a percentage of loans in arrears. The managing board shall set, from time to time, the basis for calculation of loan losses in full conformity with NBM regulations on this topic. In computing loan loss allowances, the SCA may exclude the amount of the loan in arrears which is secured by deposits, or guaranteed with other collateral under the control of the SCA.

d. The regular reserve and the returns from investment of loan loss reserves shall be held to meet contingencies or losses in the business of the SCA and shall not be distributed to its members, except the in the case of dissolution of the SCA.

e. The managing board may participate in a deposit insurance or stabilization fund, and shall comply with the requirements of the fund.

Article 12: Expenses

a. The authorized expenses of the SCA shall be paid from the earnings of the SCA or any external subsidies, and these expenses shall be paid or deducted before any dividend is declared. The managing board will set a guideline each year, determining the percentage of expenses which may be incurred against total assets of the prior year.

Article 13: Dividends

a. The board shall declare the frequency and amounts of dividends after the close of the accounting period. Dividends due to a member shall be credited to the member's account in either share or deposits.

b. The board shall declare a dividend only from earnings which remain after expenses are paid or deducted and after the amounts required for regular reserves and loan loss reserves are deducted.

Article 14: Limited liability of the members

a. Members liability for the debts of the SCA shall be limited to the amount of their paid up shares.

Article 15: Fixed assets

a. The managing board may acquire land and building and other fixed assets needed to provide services to members through lease or purchase. Purchase of land or buildings requires the consent of the Assembly.

b. The managing board may also establish branch offices to provide services to its members.

Article 16: Accounting, record keeping

a. The managing board shall approve an accounting and records management system which provides complete and accurate financial information needed to conduct safe and effective operations. The system adopted shall meet generally accepted international standards for such systems.

b. The managing board will require the monthly production of balance sheets, income and expense statements, loan status reports and such reports such as needed to ensure effective management and control.

c. The managing board will establish a system of internal controls over receipts and disbursements for effective and safe control over all assets, liabilities and transactions.

Article 17: Merger, Liquidations

a. The general membership may decide to merge the SCA with another SCA, or liquidate the SCA by two thirds majority vote at a meeting convened for that purpose. Such decisions shall be carried out in conformity with applicable laws.

Article 18: Adherence to law

a. Any section or provision of these statutes in conflict with the laws of Macedonia, shall be automatically void and deemed amended to confirm to the law.

b. Any matter relating to the SCA but not specifically provided for in the statutes, may be carried out according to the provision of laws which grant registration and licence to the SCA.

Article 19: Amendments to statutes

a. These statutes may be amended by the managing board subject to the approval of the members at a general or special meeting.

ANNEX 2: FINANCIAL MODEL AND BREAK-EVEN ANALYSIS

Introduction

The Assessment Team constructed a financial model of a model Savings and Credit Cooperative (SCC) in Macedonia to determine what parameters are necessary for an SCC to become financially viable, i.e., to break even or make a profit. Most importantly, the model determines what level of total liabilities (shares and deposits) are necessary for an SCC to be viable, given reasonable estimates of other variables such as interest and default rates. This result can help WOCCU form a better idea of the minimum size necessary for a viable SCC.

The model is constructed in a Lotus 123 spreadsheet. Assumptions are presented in boxed areas of the spreadsheet. These can be varied to test the effects of different values. The assumptions that are presented in our base run are those that we consider the most realistic for Macedonia. Our estimates for operating expenses are also assumptions based on our best estimates. All currency figures are in Deutsche-marks (DM). The interest rates are based on DM-indexed loans and deposits; therefore, our assumptions for these rates are lower than they would be if we were dealing in denars.

Below we describe how the model works, using our best assumptions. This best-assumption model is the base run that is presented subsequently on spreadsheets in this annex. Afterward, in Annex 3, we present a short section on sensitivity analysis, which tests the effects of modifying several of the key assumptions. In Annex 4, we incorporate a monthly subsidy of 1,000 DM for the first two years of the base run to check its effect on the SCC's cash flow and viability.

How the Model Works, Using Best Assumptions

Membership, Shares, and Deposits

The model calculates the growth in an SCC's membership and total liabilities (shares and deposits) based on assumptions about growth rates and initial levels of memberships, share size, and deposits. This is done over a four year period. The base model assumes an initial membership of 50 people, which grows by 15% monthly for the first 12 months, by 10% quarterly in year 2, and by 30% annually in years 3 and 4. These assumptions are based on the belief that membership will increase rapidly in year one as people learn about the SCC, with growth tapering off as the pool of potential members approaches saturation in subsequent years. Thus, membership reaches 233 at the end of year one, 341 at the end of year two, 443 at the end of year three, and 576 at the end of year four. Each member is required to buy one share for 50 DM.

The average level of deposits per member is assumed to grow over time. Initially assumed to be 300 DM per member, this level grows by 2.4% monthly for the first year, by 25% quarterly in year two, and by 30% annually in years three and four. These assumptions are based on the belief that existing members will increase their deposits over time and new depositors will open larger accounts as confidence grows in the SCC. Thus, deposits per member are 343 DM at the end of year one, 876 DM at the end of year two, 1046 DM at the end of year three, and 1150 DM at the end of year four.

Based on the above assumptions, the model calculates the SCC's growth in total liabilities over time. Further calculations allow the model to determine at what point in that growth path the SCC begins to make a profit.

Asset Distribution

Total liabilities, consisting of share capital and deposits, are subsequently lent out and invested by the SCC, thereby becoming assets. Total liabilities equal total assets. The model assumes that on average 75% of assets are lent out to members, 15% are held in cash or non-interest-bearing accounts, 8% are put in outside investments, and 2% are tied up in fixed assets.

Income

The funds that are lent out and invested generate income for the SCC. The base run assumes interest earnings of 2% monthly on loans, and 1.5% on investments. During the first year, the model calculates interest income of 8,808 DM and investment earnings of 706 DM. Loan processing fees and interest penalties generate an additional 497 DM. Interest income is calculated net of interest lost on defaults.

Cost of Funds

The SCC must pay interest on deposits. It assumes a rate of 1% monthly, resulting in interest costs of 5,162 DM in year one. The model assumes no fixed return is offered on share capital, thus these funds are free until a dividend is declared. Borrowings are also assumed to be zero, although this figure can be changed if so desired.

Operating Expenses

Operating expenses are all assumptions, based on our best estimates developed through discussions with WOCCU-Macedonia staff. In year one, expenses are estimated at 12,566 DM, most of which goes towards the salary of a manager. In year two, these expenses increase due to inflation and the hiring of a second staff person for the SCC -- a bookkeeper/teller. Second year expenses are estimated at 18,723 DM.

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Loan Loss Charge Off

The model assumes an annual default rate of 3%. The model calculates these loan losses to be 1104 DM in year one and 5,157 in year two.

Net Income -- Profits and Losses

The model adds the cost of funds, operating expenses, and loan losses to derive a grand total of costs for each period. This amount is subtracted from total income for the period to demonstrate a profit or loss.

Based on the most realistic assumptions, the SCC incurs losses during its first twenty-one months of operations. In month three, for example, the SCC has 1,270 DM in expenses and only 410 DM in revenues -- a loss of 860 DM. During the first quarter of its second year, the SCC has 9,058 DM in costs and only 6,902 DM in income -- a loss of 2,156 DM. It is only in the final quarter of the second year that the SCC goes into the black with a projected profit of 573 DM. Thereafter, the SCC becomes increasingly profitable, earning, for example, 12,945 DM by the end of year three. A portion of these profits can be retained by the SCC as reserves and another portion paid out as dividends to shareholders.

The delay in achieving profitability is a result of the time it takes to build sufficient assets to earn enough income to cover costs, especially fixed costs (operating expenses).

Break-even Analysis

As mentioned above, the base run model becomes profitable in the final quarter of the second year. At this point the SCC has 341 members with an average of 951 DM each in deposits and shares. This totals to 340,830 in total liabilities, giving us a rough idea of the necessary size for an SCC to become profitable.

The model calculates a more precise estimate of the break-even level of liabilities by dividing operating expenses by the net margin.

The net margin is calculated as the difference between the yield on assets and the cost of funds. The yield on assets is calculated as total income divided by total assets. It is 5.02% in the final quarter of year two. The cost of funds is calculated as the cost of deposits, cost of shares, cost of external loans, and default costs, divided by total liabilities. It is 3.44% in the final quarter of year two. The net margin is the difference -- 1.58%. The model divides operating expenses (fixed costs) of 4,856 DM by 1.58% to determine the level of liabilities needed to cover these expenses and break even -- 306,911 DM.

Conclusion

On the basis of what we consider to be the most reasonable assumptions, a little over 300,000 DM in total liabilities is necessary for an SCC to break even and begin to make a profit. This level could be achieved by 300 members each with an average of 1,000 DM in deposits and shares. These levels are possible by the end of an SCC's second year, if growth assumptions prove correct.

After crossing the break even point, an SCC should grow further to enhance its profits, allowing it to pay dividends to its shareholders and set aside reserves. In the base run model, the SCC is able to generate net income of 24,761 DM in its fourth year, based on a membership of 576 persons. This net income would be sufficient to pay each shareholder a 20% dividend and still set aside 19,005 DM for reserves.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
46	MACEDONIAN SAVINGS AND CREDIT ASSOCIATION														
47	PLANNING MODEL AND BREAKEVEN ANALYSIS														
48	A: INPUT SECTION														
49															
50	INPUT SECTION - YR 1	Input below	1	2	3	4	5	6	7	8	9	10	11	12	Annual
51	rates are for month		Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Average
52	Number founding members	50													
53	Increase of new members	15.00%	50	8	9	10	11	13	15	17	20	23	26	30	180.00%
54	Total members each month		50	58	66	76	87	101	116	133	153	176	202	233	121
55	Value of share	50													
56	Increase in number of shares	15.00%	50	58	66	76	87	101	116	133	153	176	202	233	121
57	Starting deposit	300													
58	Member deposit increase	2.40%	300	307	315	322	330	338	346	354	363	371	380	389	343
59	Loan loss allowance Rate	0.25%													
60	Annual project inflation rate	10.00%													
61	External loans	0.00%													
62	Standard reserves	0.00%													
63	Mthly int. rate earned loans	2.00%		Equivalent Rates on Annual Basis for Key Assumptions											
64	Interest penities received	5.00%		Interest Paid on Deposits		12.68%	annual								
65	Mthly rate earned on invest.	1.50%		Interest Earned on Loans		26.82%	annual								
66	Loan processing fee	0.10%		Earnings on Invesments		19.56%	annual								
67	Earning on fixed assets	0.00%		Loan Loss Allowance		3.04%	annual								
68	Monthly rate paid on shares	0.00%													
69	Monthly rate paid on deposit	1.00%													
70	Monthly cost of borrowing	2.00%													
71															

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A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
MACEDONIAN SAVINGS AND CREDIT ASSOCIATION														
B. MODEL SCA INCOME AND EXPENSE STATEMENT - FIRST YEAR BY MONTH														
		1	2	3	4	5	6	7	8	9	10	11	12	total
INCOME		Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Total
(project inflation rate per mth		0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	10.00%
Interest on loans		262	307	361	423	497	583	685	804	944	1,109	1,302	1,529	8,808
Interest from investments		21	25	29	34	40	47	55	65	76	89	104	123	706
Earning on fixed assets		0	0	0	0	0	0	0	0	0	0	0	0	0
Interest penalties		1.64	1.93	2.26	2.65	3.11	3.66	4.29	5.04	5.92	6.95	8.16	9.58	55
Loan processing fees		13	15	18	21	25	29	34	40	47	56	65	77	442
External support														0
Total Income		298	349	410	481	565	663	779	914	1,073	1,260	1,480	1,738	10,011
OPERATING EXPENSE:														
Manager Salary		350	353	356	359	362	365	368	371	374	377	380	383	4,398
Bookkeeper/teller		0	0	0	0	0	0	0	0	0	0	0	0	0
Teller		0	0	0	0	0	0	0	0	0	0	0	0	0
Benefits	50.00%	175	176	178	179	181	182	184	185	187	189	190	192	2,199
Office rent		250	252	254	256	258	261	263	265	267	269	272	274	3,141
Electric		10	10	10	10	10	10	11	11	11	11	11	11	126
Water		35	35	36	36	36	36	37	37	37	38	38	38	440
Heat		35	35	36	36	36	36	37	37	37	38	38	38	440
Office supplies		5	5	5	5	5	5	5	5	5	5	5	5	63
Phone		10	10	10	10	10	10	11	11	11	11	11	11	126
Staff travel		10	10	10	10	10	10	11	11	11	11	11	11	126
Board/committee Travel		50	50	51	51	52	52	53	53	53	54	54	55	628
Monthly Meetings		30	30	31	31	31	31	32	32	32	32	33	33	377
Training		0	0	0	0	0	0	0	0	0	0	0	0	0
Member Insurance			0	0	0	0	0	0	0	0	0	0	0	0
SCA Insurance			0	0	0	0	0	0	0	0	0	0	0	0
Audit		20	20	20	21	21	21	21	21	21	22	22	22	251
Annual meeting		0	0	0	0	0	0	0	0	0	0	0	0	0
Marketing		10	10	10	10	10	10	11	11	11	11	11	11	126
Misc expense		10	10	10	10	10	10	11	11	11	11	11	11	126
OPERATIONAL EXPENSES		1,000	1,008	1,017	1,025	1,034	1,042	1,051	1,060	1,069	1,078	1,087	1,096	12,566
Interest paid for deposits		150	177	208	245	288	340	400	471	555	653	769	906	5,162
Interest paid on shares		0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on borrowed funds		0	0	0	0	0	0	0	0	0	0	0	0	0
Loan loss charge off		33	39	45	53	62	73	86	101	118	139	163	192	1,104
SUBTOTAL COST OF FUNDS		183	215	253	298	351	413	486	572	673	792	932	1,098	6,266
GRAND TOTAL COSTS		1,183	1,223	1,270	1,323	1,384	1,455	1,537	1,632	1,742	1,870	2,019	2,193	18,831
TOTAL INCOME		298	349	410	481	565	663	779	914	1,073	1,260	1,480	1,738	10,011
NET INCOME (LOSS)		(885)	(874)	(860)	(842)	(820)	(792)	(758)	(717)	(668)	(609)	(539)	(455)	(8,820)
Tot div'nds, if yr end rsv is +	12.00%	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer to Reserves		(885)	(874)	(860)	(842)	(820)	(792)	(758)	(717)	(668)	(609)	(539)	(455)	(8,820)
Total Reserves		(885)	(1,759)	(2,619)	(3,461)	(4,281)	(5,073)	(5,831)	(6,549)	(7,217)	(7,826)	(8,365)	(8,820)	(8,820)

A	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
118	C. PROFORMA BALANCE SHEET - YEAR 1														
119	ASSETS - INPUT ASSET MIX		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
120	Cash onhand/in bank	7 15.00%	2625	3081	3616	4245	4983	5850	6868	8063	9468	11118	13056	15333	15333
121	Loans outstanding	75.00%	13125	15404	18081	21223	24914	29248	34338	40317	47340	55589	65279	76664	76664
122	Investments	10 8.00%	1400	1643	1929	2264	2657	3120	3663	4300	5050	5929	6963	8177	8177
123	Fixed assets	2 2.00%	350	411	482	566	664	780	916	1075	1262	1482	1741	2044	2044
124	Other assets	0.00%	0	0	0	0	0	0	0	0	0	0	0	0	0
125	TOTAL ASSETS	100.00%	17500	20539	24107	28298	33218	38997	45784	53756	63120	74118	87039	102218	102218
126															
127	LIABILITIES	percentage													
128	Shares (capital)	14%	2,500	2,875	3,306	3,802	4,373	5,028	5,783	6,650	7,648	8,795	10,114	11,631	11631
129	Deposits	86%	15,000	17,664	20,801	24,495	28,846	33,969	40,002	47,106	55,472	65,324	76,925	90,587	90587
130	External loans	0%	0	0	0	0	0	0	0	0	0	0	0	0	0
131															
132	TOTAL LIABILITIES	100%	17,500	20,539	24,107	28,298	33,218	38,997	45,784	53,756	63,120	74,118	87,039	102,218	102218
133	Total Capital(shares+reserve	9.23%	1,615	2,001	2,446	2,960	3,553	4,236	5,024	5,933	6,979	8,185	9,575	11,176	2,811
134															annual avg.
135	AVERAGE YIELD ON ASSETS		1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	22.43%
136	Yield on loans		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	26.75%
137	Yield on investments		1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	19.58%
138	Yield on fixed assets		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
139															
140															
141															
142	AVERAGE COST OF FUNDS		1.04%	1.05%	1.05%	1.05%	1.06%	1.06%	1.06%	1.06%	1.07%	1.07%	1.07%	1.07%	13.48%
143	Cost of shares		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
144	Cost of deposits		1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	12.68%
145	Cost of external loans		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	26.82%
146															
147	NET MARGIN		0.66%	0.65%	0.65%	0.65%	0.64%	0.64%	0.64%	0.64%	0.63%	0.63%	0.63%	0.63%	8.95%
148															
149															
150	ASSET TO BREAKEVEN			154,391	156,356	158,336	160,333	162,345	164,374	166,419	168,480	170,557	172,650	174,759	164,455
151	Total Assets			20,539	24,107	28,298	33,218	38,997	45,784	53,756	63,120	74,118	87,039	102,218	102,218
152	Shortage (overage)			133,852	132,248	130,038	127,114	123,348	118,590	112,663	105,361	96,439	85,611	72,541	62,236

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A	P	Q	R	S	T	U	V
46	MACEDONIAN SAVINGS AND CREDIT ASSOCIATION						
47	PLANNING MODEL AND BREAKEVEN ANALYSIS						
48	A: INPUT SECTION						
49							
50	INPUT SECTION - YR 2	Input below	1	2	3	4	Annual
51	rates are for qtr		QTR	QTR	QTR	QTR	Average
52	Members at start of year	233					
53	Increase of new members	10.00%	23	26	28	31	46.41%
54	Total members each qtr		256	281	310	341	297
55	Value of share	50					
56	Increase in # shares	10.00%	256	281	310	341	297
57	Starting deposit	389					
58	Mem. deposit increase qtr	25.00%	487	608	761	951	876
59	Loan loss allowance Rate	0.75%					
60	Annual project inflation rate	10.00%					
61	External loans	0.00%		Equivalent Rates on Annual Basis for Key Assumptions			
62	Standard reserves	0.00%		Interest Paid on Deposits		12.68%	annual
63	Qtrly Int. rate earned loans	6.12%		Interest Earned on Loans		26.82%	annual
64	Interest penalties received	5.00%		Earnings on Invesments		19.56%	annual
65	Qtrly rate earned on invest.	4.57%		Loan Loss Allowance		3.04%	annual
66	Loan processing fee	0.10%					
67	Earning on fixed assets	0.00%					
68	Qtrly rate paid on shares	0.00%					
69	Qtrly rate paid on deposit	3.03%					
70	Qtrly cost of borrowing	6.12%					
71							

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A	P	Q	R	S	T	U	V
72	MACEDONIAN SAVINGS AND CREDIT ASSOCIATION						
73	B. MODEL SBA INCOME AND EXPENSE STATEMENT - SECOND YEAR BY QUARTER						
74			1	2	3	4	
75	INCOME		QTR	QTR	QTR	QTR	Total
76	(Project inflation per QTR)		0.025	0.025	0.025	0.025	0.100
77	Interest on loans		6,258	8,444	11,435	15,528	41,665
78	Interest from investments		502	677	917	1,245	3,342
79	Earning on fixed assets		0	0	0	0	0
80	interest penalties		38.73	52.26	70.76	96.10	258
81	Fees		103	139	188	256	686
82	External support						0
83	Total Income		6,902	9,313	12,611	17,126	45,951
84							
85	OPERATING EXPENSE:						
86	Manager Salary		1,179	1,209	1,239	1,270	4,896
87	Bookkeeper/teller		1,140	1,169	1,198	1,228	4,734
88	Teller		0	0	0	0	0
89	Benefits		590	604	619	635	2,448
90	Office rent		842	863	885	907	3,497
91	Electric		34	35	35	36	140
92	Water		118	121	124	127	490
93	Heat		118	121	124	127	490
94	Office supplies		17	17	18	18	70
95	Phone		34	35	35	36	140
96	Staff travel		34	35	35	36	140
97	Board/committee Travel		168	173	177	181	699
98	Meetings		101	104	106	109	420
99	Training		0	0	0	0	0
100	Member Insurance		0	0	0	0	0
101	SCA Insurance		0	0	0	0	0
102	Audit		67	69	71	73	280
103	Annual meeting		0	0	0	0	0
104	Marketing		34	35	35	36	140
105	Misc expense		34	35	35	36	140
106	**OPERATIONAL EXPENSES**		**4,509**	**4,622**	**4,737**	**4,856**	**18,723**
107	Interest paid for deposits		3,774	5,190	7,136	9,811	25,911
108	Interest paid on shares		0	0	0	0	0
109	Interest on borrowed funds		0	0	0	0	0
110	Loan loss charge off		775	1,045	1,415	1,922	5,157
111	SUBTOTAL		4,549	6,235	8,551	11,733	31,068
112	**GRAND TOTAL EXPENSES**		**9,058**	**10,856**	**13,288**	**16,589**	**49,791**
113	**TOTAL INCOME**		**6,902**	**9,313**	**12,611**	**17,126**	**45,951**
114	**NET INCOME (LOSS)**		**(2,156)**	**(1,544)**	**(677)**	**537**	**(3,841)**
115	Tot div'nds, if yr end rsv is +	12.00%	0	0	0	0	0
116	Transfer to Reserves		(2,156)	(1,544)	(677)	537	(3,841)
117	Total Reserves		(10,976)	(12,519)	(13,197)	(12,660)	(12,660)

A	P	Q	R	S	T	U	V
118	C. PROFORMA BALANCE SHEET - YEAR 2			MACEDONIAN SAVINGS		AND CREDIT	ASSOCIAT'N
119	ASSETS - INPUT ASSET MIX		QTR 1	QTR 2	QTR 3	QTR 4	Total
120	Cash onhand/in bank	15.00%	20,603	27,801	37,646	51,124	51,124
121	Loans outstanding	75.00%	103,014	139,005	188,229	255,622	255,622
122	Investments	8.00%	10,988	14,827	20,078	27,266	27,266
123	Fixed assets	2.00%	2,747	3,707	5,019	6,817	6,817
124	Other assets	0.00%	0	0	0	0	0
125	TOTAL ASSETS	100.00%	137,352	185,340	250,972	340,830	340,830
126							
127	LIABILITIES	percentage					
128	Shares (capital)		12,794	14,073	15,481	17,029	17,029
129	Deposits		124,557	171,266	235,491	323,801	323,801
130	External loans		0	0	0	0	0
131							
132	TOTAL LIABILITIES	0.00%	137,352	185,340	250,972	340,830	340,830
133	Total Capital(shares+reserve	7.75%	10,638	12,530	14,803	17,566	13,188
134							annual avg.
135	**YIELD ON ASSETS**		**5.02%**	**5.02%**	**5.02%**	**5.02%**	**21.67%**
136	Yield on loans		6.07%	6.07%	6.07%	6.07%	**26.60%**
137	Yield on investments		4.57%	4.57%	4.57%	4.57%	**19.56%**
138	Yield on fixed assets		0.00%	0.00%	0.00%	0.00%	**0.00%**
139							
140							
141							
142	**COST OF FUNDS**		**3.31%**	**3.36%**	**3.41%**	**3.44%**	**14.23%**
143	Cost of shares & Std reserve		0.00%	0.00%	0.00%	0.00%	**0.00%**
144	Cost of deposits		3.03%	3.03%	3.03%	3.03%	**12.68%**
145	Cost of external loans		6.12%	6.12%	6.12%	6.12%	**26.82%**
146							
147	**NET MARGIN (gross yield on**		**1.71%**	**1.66%**	**1.62%**	**1.58%**	**7.44%**
148	assets - gross cost of funds)						
149							
150	ASSETS TO BREAKEVEN		263,226	278,281	292,851	306,911	251,722
151	Total assets		137,352	185,340	250,972	340,830	340,830
152	Shortage (overage)		125,874	92,941	41,879	(33,919)	(89,108)

	A	W	X	Y	Z	AA	AB	AC	AD	AE
46		MACEDONIAN SAVINGS AND CREDIT		ASSOCIATION		MACEDONIAN SAVINGS AND CREDIT		ASSOCIATION		
47		PLANNING MODEL AND BREAKEVEN		ANALYSIS		PLANNING MODEL AND BREAKEVEN		ANALYSIS		
48		A: INPUT SECTION				A: INPUT SECTION				
49										
50		INPUT SECTION - YR 3	Input below			INPUT SECTION - YR 4	Input below			
51		rates are annual		Annual				Annual		
52		Members at start of year	341			Members at start of year	443			
53		Increase of new members	30.00%	102		Increase of new members	30.00%	133		
54		Total members		443		Total members		576		
55		Value of share	50			Value of share	50			
56		Increase in # shares	30.00%	443		Increase in # shares	30.00%	576		
57		Starting deposit	951			Starting deposit	1,046			
58		Member deposit increase	10.00%	1046		Member deposit increase	10.00%	1150		
59		Loan loss allowance Rate	3.00%			Loan loss allowance Rate	3.00%			
60		Annual project inflation rate	10.00%			Annual project inflation rate	10.00%			
61		External loans	0.00%			External loans	0.00%			
62		Standard reserves	1.00%			Standard reserves	1.00%			
63		Annual Int. rate on loans	26.82%			Annual Int. rate on loans	26.82%			
64		Interest penities received	5.00%			Interest penities received	5.00%			
65		Annual rate earned on invest.	19.56%			Annual rate earned on invest.	19.56%			
66		Loan processing fee	0.10%			Loan processing fee	0.10%			
67		Earning on fixed assets	0.00%			Earning on fixed assets	0.00%			
68		Annual rate paid on shares	0.00%			Annual rate paid on shares	0.00%			
69		Annual rate paid on deposit	12.68%			Annual rate paid on deposit	12.68%			
70		Annual cost of borrowing	26.82%			Annual cost of borrowing	26.82%			
71										

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A	W	X	Y	Z	AA	AB	AC	AD	AE
72									
73	B. MODEL SCA INCOME AND EXPENSE STATEMENT - THIRD YEAR				B. MODEL SCA INCOME AND EXPENSE STATEMENT - FOURTH YEAR				
74									
75	INCOME		Annual		INCOME		Annual		
76	Rate of Inflation		10%		Rate of Inflation		10%		
77	Interest on loans		94,679		Interest on loans		134,830		
78	Interest from investments		7,593		Interest from investments		10,813		
79	Earning on fixed assets		0		Earning on fixed assets		0		
80	interest penities		546		interest penities		777		
81	Fees		364		Fees		518		
82	External support				External support				
83	Total Income		103,182		Total Income		146,938		
84									
85	OPERATING EXPENSE:				OPERATING EXPENSE:				
86	Manager Salary*		5,386		Manager Salary*		5,925		
87	Bookkeeper/teller		5,207		Bookkeeper		5,728		
88	Teller		0		Teller		0		
89	Benefits		2,693		Benefits		2,962		
90	Office rent		3,847		Office rent		4,232		
91	Electric		154		Electric		169		
92	Water		539		Water		592		
93	Heat		539		Heat		592		
94	Office supplies		77		Office supplies		85		
95	Phone		154		Phone		169		
96	Staff travel		154		Staff travel		169		
97	Board/committee Travel		769		Board/committee Travel		846		
98	Meetings		462		Meetings		508		
99	Training		0		Training		0		
100	Member Insurance		0		Member Insurance		0		
101	SCA Insurance		0		SCA Insurance		0		
102	Audit		308		Audit		339		
103	Annual meeting		0		Annual meeting		0		
104	Marketing		154		Marketing		169		
105	Misc expense		154		Misc expense		169		
106	OPERATIONAL EXPENSES		20,596		OPERATIONAL EXPENSES		22,655		
107	Interest paid for deposits		58,724		Interest paid for deposits		83,976		
108	Interest paid on shares		0		Interest paid on shares		0		
109	Interest on borrowed funds		0		Interest on borrowed funds		0		
110	Loan loss charge off		10,916		Loan loss charge off		15,546		
111	SUBTOTAL		69,641		SUBTOTAL		99,522		
112	GRAND TOTAL COSTS		90,237		GRAND TOTAL COSTS		122,177		
113	TOTAL INCOME		103,182		TOTAL INCOME		146,938		
114	NET INCOME (LOSS)		12,945		NET INCOME (LOSS)		24,761		
115	Tot div'nds, if yr end rsv is +	0.00%	0		Tot div'nds, if yr end rsv is +	20.00%	5,756		
116	Transfer to Reserves		12,945		Transfer to Reserves		19,005		
117	Total Reserves		285		Total Reserves		19,290		

	A	W	X	Y	Z	AA	AB	AC	AD	AE
118		C. PROFORMA BALANCE SHEET - YEAR 3				C: PROFORMA BALANCE SHEET - YEAR 4				
119		ASSETS - INPUT ASSET MIX				ASSETS - INPUT ASSET MIX				
120		Cash onhand/in bank	15.00%	72,776		Cash onhand/in bank	15.00%	103,638		
121		Loans outstanding	75.00%	363,879		Loans outstanding	75.00%	518,189		
122		Investments	8.00%	38,814		Investments	8.00%	55,274		
123		Fixed assets	2.00%	9,703		Fixed assets	2.00%	13,818		
124		Other assets	0.00%	0		Other assets	0.00%	0		
125		TOTAL ASSETS	100.00%	485,173		TOTAL ASSETS	100.00%	690,919		
126										
127		LIABILITIES	percentage			LIABILITIES	percentage			
128		Shares (capital)	4.56%	22,138		Shares (capital)	4.17%	28,779		
129		Deposits	95.44%	463,035		Deposits	95.83%	662,140		
130		External loans	0.00%	0		External loans	0.00%	0		
131										
132		TOTAL LIABILITIES	100.00%	485,173		TOTAL LIABILITIES	100.00%	690,919		
133		Total Capital(shares+reserve	7.23%	35,083		Total Capital(shares+reserve	7.75%	53,540		
134										
135		YIELD ON ASSETS		21.27%		YIELD ON ASSETS		21.27%		
136		Yield on loans		26.02%		Yield on loans		26.02%		
137		Yield on investments		19.56%		Yield on investments		19.56%		
138		Yield on fixed assets		0.00%		Yield on fixed assets		0.00%		
139										
140										
141										
142		COST OF FUNDS		14.35%		COST OF FUNDS		14.40%		
143		Cost of shares & Std reserve		0.00%		Cost of shares & Std reserve		0.00%		
144		Cost of deposits		12.68%		Cost of deposits		12.68%		
145		Cost of external loans		26.82%		Cost of external loans		26.82%		
146										
147		NET MARGIN (gross yield on		6.91%		NET MARGIN (gross yield on		6.86%		
148		assets - gross cost of funds -	Std reserve transfer)			assets - gross cost of funds -	Std reserve transfer)			
149										
150		ASSETS TO BREAKEVEN		297,918		ASSETS TO BREAKEVEN		330,117		
151		Total assets		485,173		Total assets		690,919		
152		Shortage (overage)		(187,255)		Shortage (overage)		(360,802)		

	A	A	B	C	D	E	F	G	H
1									
2		**Guide for Printing out the Base Run Model Savings and Credit Association**							
3		PRINT RANGES ARE:							
4									
5			Year 1						
6			Page 1	A46..O71					
7			Page 2	A72..O117					
8			Page3	A118..O152					
9									
10			Year 2						
11			page 1	P46..V71					
12			page 2	P72..V117					
13			page 3	P118..V152					
14									
15			Year 3 and	4					
16			page 1	W46..AE71					
17			page 2	W72..AE117					
18			page 3	W118..AE152					
19									

ANNEX 3: SENSITIVITY ANALYSIS ON KEY ASSUMPTIONS IN FINANCIAL MODEL

Base Run

The base run presented in Annex 2 uses a series of assumptions that the Assessment Team feels are the most reasonable. These include the following:

- 2% monthly interest rate earned on loans (26.82% annual)
- 1% monthly interest rate paid on deposits (12.68% annual)
- 1.5% monthly interest rate earned on investments (19.56% annual)
- 0.25% monthly default rate (3.04% annual)
- 75% of total assets are loaned out (with 15% of assets in cash).

Under the base run, the break even level of assets is calculated as 306,911 DM.

If we modify any of the key assumptions, the break even level of assets changes. The Assessment Team modified each of the key assumptions in the model, while holding the others constant, to see how much influence each has on the break even level of assets. The results are summarized below and presented in six tables on the accompanying spreadsheet printout.

Modifying the Interest Rate Earned on Loans -- From the Base Rate of 2% Monthly

If the interest rate is raised to 2.2% monthly (29.84% annually), the break even level of assets falls to 237,129 DM. This step could be considered if it seems that an SCC will be unable to reach a higher level of assets.

If the interest rate is dropped to 1.8% monthly (23.87% annually), the break even level of assets increases to 434,179 DM. Dropping the interest rate to this level (23.87% annually, or rounded to 24%) may be appealing to some SCC managers, but such a step is not recommended as it would considerably increase the level of assets needed to break even.

Modifying the Interest Rate Paid on Deposits -- From the Base Rate of 1% Monthly

If the interest rate paid on deposits is raised to 1.2% monthly (15.39% annually), the break even level of assets increases to 485,825 DM, a considerable shift in the wrong direction.

If the interest rate paid on deposits is dropped to 0.8% monthly (10.03% annually), the break even level of assets falls to 224,545 DM -- a considerable drop. This step deserves serious consideration, because it can help SCCs break even more quickly, and many villagers interviewed during our survey suggested that a 10% annual return would be sufficient to attract their deposits, if security were guaranteed. However, a rate of 0.8% monthly is harder to explain

and understand than the original proposed rate of 1% (which is appealing when promoted in tandem with a 2% loan rate).

Modifying the Rate Earned on Investments -- From the Base Rate of 1.5% Monthly

Because investments are assumed to be a minor portion of assets, shifts in the rate of return do not have major effects. If the rate of return falls to 1% monthly (12.68% annually), the break even level of assets is 332,787. If the rate of return increases to 2% monthly (26.82% annually), the break even point falls to 284,565.

Modifying the Default Rate -- From the Base Rate of 0.25% Monthly

The default rate has a significant impact on break-even levels, but not nearly as powerful effect as interest rates. If the default rate is only 0.2% monthly (2.43% annually), the necessary level of assets falls to 286,236. If the rate rises to 0.35% monthly (4.28% annually), the necessary level of assets rises to 358,823.

Modifying the Percentage of Assets in Loans -- From the Base Rate of 75%

Under the base model, 75% of assets are assumed to be lent out at any given time and 15% are assumed to be in cash or non-interest-bearing accounts. If an SCA is only able to lend out 65% of its assets and has to keep 25% of its assets in cash, the effects are very negative for profitability and the break-even level of assets rises to 486,669 DM. If an SCA is able to lend out 85% of its assets and keep only 5% in cash, the break even point drops to 228,162 DM; but this may not be a realistic target. This analysis shows how important it is for an SCA to keep at least 75% of its assets out in loans

Modifying Operating Expenses -- From the Base Rate of 12,566 DM in Year One

In the base run model, we estimated operating expenses such as the manager's salary, the rent, the cost of electricity. These expenses equal 12,566 DM in year one, and 18,723 DM in year two. If an SCA is able to cut these expenses by 20%, it will reach the break even level of assets at 245,529 DM. If, on the other hand, expenses run higher by 20%, the break even level of assets becomes 368,293 DM.

Conclusion

SCAs should be careful to maintain appropriate values for each of these key variables, because mistakes will increase the required levels of assets to break-even and make it harder for SCAs to reach profitability. Interest rates on deposits and loans are particularly sensitive values, and need to be set conservatively. The percentage of assets in loans is also a sensitive value, and SCAs should try to keep this percentage at 75% or higher.

Assets Needed to Break Even Under Different Assumptions

If We Hold Other Assumptions Constant but Vary the Interest Rate Earned on Loans:

	Monthly Rate	Equivalent Annual Rate	Assets Needed to Break Even
2.00%	2.00%	26.82%	306,911
	1.50%	19.56%	1,139,473
	1.60%	20.98%	739,720
	1.70%	22.42%	547,327
	1.80%	23.87%	434,179
	1.90%	25.34%	359,678
	2.00%	26.82%	306,911
	2.10%	28.32%	267,578
	2.20%	29.84%	237,129
	2.30%	31.37%	212,860
	2.40%	32.92%	193,061
	2.50%	34.49%	176,603

If We Hold Other Assumptions Constant but Vary the Interest Rate Paid on Deposits:

	Monthly Rate	Equivalent Annual Rate	Assets Needed to Break Even
1.00%	1.00%	12.68%	306,911
	0.50%	6.17%	160,325
	0.60%	7.44%	177,183
	0.70%	8.73%	198,049
	0.80%	10.03%	224,545
	0.90%	11.35%	259,306
	1.00%	12.68%	306,911
	1.10%	14.03%	376,094
	1.20%	15.39%	485,825
	1.30%	16.77%	686,519
	1.40%	18.16%	1,171,377
	1.50%	19.56%	4,006,768

If We Hold Other Assumptions Constant but Modify Operational Expenses:

	% of Expected Expenses	Assests Needed to Break Even
100.00%	100%	306,911
	70%	214,838
	80%	245,529
	90%	276,220
	100%	306,911
	110%	337,602
	120%	368,293
	130%	398,984

Note: Boxed Assumption is the Standard Assumption used in Base Model

If We Hold Other Assumptions Constant but Vary the Interest Rate Earned on Investments:

	Monthly Rate	Equivalent Annual Rate	Assets Needed to Break Even
1.50%	1.50%	19.56%	306,911
	1.00%	12.68%	332,787
	1.10%	14.03%	327,290
	1.20%	15.39%	321,961
	1.30%	16.77%	316,793
	1.40%	18.16%	311,778
	1.50%	19.56%	306,911
	1.60%	20.98%	302,183
	1.70%	22.42%	297,591
	1.80%	23.87%	293,127
	1.90%	25.34%	288,787
	2.00%	26.82%	284,565

If We Hold Other Assumptions Constant but Vary the Loan Loss Allowance Rate (default rate):

	Monthly Rate	Equivalent Annual Rate	Assets Needed to Break Even
0.25%	0.25%	3.04%	306,911
	0.20%	2.43%	286,236
	0.21%	2.55%	290,144
	0.22%	2.67%	294,160
	0.23%	2.80%	298,290
	0.24%	2.92%	302,539
	0.25%	3.04%	306,911
	0.26%	3.17%	311,412
	0.27%	3.29%	316,048
	0.28%	3.41%	320,826
	0.29%	3.54%	325,751
	0.30%	3.66%	330,830
	0.31%	3.78%	336,072
	0.32%	3.91%	341,483
	0.33%	4.03%	347,073
	0.34%	4.16%	352,850
	0.35%	4.28%	358,823

If We Hold Other Assumptions Constant but Modify Percent of Assets in Loans (with residual in cash):

	% of Assets in Loans.	Assests Needed to Break Even
75.00%	75%	306,911
	60%	636,369
	65%	486,669
	70%	370,921
	75%	306,911
	80%	261,741
	85%	228,162

ANNEX 4: FINANCIAL MODEL WITH MONTHLY SUBSIDY OF 1,000 DM

Introduction

The base model presented in Annex 2 adds the cost of funds, operating expenses, and loan losses to derive a grand total of costs for each period. This amount is subtracted from total income for the period to demonstrate a profit or loss.

Based on the most reasonable assumptions, the model SCC incurs losses during its first twenty-one months of operations. In month three, for example, the SCC has 1,270 DM in expenses and only 410 DM in revenues -- a loss of 860 DM. During the first quarter of its second year, the SCC has 9,058 DM in costs and only 6,902 DM in income -- a loss of 2,156 DM. It is only in the final quarter of the second year that the SCC goes into the black with a projected profit of 537 DM. By this time, however, the SCC has incurred total losses of 12,660 DM. Without some sort of outside financial support, such an SCC would not survive its start up phase.

To survive, the model SCC needs financial assistance during the difficult first 21 months of operations, when its costs exceed its income. The Assessment Team recommends that WOCCU provide a subsidy during this period to allow the SCC to cover its costs and survive. Afterwards, the SCC should have enough members and assets to begin to make a profit on its own, at which point the subsidy can be eliminated.

We recommend a subsidy of 1,000 DM per month for the first two years only. This amount will ensure that the SCC can cover its costs during all periods, and not be forced to dip into its share capital or deposits or go into debt to cover operating expenses. The subsidy should end after two years.

To check the effect of this subsidy on the model SCC's cash flow and net income, we inserted 1,000 DM per month into the Income section of the model originally presented in Annex 2, under the label of External Support. The resulting spreadsheet is attached to this Annex 4. A diskette including this spreadsheet will be delivered to the Program Director so he can test alternative levels of subsidy should he choose to. The subsidy level appears in the boxed input/assumption sections.

Results of the Subsidy

The subsidy has a highly beneficial effect on the financial health of the model SCC. Post-subsidy net income is positive in all periods. The resulting net income can be divided between transfers to reserves and payment of a small dividend to shareholders. In the model, a 1% monthly dividend is paid on shares, and the residual net income is transferred to reserves.

Thus, for example, net income is 208 DM in month six, of which 50 are set aside for dividends and 158 are transferred into reserves.

With the subsidy, the model SCC is able to build reserves of 2,455 DM by the end of year one, and 8,816 DM by the end of year two, while at the same time paying a modest dividend on shares.

While the subsidy allows the SCC to cover its costs during the first two years, it does not change the underlying necessity to reach the break-even point in terms of total asset levels. Reaching this point is necessary to become profitable without the subsidy. Under this model, like the basic model, the break-even point is reached after 21 months of operations and the break-even level of assets is 306,911 DM.

A	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
46	MACEDONIAN SAVINGS AND CREDIT ASSOCIATION														
47	PLANNING MODEL AND BREAKEVEN ANALYSIS														
48	A: INPUT SECTION														
49															
50	INPUT SECTION - YR 1	Input below	1	2	3	4	5	6	7	8	9	10	11	12	Annual
51	rates are for month		Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Average
52	Number founding members	50													
53	Increase of new members	15.00%	50	8	9	10	11	13	15	17	20	23	26	30	180.00%
54	Total members each month		50	58	66	76	87	101	116	133	153	176	202	233	121
55	Value of share	50													
56	Increase in number of shares	15.00%	50	58	66	76	87	101	116	133	153	176	202	233	121
57	Starting deposit	300													
58	Member deposit increase	2.40%	300	307	315	322	330	338	346	354	363	371	380	389	343
59	Loan loss allowance Rate	0.25%													
60	Annual project inflation rate	10.00%													
61	External loans	0.00%													
62	Standard reserves	0.00%													
63	Mthly int. rate earned loans	2.00%		Equivalent Rates on Annual Basis for Key Assumptions											
64	Interest penities received	5.00%		Interest Paid on Deposits		12.68%	annual								
65	Mthly rate earned on invest.	1.50%		Interest Earned on Loans		26.82%	annual								
66	Loan processing fee	0.10%		Earnings on Invesments		19.56%	annual								
67	Earning on fixed assets	0.00%		Loan Loss Allowance		3.04%	annual								
68	Monthly rate paid on shares	0.00%													
69	Monthly rate paid on deposit	1.00%													
70	Monthly cost of borrowing	2.00%													
71	MONTHLY SUBSIDY (DM)	1,000													

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	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
72	MACEDONIAN SAVINGS AND CREDIT ASSOCIATION														
73	B. MODEL SCA INCOME AND EXPENSE STATEMENT - FIRST YEAR BY MONTH														
74			1	2	3	4	5	6	7	8	9	10	11	12	total
75	INCOME		Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Total
76	(project inflation rate per mth		0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	10.00%
77	Interest on loans		262	307	361	423	497	583	685	804	944	1,109	1,302	1,529	8,808
78	Interest from investments		21	25	29	34	40	47	55	65	76	89	104	123	706
79	Earning on fixed assets		0	0	0	0	0	0	0	0	0	0	0	0	0
80	Interest penalties		1.64	1.93	2.26	2.65	3.11	3.66	4.29	5.04	5.92	6.95	8.16	9.58	55
81	Loan processing fees		13	15	18	21	25	29	34	40	47	56	65	77	442
82	External support		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
83	Total Income		1,298	1,349	1,410	1,481	1,565	1,663	1,779	1,914	2,073	2,260	2,480	2,738	22,011
84															
85	OPERATING EXPENSE:														
86	Manager Salary		350	353	356	359	362	365	368	371	374	377	380	383	4,398
87	Bookkeeper/teller		0	0	0	0	0	0	0	0	0	0	0	0	0
88	Teller		0	0	0	0	0	0	0	0	0	0	0	0	0
89	Benefits	50.00%	175	176	178	179	181	182	184	185	187	189	190	192	2,199
90	Office rent		250	252	254	256	258	261	263	265	267	269	272	274	3,141
91	Electric		10	10	10	10	10	10	11	11	11	11	11	11	126
92	Water		35	35	36	36	36	36	37	37	37	38	38	38	440
93	Heat		35	35	36	36	36	36	37	37	37	38	38	38	440
94	Office supplies		5	5	5	5	5	5	5	5	5	5	5	5	63
95	Phone		10	10	10	10	10	10	11	11	11	11	11	11	126
96	Staff travel		10	10	10	10	10	10	11	11	11	11	11	11	126
97	Board/committee Travel		50	50	51	51	52	52	53	53	53	54	54	55	628
98	Monthly Meetings		30	30	31	31	31	31	32	32	32	32	33	33	377
99	Training		0	0	0	0	0	0	0	0	0	0	0	0	0
100	Member Insurance			0	0	0	0	0	0	0	0	0	0	0	0
101	SCA Insurance			0	0	0	0	0	0	0	0	0	0	0	0
102	Audit		20	20	20	21	21	21	21	21	21	22	22	22	251
103	Annual meeting		0	0	0	0	0	0	0	0	0	0	0	0	0
104	Marketing		10	10	10	10	10	10	11	11	11	11	11	11	126
105	Misc expense		10	10	10	10	10	10	11	11	11	11	11	11	126
106	OPERATIONAL EXPENSES		1,000	1,008	1,017	1,025	1,034	1,042	1,051	1,060	1,069	1,078	1,087	1,096	12,566
107	Interest paid for deposits		150	177	208	245	288	340	400	471	555	653	769	906	5,162
108	Interest paid on shares		0	0	0	0	0	0	0	0	0	0	0	0	0
109	Interest on borrowed funds		0	0	0	0	0	0	0	0	0	0	0	0	0
110	Loan loss charge off		33	39	45	53	62	73	86	101	118	139	163	192	1,104
111	SUBTOTAL COST OF FUNDS		183	215	253	298	351	413	486	572	673	792	932	1,098	6,266
112	GRAND TOTAL COSTS		1,183	1,223	1,270	1,323	1,384	1,455	1,537	1,632	1,742	1,870	2,019	2,193	18,831
113	TOTAL INCOME		1,298	1,349	1,410	1,481	1,565	1,663	1,779	1,914	2,073	2,260	2,480	2,738	22,011
114	NET INCOME (LOSS)		115	126	140	158	180	208	242	283	332	391	461	545	3,180
115	Tot div'nds, if yr end rsv is +	1.00%	25	29	33	38	44	50	58	67	76	88	101	116	725
116	Transfer to Reserves		90	97	107	120	137	158	184	216	255	303	360	429	2,455
117	Total Reserves		90	187	294	414	551	708	892	1,108	1,363	1,666	2,026	2,455	2,455

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A	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
118	C. PROFORMA BALANCE SHEET - YEAR 1														
119	ASSETS - INPUT ASSET MIX		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
120	Cash onhand/in bank	15.00%	2625	3081	3616	4245	4983	5850	6868	8063	9468	11118	13056	15333	15333
121	Loans outstanding	75.00%	13125	15404	18081	21223	24914	29248	34338	40317	47340	55589	65279	76664	76664
122	Investments	8.00%	1400	1643	1929	2264	2657	3120	3663	4300	5050	5929	6963	8177	8177
123	Fixed assets	2.00%	350	411	482	566	664	780	916	1075	1262	1482	1741	2044	2044
124	Other assets	0.00%	0	0	0	0	0	0	0	0	0	0	0	0	0
125	TOTAL ASSETS	100.00%	17500	20539	24107	28298	33218	38997	45784	53756	63120	74118	87039	102218	102218
126															
127	LIABILITIES	percentage													
128	Shares (capital)	14%	2,500	2,875	3,306	3,802	4,373	5,028	5,783	6,650	7,648	8,795	10,114	11,631	11631
129	Deposits	86%	15,000	17,664	20,801	24,495	28,846	33,969	40,002	47,106	55,472	65,324	76,925	90,587	90587
130	External loans	0%	0	0	0	0	0	0	0	0	0	0	0	0	0
131															
132	TOTAL LIABILITIES	100%	17,500	20,539	24,107	28,298	33,218	38,997	45,784	53,756	63,120	74,118	87,039	102,218	102218
133	Total Capital(shares+reserve	14.80%	2,590	3,062	3,600	4,216	4,923	5,737	6,675	7,758	9,011	10,461	12,140	14,086	14,086
134															annual avg
135	AVERAGE YIELD ON ASSETS		1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	22.43%
136	Yield on loans		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	26.75%
137	Yield on investments		1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	19.56%
138	Yield on fixed assets		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
139															
140															
141															
142	AVERAGE COST OF FUNDS		1.04%	1.05%	1.05%	1.05%	1.06%	1.06%	1.06%	1.06%	1.07%	1.07%	1.07%	1.07%	13.48%
143	Cost of shares		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
144	Cost of deposits		1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	12.68%
145	Cost of external loans		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	26.82%
146															
147	NET MARGIN		0.66%	0.65%	0.65%	0.65%	0.64%	0.64%	0.64%	0.64%	0.63%	0.63%	0.63%	0.63%	8.95%
148															
149															
150	ASSET TO BREAKEVEN			154,391	156,356	158,336	160,333	162,345	164,374	166,419	168,480	170,557	172,650	174,759	164,455
151	Total Assets			20,539	24,107	28,298	33,218	38,997	45,784	53,756	63,120	74,118	87,039	102,218	102,218
152	Shortage (overage)			133,852	132,248	130,038	127,114	123,348	118,590	112,663	105,361	96,439	85,611	72,541	62,236

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A	P	Q	R	S	T	U	V
46	MACEDONIAN SAVINGS AND CREDIT ASSOCIATION						
47	PLANNING MODEL AND BREAKEVEN ANALYSIS						
48	A: INPUT SECTION						
49							
50	INPUT SECTION - YR 2	Input below	1	2	3	4	Annual
51	rates are for qtr		QTR	QTR	QTR	QTR	Average
52	Members at start of year	233					
53	Increase of new members	10.00%	23	26	28	31	46.41%
54	Total members each qtr		256	281	310	341	297
55	Value of share	50					
56	Increase in # shares	10.00%	256	281	310	341	297
57	Starting deposit	389					
58	Mem. deposit increase qtr	25.00%	487	608	761	951	876
59	Loan loss allowance Rate	0.75%					
60	Annual project inflation rate	10.00%					
61	External loans	0.00%		Equivalent Rates on Annual Basis for Key			Assumptions
62	Standard reserves	0.00%		Interest Paid on Deposits		12.68%	annual
63	Qtrly Int. rate earned loans	6.12%		Interest Earned on Loans		26.82%	annual
64	Interest penalties received	5.00%		Earnings on Invesments		19.56%	annual
65	Qtrly rate earned on invest.	4.57%		Loan Loss Allowance		3.04%	annual
66	Loan processing fee	0.10%					
67	Earning on fixed assets	0.00%					
68	Qtrly rate paid on shares	0.00%					
69	Qtrly rate paid on deposit	3.03%					
70	Qtrly cost of borrowing	6.12%					
71	QTRLY SUBSIDY (DM)	3,000					

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A	P	Q	R	S	T	U	V
72	MACEDONIAN SAVINGS AND CREDIT ASSOCIATION						
73	B. MODEL SBA INCOME AND EXPENSE STATEMENT - SECOND YEAR BY QUARTER						
74			1	2	3	4	
75	INCOME		QTR	QTR	QTR	QTR	Total
76	(Project inflation per QTR)		0.025	0.025	0.025	0.025	0.100
77	Interest on loans		6,258	8,444	11,435	15,528	41,665
78	Interest from investments		502	677	917	1,245	3,342
79	Earning on fixed assets		0	0	0	0	0
80	interest penalties		38.73	52.26	70.76	96.10	258
81	Fees		103	139	188	256	686
82	External support		3,000	3,000	3,000	3,000	12,000
83	Total Income		9,902	12,313	15,611	20,126	57,951
84							
85	OPERATING EXPENSE:						
86	Manager Salary		1,179	1,209	1,239	1,270	4,896
87	Bookkeeper/teller		1,140	1,169	1,198	1,228	4,734
88	Teller		0	0	0	0	0
89	Benefits		590	604	619	635	2,448
90	Office rent		842	863	885	907	3,497
91	Electric		34	35	35	36	140
92	Water		118	121	124	127	490
93	Heat		118	121	124	127	490
94	Office supplies		17	17	18	18	70
95	Phone		34	35	35	36	140
96	Staff travel		34	35	35	36	140
97	Board/committee Travel		168	173	177	181	699
98	Meetings		101	104	106	109	420
99	Training		0	0	0	0	0
100	Member Insurance		0	0	0	0	0
101	SCA Insurance		0	0	0	0	0
102	Audit		67	69	71	73	280
103	Annual meeting		0	0	0	0	0
104	Marketing		34	35	35	36	140
105	Misc expense		34	35	35	36	140
106	**OPERATIONAL EXPENSES**		**4,509**	**4,622**	**4,737**	**4,856**	**18,723**
107	Interest paid for deposits		3,774	5,190	7,136	9,811	25,911
108	Interest paid on shares		0	0	0	0	0
109	Interest on borrowed funds		0	0	0	0	0
110	Loan loss charge off		775	1,045	1,415	1,922	5,157
111	SUBTOTAL		4,549	6,235	8,551	11,733	31,068
112	**GRAND TOTAL EXPENSES**		**9,058**	**10,856**	**13,288**	**16,589**	**49,791**
113	**TOTAL INCOME**		**9,902**	**12,313**	**15,611**	**20,126**	**57,951**
114	**NET INCOME (LOSS)**		**844**	**1,456**	**2,323**	**3,537**	**8,159**
115	Tot div'nds, if yr end rsv is +	3.03%	388	426	469	516	1,799
116	Transfer to Reserves		456	1,030	1,853	3,021	6,360
117	Total Reserves		2,911	3,941	5,795	8,816	8,816

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A	P	Q	R	S	T	U	V
118	C. PROFORMA BALANCE SHEET - YEAR 2			MACEDONI	AN SAVINGS	AND CREDIT	ASSOCIAT'N
119	ASSETS - INPUT ASSET MIX		QTR 1	QTR 2	QTR 3	QTR 4	Total
120	Cash onhand/in bank	15.00%	20,603	27,801	37,646	51,124	51,124
121	Loans outstanding	75.00%	103,014	139,005	188,229	255,622	255,622
122	Investments	8.00%	10,988	14,827	20,078	27,266	27,266
123	Fixed assets	2.00%	2,747	3,707	5,019	6,817	6,817
124	Other assets	0.00%	0	0	0	0	0
125	TOTAL ASSETS	100.00%	137,352	185,340	250,972	340,830	340,830
126							
127	LIABILITIES	percentage					
128	Shares (capital)	9.31%	12,794	14,073	15,481	17,029	17,029
129	Deposits	90.69%	124,557	171,266	235,491	323,801	323,801
130	External loans	0.00%	0	0	0	0	0
131							
132	TOTAL LIABILITIES	100.00%	137,352	185,340	250,972	340,830	340,830
133	Total Capital(shares+reserve	11.43%	15,705	18,015	21,276	25,844	25,844
134							annual avg.
135	**YIELD ON ASSETS**		**5.02%**	**5.02%**	**5.02%**	**5.02%**	**21.67%**
136	Yield on loans		6.07%	6.07%	6.07%	6.07%	**26.60%**
137	Yield on investments		4.57%	4.57%	4.57%	4.57%	**19.56%**
138	Yield on fixed assets		0.00%	0.00%	0.00%	0.00%	**0.00%**
139							
140							
141							
142	**COST OF FUNDS**		**3.31%**	**3.36%**	**3.41%**	**3.44%**	**14.23%**
143	Cost of shares & Std reserve		0.00%	0.00%	0.00%	0.00%	**0.00%**
144	Cost of deposits		3.03%	3.03%	3.03%	3.03%	**12.68%**
145	Cost of external loans		6.12%	6.12%	6.12%	6.12%	**26.82%**
146							
147	**NET MARGIN (gross yield on**		**1.71%**	**1.66%**	**1.62%**	**1.58%**	**7.44%**
148	assets - gross cost of funds)						
149							
150	**ASSETS TO BREAKEVEN**		**263,226**	**278,281**	**292,851**	**306,911**	**251,722**
151	Total assets		137,352	185,340	250,972	340,830	340,830
152	Shortage (overage)		125,874	92,941	41,879	(33,919)	(89,108)

A	W	X	Y	Z	AA	AB	AC	AD	AE
46	MACEDONIAN SAVINGS AND CREDIT		ASSOCIATION		MACEDONIAN SAVINGS AND CREDIT		ASSOCIATION		
47	PLANNING MODEL AND BREAKEVEN		ANALYSIS		PLANNING MODEL AND BREAKEVEN		ANALYSIS		
48	A: INPUT SECTION				A: INPUT SECTION				
49									
50	INPUT SECTION - YR 3	Input below			INPUT SECTION - YR 4	Input below			
51	rates are annual		Annual				Annual		
52	Members at start of year	341			Members at start of year	443			
53	Increase of new members	30.00%	102		Increase of new members	30.00%	133		
54	Total members		443		Total members		576		
55	Value of share	50			Value of share	50			
56	Increase in # shares	30.00%	443		Increase in # shares	30.00%	576		
57	Starting deposit	951			Starting deposit	1,046			
58	Member deposit increase	10.00%	1046		Member deposit increase	10.00%	1150		
59	Loan loss allowance Rate	3.00%			Loan loss allowance Rate	3.00%			
60	Annual project inflation rate	10.00%			Annual project inflation rate	10.00%			
61	External loans	0.00%			External loans	0.00%			
62	Standard reserves	1.00%			Standard reserves	1.00%			
63	Annual Int. rate on loans	26.82%			Annual Int. rate on loans	26.82%			
64	Interest penities received	5.00%			Interest penities received	5.00%			
65	Annual rate earned on invest.	19.56%			Annual rate earned on invest.	19.56%			
66	Loan processing fee	0.10%			Loan processing fee	0.10%			
67	Earning on fixed assets	0.00%			Earning on fixed assets	0.00%			
68	Annual rate paid on shares	0.00%			Annual rate paid on shares	0.00%			
69	Annual rate paid on deposit	12.68%			Annual rate paid on deposit	12.68%			
70	Annual cost of borrowing	26.82%			Annual cost of borrowing	26.82%			
71	ANNUAL SUBSIDY (DM)	0			ANNUAL SUBSIDY (DM)	0			

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A	W	X	Y	Z	AA	AB	AC	AD	AE
72									
73	B. MODEL SCA INCOME AND EXPENSE STATEMENT			- THIRD YEAR	B. MODEL SCA INCOME AND EXPENSE STATEMENT			- FOURTH YEAR	
74									
75	INCOME		Annual		INCOME		Annual		
76	Rate of Inflation		10%		Rate of Inflation		10%		
77	Interest on loans		94,679		Interest on loans		134,830		
78	Interest from investments		7,593		Interest from investments		10,813		
79	Earning on fixed assets		0		Earning on fixed assets		0		
80	interest penities		546		interest penities		777		
81	Fees		364		Fees		518		
82	External support				External support				
83	Total Income		103,182		Total Income		146,938		
84									
85	OPERATING EXPENSE:				OPERATING EXPENSE:				
86	Manager Salary*		5,386		Manager Salary*		5,925		
87	Bookkeeper/teller		5,207		Bookkeeper		5,728		
88	Teller		0		Teller		0		
89	Benefits		2,693		Benefits		2,962		
90	Office rent		3,847		Office rent		4,232		
91	Electric		154		Electric		169		
92	Water		539		Water		592		
93	Heat		539		Heat		592		
94	Office supplies		77		Office supplies		85		
95	Phone		154		Phone		169		
96	Staff travel		154		Staff travel		169		
97	Board/committee Travel		769		Board/committee Travel		846		
98	Meetings		462		Meetings		508		
99	Training		0		Training		0		
100	Member Insurance		0		Member Insurance		0		
101	SCA Insurance		0		SCA Insurance		0		
102	Audit		308		Audit		339		
103	Annual meeting		0		Annual meeting		0		
104	Marketing		154		Marketing		169		
105	Misc expense		154		Misc expense		169		
106	OPERATIONAL EXPENSES		20,596		OPERATIONAL EXPENSES		22,655		
107	Interest paid for deposits		58,724		Interest paid for deposits		83,976		
108	Interest paid on shares		0		Interest paid on shares		0		
109	Interest on borrowed funds		0		Interest on borrowed funds		0		
110	Loan loss charge off		10,916		Loan loss charge off		15,546		
111	SUBTOTAL		69,641		SUBTOTAL		99,522		
112	GRAND TOTAL COSTS		90,237		GRAND TOTAL COSTS		122,177		
113	TOTAL INCOME		103,182		TOTAL INCOME		146,938		
114	NET INCOME (LOSS)		12,945		NET INCOME (LOSS)		24,761		
115	Tot div'nds, if yr end rsv is +	12.68%	2,807		Tot div'nds, if yr end rsv is +	12.68%	3,649		
116	Transfer to Reserves		10,138		Transfer to Reserves		21,112		
117	Total Reserves		18,954		Total Reserves		40,066		

A	W	X	Y	Z	AA	AB	AC	AD	AE
118	C. PROFORMA BALANCE SHEET - YEAR 3				C: PROFORMA BALANCE SHEET - YEAR 4				
119	ASSETS - INPUT ASSET MIX				ASSETS - INPUT ASSET MIX				
120	Cash onhand/in bank	15.00%	72,776		Cash onhand/in bank	15.00%	103,638		
121	Loans outstanding	75.00%	363,879		Loans outstanding	75.00%	518,189		
122	Investments	8.00%	38,814		Investments	8.00%	55,274		
123	Fixed assets	2.00%	9,703		Fixed assets	2.00%	13,818		
124	Other assets	0.00%	0		Other assets	0.00%	0		
125	TOTAL ASSETS	100.00%	485,173		TOTAL ASSETS	100.00%	690,919		
126									
127	LIABILITIES	percentage			LIABILITIES	percentage			
128	Shares (capital)	4.56%	22,138		Shares (capital)	4.17%	28,779		
129	Deposits	95.44%	463,035		Deposits	95.83%	662,140		
130	External loans	0.00%	0		External loans	0.00%	0		
131									
132	TOTAL LIABILITIES	100.00%	485,173		TOTAL LIABILITIES	100.00%	690,919		
133	Total Capital(shares+reserve	8.47%	41,091		Total Capital(shares+reserve	9.96%	68,845		
134									
135	YIELD ON ASSETS		21.27%		YIELD ON ASSETS		21.27%		
136	Yield on loans		26.02%		Yield on loans		26.02%		
137	Yield on investments		19.56%		Yield on investments		19.56%		
138	Yield on fixed assets		0.00%		Yield on fixed assets		0.00%		
139									
140									
141									
142	COST OF FUNDS		14.35%		COST OF FUNDS		14.40%		
143	Cost of shares & Std reserve		0.00%		Cost of shares & Std reserve		0.00%		
144	Cost of deposits		12.68%		Cost of deposits		12.68%		
145	Cost of external loans		26.82%		Cost of external loans		26.82%		
146									
147	NET MARGIN (gross yield on		6.91%		NET MARGIN (gross yield on		6.86%		
148	assets - gross cost of funds - Std reserve transfer)				assets - gross cost of funds - Std reserve transfer)				
149									
150	ASSETS TO BREAKEVEN		297,918		ASSETS TO BREAKEVEN		330,117		
151	Total assets		485,173		Total assets		690,919		
152	Shortage (overage)		(187,255)		Shortage (overage)		(360,802)		

	A	B	C	D	E	F	G	H
1								
2	**Guide for Printing the Subsidized Start-Up Model Savings and Credit Association**							
3	PRINT RANGES ARE:							
4								
5		Year 1						
6		Page 1	A46..O71					
7		Page 2	A72..O117					
8		Page3	A118..O152					
9								
10		Year 2						
11		page 1	P46..V71					
12		page 2	P72..V117					
13		page 3	P118..V152					
14								
15		Year 3 and 4						
16		page 1	W46..AE71					
17		page 2	W72..AE117					
18		page 3	W118..AE152					
19								

ANNEX 5: SAMPLE PROPOSED AMENDMENT

FOR INFORMAL DISCUSSION PURPOSES ONLY:

USER-OWNED SAVINGS AND CREDIT ASSOCIATIONS

Article 1

User-owned savings and credit associations according to this act are cooperative financial organizations owned and operated by and for their members, according to democratic principles, for the purpose of encouraging savings, using pooled funds to make loans to members, and providing related financial services to enable members to improve their economic and social conditions. Members must share a common bond such as community membership, workplace, or other.

User-owned savings and credit associations shall only lend to members and only accept deposits from members.

Membership is established through a minimum share purchase, the amount of which is defined in the statute.

Article 2

User-owned savings and credit associations are financial organizations with the title of legal person.

Article 3

User-owned savings and credit associations acquire the title of legal person with registration in the court registry.

Article 4

User-owned savings and credit associations carry out their activities within the framework and manners set by the National Bank.

Article 5

The provisions of this Act concerning the savings houses refer also to the user-owned savings and credit associations unless otherwise specified by this Act.

Article 6

Article 87 does not apply to user-owned savings and credit associations. Instead, the founding of a user-owned savings and credit association can be carried out by any 25 or more residents of legal age, each of whom make a minimum share capital investment to be specified in the statute of the association.

Article 7

Article 27 does not apply to user-owned savings and credit cooperatives. Instead, the total loans outstanding to any one member of a user-owned savings and credit cooperative shall be limited to 10% of the cooperative's total liabilities. Loans to officers and employees of the cooperative must be approved by the credit committee and the managing board. The officer or employee applying for a loan cannot be present during the discussions of his or her application.

Article 8

Paragraphs 2-7 of Article 24 do not apply to user-owned savings and credit cooperatives. Instead, the total loans outstanding to any one member of a user-owned savings and credit cooperative shall be limited to 10% of the cooperative's total liabilities.

Article 9

Article 47 does not apply to user-owned savings and credit cooperatives. Instead, all members of the user-owned savings and credit cooperative constitute the general Assembly. The annual meeting of the general Assembly will be held at the time, place, and in the manner indicated in the statute. The statute shall specify the minimum number of members that must be present to conduct the business of any meeting of the members.

At all such meetings a member will have but one vote, irrespective of how many shares owned. No member may vote by proxy.

Article 10

Article 52 does not apply to user-owned savings and credit cooperatives.

Article 11

Paragraph 6 of Article 88 does not apply to user-owned savings and credit cooperatives. Instead, savings deposits in user-owned savings and credit cooperatives shall be guaranteed through deposit insurance or an alternative stabilization mechanism.

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ANNEX 6: SAMPLE PROPOSED AMENDMENT WITH EXPLANATIONS FOR PROPOSED ARTICLES

FOR INFORMAL DISCUSSION PURPOSES ONLY:

USER-OWNED SAVINGS AND CREDIT ASSOCIATIONS

Article 1

User-owned savings and credit associations according to this act are cooperative financial organizations owned and operated by and for their members, according to democratic principles, for the purpose of encouraging savings, using pooled funds to make loans to members, and providing related financial services to enable members to improve their economic and social conditions. Members must share a common bond such as community membership, workplace, or other.

User-owned savings and credit associations shall only lend to members and only accept deposits from members.

Membership is established through a minimum share purchase, the amount of which is defined in the statute.

The purpose of this article is to define the unique characteristics of SCAs which distinguish them from other financial institutions. This is necessary in order to guarantee that the articles in this section only apply to genuine SCAs and not to purely commercial institutions such as savings houses.

Article 2

User-owned savings and credit associations are financial organizations with the title of legal person.

This article copies similar articles that apply to banks and savings houses. It serves to maintain a structure to this sub-section similar to those that precede it, and to affirm the legal status of SCAs.

Article 3

User-owned savings and credit associations acquire the title of legal person with registration in the court registry.

This article also copies similar articles that apply to banks and savings houses. It serves to maintain a structure to this sub-section similar to those that precede it, and to explain the registration process.

Article 4

User-owned savings and credit associations carry out their activities within the framework and manners set by the National Bank.

This article establishes that SCAs are required to follow NBM regulations, something that ensures that SCAs will be subject to NBM guidance and supervision. This is reassuring to the NBM, which does not want uncontrolled institutions, and to WOCCU, which wants SCAs to be professionally supervised.

Article 5

The provisions of this Act concerning the savings houses refer also to the user-owned savings and credit associations unless otherwise specified by this Act.

This article is similar to Article 79 in the Savings Houses sub-section of BASHA which states that the provisions of the Act concerning the banks refer also to the savings houses, unless otherwise specified. Through adoption of this proposed article, the SCA subsection can avoid repetition, be more succinct, and be better integrated into the Act, with SCAs having the same responsibilities as banks and savings houses unless otherwise specified.

Article 6

Article 87 does not apply to user-owned savings and credit associations. Instead, the founding of a user-owned savings and credit association can be carried out by any 25 or more residents of legal age, each of whom make a minimum share capital investment to be specified in the statute of the association.

The purpose of this article is to state that the large founding capital requirements of savings houses do not apply to SCAs. This is necessary, because SCAs are small, community development institutions that cannot raise large amounts of founding capital. SCAs do not need large amounts of founding capital, because they only make low risk loans to their own members in their communities, which facilitates loan collection. In the USA, Australia, and other countries with numerous SCAs the founding capital requirement is typically very small: 5-100 dollars. This article does not specify a minimum amount, instead leaving it to the members of an SCA to determine what is appropriate for them. WOCCU recommends 30-50 DM per member. The article requires a minimum of 25 persons to found an SCA to ensure that they will be formed only by community groups and not single families or cliques of businesspeople.

Article 7

Article 27 does not apply to user-owned savings and credit cooperatives. Instead, the total loans outstanding to any one member of a user-owned savings and credit cooperative shall be limited to 10% of the cooperative's total liabilities. Loans to officers and employees of the cooperative must be approved by the credit committee and the managing board. The officer or employee applying for a loan cannot be present during the discussions of his or her application.

Article 27 states that loans to a bank's own shareholders cannot exceed the guarantee capital. It cannot apply to SCAs because SCAs are designed to lend only to their own members, all of whom are shareholders. If article 27 were applied to SCAs, funds generated from voluntary deposits could not be loaned to members, and volunteer board members would be unfairly denied access to loans. The alternative article presented above would allow SCAs to lend the bulk of their funds to their members, but it would limit the amount of liabilities that could be lent to any single member, to ensure that SCAs are sufficiently diversified in their assets. The alternative article sets out procedures to ensure that loan applications from board members and staff are treated equally with other applications, without special preference or influence.

Article 8

Paragraphs 2-7 of Article 24 do not apply to user-owned savings and credit cooperatives. Instead, the total loans outstanding to any one member of a user-owned savings and credit cooperative shall be limited to 10% of the cooperative's total liabilities.

Article 24 would constrain new SCAs from making reasonably-sized loans. It states that the total amount of "big" loans (larger than 10% of guarantee capital) cannot exceed the total guarantee fund. This could be problematic for new, small SCAs, because it would limit the size of loans to unnecessarily small amounts. The alternative article would meet the same objective as article 24 -- portfolio diversification -- without being debilitatingly restrictive.

Article 9

Article 47 does not apply to user-owned savings and credit cooperatives. Instead, all members of the user-owned savings and credit cooperative constitute the general Assembly. The annual meeting of the general Assembly will be held at the time, place, and in the manner indicated in the statute. The statute shall specify the minimum number of members that must be present to conduct the business of any meeting of the members.

At all such meetings a member will have but one vote, irrespective of how many shares owned. No member may vote by proxy.

Article 47 defines voting rights depending on the amount of funds each shareholder has invested. SCAs, as cooperative institutions, are governed in a different and more democratic function -- one member one vote. All users of

SCAs are members and shareholders. They constitute the general Assembly, which is the base governing body of each SCA. The one member one vote rule of SCAs also helps to distinguish them from other financial institutions.

Article 10

Article 52 does not apply to user-owned savings and credit associations.

Article 52 prohibits net debtors of a bank from being members of the Managing Board or Supervisory Board. This article should not be applied to SCAs, because members of an SCA's Managing Board and Supervisory Board serve on a voluntary basis, elected by the general Assembly from the SCA's overall membership. These volunteers should not be banned from borrowing from their SCA, because such a ban would discourage people from serving on these boards.

Article 11

Paragraph 6 of Article 88 does not apply to user-owned savings and credit associations. Instead, savings deposits in user-owned savings and credit associations shall be guaranteed through deposit insurance or an alternative stabilization mechanism.

Paragraph 6 calls for savings deposits guarantees through insurance and mortgage on the founders' property. This paragraph is not appropriate for SCAs, because their founders are volunteers with community spirit who frequently own little property; they are not the for-profit businesspeople with substantial wealth who typically found banks. There is a need, however, for savings deposits in SCAs to be guaranteed. Therefore, the proposed Article 11 requires SCAs to guarantee their deposits either through deposit insurance, as savings houses do, or through participation in a stabilization mechanism that protects them from collapse. WOCCU is undertaking the creation of such a stabilization mechanism for SCAs in Macedonia.

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ANNEX 7, PART ONE : RESULTS OF FIELD SURVEYS

PHASE I: INITIAL LEADERSHIP/RECONNAISSANCE VISITS

Phase I visits to different possible project pilot sites were conducted with the twin objectives of:

(1) assessing the overall appropriateness of the areas visited as possible project pilot sites in order to target more detailed surveys in Phase II and;

(2) identifying possible "leaders" who could help introduce and promote the idea of community based savings and credit cooperatives at subsequent stages of project development.

Given the limited time available to the Assessment Team and the desirability of selecting pilot project sites that were not too far from Skopje, in order to facilitate subsequent follow-up by Project Staff, priority was given to canvassing areas within an hour's driving time of Skopje. Eight municipalities (*Opstinas*) were selected for visits: Skopje/Gazi Baba, Sveti Nikole, Kocani, Gostivar, Tetovo, Kavadarci, Radovis, and Strumica. Several potentially fruitful areas, with rich agricultural potential such as the regions around Struga, Resen, and Bitola were not visited because of the desire to cover areas closer to Skopje in greater depth. One trip was taken to visit Radovis and Strumica, both sites that are more than an hour away from Skopje in order to sample at least one region that is relatively remote from the capital and which benefits from the favorable southern climate permitting the cultivation of early vegetables.

During these Phase I visits, interviews were arranged through NGOs active in rural areas with key community contacts which included the more wealthy and progressive farmers, village council members, village businessmen and school principals. Efforts were made to situate interviews in larger villages in the eight regions visited since these present the best opportunities for village savings and credit cooperatives seeking to draw on the largest possible potential membership pool. However, because of the limited time available to the team (a maximum of one day and a half in any given area) and the desirability of using available introductions to key community members to gain time, it was not always possible to systematically visit all of the larger villages in any one area.

Appropriateness of Areas Visited for Possible Pilot SCC Activities

Only rural areas were considered, given the project's mandate to serve a rural target population. The team also sought to visit a number of ethnic Macedonian and Albanian areas in order to gain information about the specific issues and concerns of each community with regard to SCCs . Besides this rural focus and the desire to maintain a rough ethnic balance between

Macedonian and Albanian areas, a mixture of criteria were used to rank the different areas visited as candidates for further attention in Phase II surveys. These were:

- **Population**. Areas with a greater concentration of populous villages were favored over areas with smaller villages. Financial analysis of projected SCC profitability indicates that an SCC will break even with about 300 members. To really flourish it should have twice that. Assuming one membership per household and a membership sign-up rate of 50 percent of households in any give area, this would mean that, ideally, an SCC should be able to draw on a target population of around 1,200 households. Population statistics quoted in this report were all obtained from local government offices.

- **Average Income**. Richer areas received priority over poorer areas in the initial Phase I interviews because of their greater potential for generating savings. [1] In the absence of readily available household income statistics, the Team relied on: (1) data obtained in individual interviews about the average size of farm holdings, incomes, and savings; (2) visible evidence such as the number of new houses, churches/mosques and (3) the state of the markets for the major products produced in the various regions visited.

- **Diversity of Economic Base**. Areas where most households engage in very similar economic activity, such as the cultivation of the same crop, present several difficulties for potential SCCs . Primarily, families tend to have very similar financial needs (say the purchase of inputs at the same time) making it more difficult for an SCC to carry out financial intermediation between households with different characteristics. SCCs in areas characterized by a single dominant economic activity are more vulnerable to fluctuations in the market for the major product. Thus, initially, without the existence of a larger federation that could spread risk among different SCCs , it would be unwise to locate pilot sites in regions characterized by a strong concentration of economic activity in one product or market. Data on the diversity of economic activities in the areas visited was obtained through interviews with village leaders and by merely noting the types of businesses or farms located in the areas.

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[1] This is not to say that poorer areas do not have potential for further SCC development. In fact, research has shown that even in the poorest areas of the world, people generate savings and can contribute to locally-financed financial institutions. (*Savings Mobilization and Micro enterprise Finance*, by Marguerite Robinson in The New World of Micro enterprise Finance, Kumarian Press, 1994). But in Macedonia, with the many challenges facing the development of SCCs , it is desirable to initially locate pilot SCC activities in areas with the greatest potential for rapidly building up a critical mass of savings. These opportunities tend to exist in areas where people have higher incomes.

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- **Evidence of Community Cohesiveness**. Some degree of cohesion in pilot communities will be crucial to the success of initial SCC development activities. In some communities, the existence of substantial community investment projects, such as the construction of roads or community-funded Mosques (in the Albanian villages), was taken as an indication of the communities ability to contribute towards a common project.

Summary of Phase I Field Visit Results

A brief profile of the areas visited, with reference to the criteria expressed above, is presented below. Areas selected for further attention in Phase II are described first. Areas not retained for Phase II are described afterwards

Areas Selected As Phase II Survey Sites

Skopje (Gazi Baba Opstina).

The Team visited two ethnic Macedonian villages in the Gazi Baba *Opstina* to the South and East of the City of Skopje--Mirsevci and Petrovec. According to interviews, virtually every household has at least one member engaged in salaried employment in nearby Skopje. The region is both a zone of agricultural production (mainly dairy and wheat) and a far suburb of Skopje. Mirsevci (approximately 20 kilometers from Skopje) is a center for flour milling as the town attracts wheat and barley farmers from as far away as Kumanovo. This area is attractive on a number of accounts. It has a diverse economic base, with a good mix of incomes from salaries and agriculture. It is also relatively densely populated with several villages of 5,000. In addition, because of its proximity to Skopje, villagers tend to be well educated. Mirsevci was not retained as a site for Phase II because of its small population (around 1,000), but Petrovec (2,000) was selected along with Marino (4,000) and Ilinden (4,000). All three villages are within 20 kilometers of Skopje and within 10 to 12 kilometers of each other. Ilinden and Marino show particular promise. They are contiguous villages that have been selected as a site for the development of small private industries. There are already 10 or so small industrial enterprises which each employ around 20 to 30 employees in the area. This sector is also expected to grow in coming years. The Secretary for the Gazi Baba *Opstina*, who lives in Marino, has also expressed a strong interest in the SCC concept.

Rosoman (Kavadarci Opstina)

Following a suggestion by the local NGO, MCIC, the Team visited the village of Rosoman located about one hour south of Skopje in the *Opstina* of Kavadarci. The village has a population of 3,800 ethnic Macedonians. Rosoman is located in a rich agricultural zone where farmers make extensive use of irrigation. The major crops grown include early vegetables and grapes for wine making. The village is also a center for more progressive private farmers--in

contrast to neighboring Gradsko (7 kilometers distant) which depends heavily on state-run industry and *agro-kombinat* farming. The Team interviewed two village representatives to the *Opstina* Council who stressed that Rosoman was better-off economically than other villages in the region. They estimate that the average household in Rosoman has 2,000-4,000 DM hidden in the home. Although a branch office of Stopanska Bank is located in the village, according to one of the village representatives, "not one person" saves their money there and no one obtains credit from the Bank. Its function is simply to facilitate salary transfers. The two representatives interviewed expressed interest in the SCC concept.

Murtino/Monospitovo (Strumica Opstina)

The zone around Strumica contains some of the most fertile land in Macedonia which benefits from both an extensive system of irrigation and a moderate climate which favors the production of early vegetables. With these advantages, the region is one of the leading agricultural areas in Macedonia and contains a relatively dense network of prosperous villages with populations around 2,000 to 3,000. Before the closure of the Serbian market, early vegetables from the region were mainly sold in Belgrade and farmers enjoyed especially high incomes. In addition, because of its strategic location near the Bulgarian and Greek borders, many people in the *Opstina* are engaged in trade related activities. Interviews were conducted with the former village President from the villages of Kuklic, a village located southwest of Strumica with a population 2,516, and the President of the village of Vasilevo, a town of 2,038 north of Strumica. These interviews confirmed the general prosperity of villages located in the irrigated region North and East of Strumica and the possibilities for profitable investments in trade and agriculture existing in the area.. The two villages selected for interviews in Phase II--Monospitovo (population 1,860) and Murtino (population: 2,169)-- are located in this region. Taken with the neighboring village of Bansko (population: 1,640), the three villages contain over 5,600 people within a radius of 5 kilometers.

Forine/Chegrane (Gostivar Opstina)

The contiguous ethnic Albanian villages of Forine and Chegrane are located in the Gostivar *Opstina* in the rich belt of land between Tetovo and Gostivar. With over 12,000 inhabitants in both villages, Forine and Chegrane constitute one of the largest centers of rural population in Macedonia. An interview with the members of the village council of Forine confirmed that, as with other Albanian villages, most households have family members working in Western Europe or North America who regularly send back cash. This source of income has contributed greatly to a boom in the construction of new houses and has also served to finance small business start-ups in the areas of construction materials supply, restaurants and cafes, transportation and agricultural trade. Village leaders indicated that approximately 20 percent of families in the area received most of their income from agriculture--although virtually every household maintains livestock for personal consumption and makes occasional market sales of dairy and meat products. Village leaders in Chegrane expressed somewhat more interest in the concept of an SCC than they did in Forine. Interest was also expressed in associating an SCC

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with a Foreign Exchange Office as a way of attracting members and providing a needed service to villagers (who now have to travel 9 kilometers to Gostivar.

Bogovinje (Tetovo Opstina)

Bogovinje, like Forine and Chegrane to which it bears much resemblance, is located in the Tetovo - Gostivar corridor. It, too, enjoys significant inflows of money from its residents who work in Western Europe who have financed much of the construction seen in the town. Village inhabitants include farmers, traders, salaried workers from Tetovo and retirees who have returned to the village from Western Europe. As in Neraste, the village is organizing to carry out a community project--in this case construction of a large Mosque. The town is also a trading center for the fertile agricultural lands surrounding it and hosts a number of private traders who export local produce to Greece and other nearby countries,

Neraste (Tetovo Opstina)

Neraste, a large village of 4,285 situated to the Northwest of Tetovo about 4 kilometers off the road to Kosovo, presents many of the characteristics common to the other ethnic Albanian villages visited in Phase I. It receives significant inflows of foreign exchange from town residents working in Denmark and other Western European nations (500,000 DM per month, according to the village President). It is well organized as witnessed by the village's ability to organize and gather contributions to improve the road linking it to the major Tetovo - Kosovo artery. It is also located in a fertile agricultural zone and farmers seem to have larger farms than in the other Albanian villages selected. The village President, who expressed strong interest in the idea of a SCC, is a businessman who owns travel agencies in Tetovo and in Denmark who is thoroughly familiar with Western Banking practices and financial concepts.

Areas Visited that were not retained for Phase II

Radovis. The Team briefly visited an area 15 kilometers southwest of Radovis. The zone is a major tobacco producing region. It was not retained since the households interviewed in the village of Dedino indicated that nearly everyone received all their income from the sale of tobacco and that, at present, the state-owned tobacco company was not able to purchase their tobacco. They were also pessimistic on the possibilities of putting credit obtained from an SCC to productive use in the village.

Sveti Nikole. This area was surveyed since it is a major center of agro-processing industries. However, despite the presence of this industrial base in a rural area, the zone does not seem to offer favorable characteristics for the location of pilot SCC activities. The future of the employment base in the agro-processing plants in the town is quite doubtful, since the plants are vestiges of the agro-kombinat system and their future in a liberalized market system is not yet clear. They are already operating well below capacity. In addition, only 20 percent of the land in

the Sveti Nikole *Opstina* is privately held and private farms tend to be quite small. Finally, the Sveti Nikole *Opstina* is one of the least densely populated regions of Macedonia.

Kocani. The team visited two villages in the Kocani *Opstina*. The first, Novoselci, is a small farming village of less than 1,000 inhabitants. The town was not selected for further survey work because of its small size and long distance from other villages. The second village visited was Orizari, a larger settlement of 2,000-3,000 inhabitants, many of whom are involved in rice production. It is also located close to the town of Kocani. The farmers interviewed by the Team in Orizari were entrepreneurial dairy farmers who explained the high return a farmer can get from investment in dairy cows. The village was not selected, however, because other villages appeared to offer more favorable demographic profiles and to be more diverse economically.

Raven. Raven, a moderate-sized village of around 2,000 inhabitants Southwest of Gostivar, was not selected because of its relatively small-size, in contrast to other villages in the Gostivar *Opstina* such as Chegrane and Forine. In addition, on initial contact, the village council expressed mixed opinions about the feasibility of an SCC in the village. Despite these negative factors, however, the village may present opportunities for future SCC development since it is obviously well organized and has access to considerable savings as witnessed by the current construction of a 1.6 million DM mosque financed through voluntary contributions from residents and remittances from organizations of town residents working in foreign countries.

Leadership Identification

With their limited duration, the field visits in Phase I were not designed to identify definite "leaders" of pilot SCC activities. Rather, they were designed to identify whether or not there was any interest in SCCs among prominent people in the villages who could provide a subsequent entree. In this manner, the Team sought to get a feel for the potential receptiveness of villages to the idea of initiating an SCC in their community.

During the visits, a fundamental difference between Macedonian villages and Albanian villages became clear. In the Albanian villages visited, there appears to be a high degree of centralization as all important community decisions are taken by the village council, in which the village President usually plays a key role. To assess the initial receptiveness of leaders to the idea of SCCs in Albanian villages, it was necessary to organize meetings of the village councils in which key village authorities were given the chance to discuss the idea and ask questions. At the conclusion of these meetings a clear signal was usually given to the team about the community's interest in an SCC. Meetings in Forine and Neraste resulted in very favorable expressions of interest. In Raven, the council was relatively uninterested. During Phase II, more meetings will be scheduled with leaders in Bogovinje and Chegrane to assess their receptiveness.

In Macedonian villages, the task of finding leaders and judging receptiveness was much more difficult. Although village councils and Presidents also play important roles in Macedonian villages, they do not seem to exert the same degree of authority that they do in Albanian villages.

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Village political leaders can still play an important role (indeed they helped point the Team to progressive farmers or local business leaders for more in-depth discussions on several occasions) but they do not seem to have the ability to speak for the community as do leaders in Albanian villages. Thus, in Macedonian areas, finding leaders is more difficult since they are not defined or assigned by political authorities. It is also more crucial to the success of SCCs , since the leaders of SCCs in Macedonian villages will have to nurture and develop support for SCCs in the community in a more patient way than is usual in Albanian areas where community support can be decreed *de jure* by the village councils.

PHASE II FIELD SURVEYS

Following the conclusion of Phase I reconnaissance visits, the Team organized a survey effort in the six chosen areas. This section profiles the survey results and concludes by ranking the six sites according to their overall promise as venues for pilot SCC promotion activities.

Methodology

The Phase II survey was designed to gather specific data on household income, savings behavior and credit needs, as well as to provide en entrée for the WOCCU interviewers to have substantive discussions about the need for and feasibility of establishing SCCs in each of the villages. The quantitative data obtained in the survey is presented below and has been useful in ranking the six sites. The more qualitative information obtained in the open-ended questions has provided useful input on potential leaders in each of the six sites and has helped the Team focus on several practical issues that will affect SCC promotional work. The first section below describes the major quantitative results that have clear implications for the ranking of pilot sites. This section of the Annex concludes with a discussion of several of the more general implementation issues that came up during the Phase II surveys. Survey forms are reproduced in Annex 9 in English, Macedonian and Albanian.

A total of 168 Phase II survey interviews were conducted in the six sites. Between 25 and 30 interviews were completed in each location. Interviews were conducted in each village by WOCCU enumerators fluent in Macedonian (for the ethnic Macedonian villages) and in Albanian (for the ethnic Albanian villages). The interviews were conducted over a period of six days, from February 5 through February 10, 1996.

Interviews were directed at household heads or in several cases other senior members of the household who could speak with authority about family financial matters. This usually happened to be the senior male member of the household. Households were selected from lists of households in each community provided by local government authorities. Initially, the Team sought to obtain complete listings of all households in the community and to select interview targets from these lists at random. However, only in Neraste did the local government officials

have at their disposal an exhaustive list of households that they could be convinced to share with the Team. Thus, only in Neraste was the Team able to select an ideal random sample.

Elsewhere, the active assistance of local government leaders had to be enlisted to provide the team with lists with representative numbers of poorer and richer farm households, households that rely on private business activities, and those that rely on salary income. In each case the Team asked local authorities to provide more names in each category than could actually be interviewed, in order to provide for some degree of randomness. In two villages, Marino and Monospitovo, enumerators also interviewed some households whose names were not provided by local leaders by going to local restaurant or cafe and making appointments with people who happened to be there. In cases where enumerators were unable to locate people on their lists, they were instructed to interview neighboring households.

The actual interviews were not always conducted in ideal circumstances. In Neraste, for example, all the interviews were conducted at the village hall in the presence of the village Vice President. For some questions, particularly concerning family income, the presence of the Vice President seemed to actually reassure respondents who generally gave franker responses than they would have had he not been there. For other question, such as those dealing with informal lending between people in the village, his presence obviously discouraged people from responding in an open manner. In Chegrane and Rosoman, local village Presidents also accompanied the enumerators during most of the interviews. Elsewhere, interviews were generally conducted without direct participation from local government authorities.

An added complication to the process in the Albanian villages was that the interviews were scheduled during the month of Ramadan. This made it hard for the enumerators to gain access to peoples houses, since many people were still sleeping throughout the day or did not wish to receive guests. As a consequence, in Chegrane/Forine and Bogovinje, many interviews were conducted in public restaurants or cafes, where respondents were privacy was often less than perfect.

Results

A basic profile of the six survey areas are presented in Table 1. All are located in relatively rich agricultural areas and, as shown by the second line in Table 1, virtually every household maintains a farm. In three of the sites, Bogovinje, Murtino/Monospitovo and Rosoman, agriculture is the primary activity for most households. However, in Chegrane/Forine, Marino/Ilinden/Petrovec and Neraste, agriculture remains a secondary income supplement and many households do not even have one person engaged full time in agricultural work.[2] The three

[2] Note: for purposes of readability, survey sites that include more than one village will be henceforth referred to only by the name of a single village, but should be understood to include the other villages with which they are grouped. Thus "Marino" should be taken to designate the entire Marino/Ilinden/Petrovec

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Albanian villages (Bogovinje, Chegrane and Neraste) also have significant flows of remittances from family members working outside of ex-Yugoslavia. In the Macedonian villages, on the other hand, income from remittances is rare or non-existent.[3]

survey site; "Chegrane" will be used to mean both Chegrane and Forine; and Murtino will be used to represent both itself and Monospitovo. When it is necessary to refer to a particular village, as distinct from its survey partners, this will be noted in the text.

[3] Of the 85 interviews conducted in the three Macedonian sites, only one household in Murtino reported receiving any remittances.

Table 1
Basic Data on the Phase II Survey Sites

	Bogovinje	Chegrane/ Forine	Marino/ Ilinden/ Petrovec	Murtino/ Monospitovo	Neraste	Rosoman	Total
Ethnic Group	Albanian	Albanian	Macedonian	Macedonian	Albanian	Macedonian	
Major Crops	Cereals, Vegetables	Cereals, Vegetables	Winter Wheat, Vegetables	Early Vegetables, Cereals	Cereals, Vegetables	Grapes, Early Vegetables, fruit	
Percentage of Surveyed households who:							
Have at least one full-time agricultural worker	83.3%	25.0%	60.0%	96.0%	40.0%	100.0%	64.0%
Own agricultural land	86.7%	89.3%	83.3%	96.0%	92.0%	100.0%	86.0%
Average farm size (in ha.)	1.2	2.2	2.1	2.1	2.7	1.8	
Have an active account in a Macedonian bank b/	10.0%	3.6%	43.3%	0.0%	40.0%	10.0%	16.9%
Have an active account in a bank outside of ex-Yugoslavia	26.7%	0.0%	0.0%	0.0%	56%	3.3%	12.9%
Percentage of Surveyed households who have at least one member							
Sending remittance payments	36.7%	32.1%	0.0%	4.0%	72.0%	0.0%	21.9%
Receiving salary or pension payments	86.7%	50.0%	93.3%	60.0%	80.0%	70.0%	69.7%

a/ Includes surrounding villages

b/ Households maintaining active accounts in Macedonian banks mainly to receive automatic salary and pension payments. Of the 168 household interviews, 30 respondents kept active accounts in Macedonian banks. Of those 30, only five said that they were a vehicle for savings.

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The survey results for the six sites are analyzed below according to six criteria, which build on those used to target Phase I visits. The criteria used in Phase II include:

- Population;
- Income;
- Savings potential;
- Economic diversity;
- Community cohesiveness; and
- Leadership interest.

Results from the Phase II survey are profiled below for each of these criteria.

Population

Population data for the six sites are presented in Table 2. When classified by population, the sites fall into three groups:

Group 1. Chegrane and Marino are have the largest population concentrations. Each of these sites offers a potential target population for village SCCs of well over 10,000. These sites definitely present the most favorable demographic characteristics. In both areas, a village SCC could still reach a potential membership level of 600 to 700 even if a significant percentage of households elect not to join. Petrovec could even be excluded from the Marino area (since it is not contiguous with Marino and Ilinden) and a pilot SCC could still draw on an area comprising 1,600 households and 8,000 people.

Group 2. Three sites have slightly less favorable population characteristics. These are Bogovinje, Murtino and Rosoman. All three have populations in the 4,000 to 6,000 range. In these areas, it should also be possible to amass an eventual membership of 600 in a village SCC, but this will require that a higher proportion of households in the target area eventually sign-up than among the Group 1 sites. In Murtino, reaching the 600 member level would almost certainly require an eventual grouping of a village SCC with Monospitovo and possibly with the neighboring village of Bansko. Since all are within 2 to 3 kilometers of each other, this should prove to be feasible. Similarly in Rosoman, it may be necessary to expand a village SCC to four surrounding villages within 4 to 5 kilometers. These villages, Manastirec, Sirkovo, Ribarci, and Tristenik contain about 300 households. If included with Rosoman, the extra households in these villages would push the total number of households in the site over the 1,000 mark and the total population of the site to well over 5,000.

Group 3. The only site that does not have at least 800 households is Neraste. In Neraste, reaching the 600 member goal would require more than one membership per household. Although the survey in Neraste did indicate that households had over 10 people on average and typically included more than one nuclear family headed by adult brothers

under the guidance of a family elder, it is not clear how many accounts such households are likely to open.[4]

Table 2
Population

Village	Households	Population
Bogovinje	1,200	6,146
Chegrane	650	5,400
Forine	1,400	800
Total	2,050	13,400
Marino	800	4,000
Ilinden	800	4,000
Petrovec	400	2,000
Total	2,000	10,000
Murtino	474	2,169
Monospitovo	413	1,860
Total	887	4,029
Neraste	500	4,285
Rosoman	800	3,800
Surrounding	285	1,425
villages	1,085	5,225
Total		

Average Income

Households in the six sites were asked to estimate the annual incomes of both poorer and richer households in their villages. These estimations are shown in Table 3, which indicates a

[4]Neraste is typical of the three Albanian areas surveyed in that the "household" is generally a much bigger social and financial unit than in Macedonian villages. Generally the family continues to function as an integrated financial unit under the direction of the father until he dies, whereupon each adult son establishes his own household. Thus it is likely that in some of the larger families, there may be more than one SCC account opened, as brothers begin to amass their own individual (as distinct from family) assets in anticipation of the fission of the household upon the death of the father.

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clear difference in reported income patterns between the Macedonian and Albanian villages. In the two Albanian villages for which we have data (Neraste and Chegrane) the richer households seem to enjoy much larger incomes than in the three Macedonian villages. Even after these figures are adjusted for household size, the disparity in upper limit incomes persists, although it is substantially reduced. Individual interview data indicates that the richer households in these villages benefit primarily from significant inflows of cash in the form of remittances, which is not a significant phenomenon in the Macedonian villages surveyed

Table 3

Annual Income

Village(s)	People per Household	Annual Income (DM)			
		Gross Household Income		Income Per Household Member	
		Poor Households	Rich Households	Poor Households	Rich Households
Bogovinje	7.0	No data	no data	no data	no data
Chegrane/Forine	8.5	2,137	42,826	251	5,038
Marino/ Ilinden/ Petrovec	4.1	2,152	16,219	525	3,956
Murtino/ Monospitovo	5.8	2,645	12,000	456	2,069
Neraste	10.5	1,788	66,960	170	6.377
Rosoman	5.2	2,250	11,466	433	2,205

The situation is reversed, however, for poorer households. Here, there is little difference between Albanian and Macedonian villages on the household level. This means that when the larger size of the Albanian families is taken into account, poorer households in Chegrane and Neraste have substantially lower per capita incomes than the poor households in the three Macedonian survey sites. In general, the poorer households among both ethnic groups tend to be those that do not receive any remittances and rely mainly on fixed salary income or on pension payments.

Given these differences between Macedonian and Albanian villages, it is useful to analyze the income data in Table 3 separately for each group:

Macedonian villages. Incomes in Marino seem to be significantly larger than in Murtino or Rosoman. The average reported income level for rich households in Marino is almost twice those in the other two villages. Incomes for poorer households are also higher.

Albanian villages. The data in Table 3 seem to indicate that income distribution is more unequal in Neraste than in Chegrane. In Neraste, rich households seem to earn more, while poorer ones earn less. In either case, however, given the "rough estimate" nature of the question posed to respondents, it would be a mistake to read too much into this. In all cases, it seems clear that richer households do have significant incomes which could lead to deposits in a village SCC. Although no useable income data were collected in Bogovinje, anecdotal data, such as the apparent construction of a number of houses would seem to indicate that it shares the basic income characteristics of Chegrane.

Savings Potential

The willingness and ability of households to deposit cash at potential SCCs was assessed in two ways. The first was to ask respondents to estimate the level of cash reserves held within the home by most households in the village. The second way was simply to ask them, at the end of the interview, after they had had a chance to discuss the feasibility and organization of a village SCC with the interviewer, how much cash they would be willing to deposit in such an institution. The responses to these two questions are shown below in Table 4 and 5.

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Table 4
Distribution of Household Cash Reserves

Estimated Level of Cash Reserves in Household (DM)	Distribution of Responses					
	Bogovinje	Chegrane/ Forine	Marino/ Ilinden/ Petrovec	Murtino/ Monospitovo	Neraste	Rosoman
0 to 500	3.4%	0.0%	40.7%	8.7%	0.0%	0.0%
500 to 1,000	13.8%	3.6%	33.3%	30.4%	0.0%	10.0%
1,000 to 2,000	10.3%	28.6%	3.7%	13.0%	4.0%	16.7%
2,000 to 5,000	34.5%	53.6%	18.5%	30.4%	20.0%	56.7%
5,000 to 10,000	17.2%	14.3%	0.0%	8.7%	28.0%	13.3%
10,000 to 20,000	13.8%	0.0%	0.0%	8.7%	20.0%	3.3%
20,000 to 50,000	6.9%	0.0%	0.0%	0.0%	20.0%	0.0%
over 50,000	0.0%	0.0%	0.0%	0.0%	8.0%	0.0%
	100%	100%	100%	100%	100%	100%
Percentage of Households Reporting Reserves:						
Below 1,000	17.2%	3.6%	74.1%	39.1%	0.0%	10.0%
Above 10,000	20.7%	0.0%	3.7%	8.7%	48.0%	3.3%
Median Cash Reserves (DM)	2,000 to 5,000	2,000 to 5,000	500 to 1,000	1,000 to 2,000	5,000 to 10,000	2,000 to 5,000

Table 5
Reported Levels of Probable Deposits in a Village SCC
(DM Per Household)

	Bogovinje	Chegrane	Marino/ Ilinden/ Petrovec	Murtino/ Monospitovo	Neraste	Rosoman
Average	5,488	12,982	1,384	1,358	14,405	1,680
Median	4,000	3,750	300	1,000	10,000	1,000
Maximum	25,000	100,000	10,000	5,000	50,000	5,000
Minimum	700	0	0	200	200	0

Responses from households in Bogovinje, Chegrane and Rosoman in Table 4 indicate relatively narrow distribution of cash holdings with peaks around the 2,000 to 5,000 DM level. In Neraste, reserves seem to be the highest of all the villages as they are in the 5,000 to 20,000 range for 68 percent of the households. In Murtino and Marino responses indicate cash holdings of less than 2,000 for the majority of households. This is somewhat surprising for Marino, given its relatively high reported incomes.

The data presented in Table 5 on potential deposits in a village SCC once again show major differences between respondents in Macedonian and Albanian villages. Both the average and median figures are much higher in the Albanian villages. This is probably reflective of two things: (1) the presence of a significant number of private businessmen in these communities who have large amounts of cash on hand and are generally quite interested in the concept of a village SCC; and (2) the uneven inflows of cash remittances from overseas which come in bunches grouped around the Christmas and summer holidays and create temporary pools of excess liquidity. Lacking comparable access to worker remittances and not having the same concentration of private businesses in their communities, households in the Macedonian villages do not seem to be able to marshall as much cash for potential deposits.

Given these differences, it is logical once again to classify the six sites separately, by ethnic affiliation.

Macedonian villages. There is little difference between the three Macedonian villages in terms of average deposit amounts--as they all hover around 1,000 to 1,500 DM. The average in Marino is highly influenced, however, by the response of one richer businessman who indicated that he would be willing to deposit 10,000 DM. In Murtino and Rosoman, no one indicated a willingness to deposit more than 5,000 DM. Still, given the biases that come with the varying ability of individual interviewers to inspire confidence, it would probably be a mistake to assume that these variations in responses

are the result of fundamental differences. Thus, on the whole, no real differences are apparent among the three Macedonian villages.

Albanian villages. Among the Albanian villages, the willingness to make deposits seems to be highest in Neraste--as indicated by its higher median deposit figure (which corrects for outlying responses). Bogovinje and Chegrane both show relatively high levels of probable deposits (at least in contrast to the Macedonian villages), although the average figure for Chegrane is skewed by a response from another private businessman who indicated that he would make a 100,000 DM deposit!

The responses in Table 5 must be interpreted with some caution. Some households, who were enthusiastic about the concept of SCCs (and there were many), probably inflated their responses. Therefore, these figures should not be taken as an operational guide of how much households would be really willing to deposit in an SCC. They probably are indicative, however, of the amount of money that households may have at their disposal to invest, should they chose to do so.

Economic Diversity

Data on primary sources of income are presented in Table 6. These data give some idea of the importance of various sources of income in the six survey sites. Chegrane seems to have the most diverse economic base, as households reported a very even distribution of primary income sources between agriculture, private business activities, salary income (which includes pension payments), and foreign worker remittances. Agriculture is the principal activity in Bogovinje and Rosoman, but each also has a healthy dose of income from private businesses and salaries. Marino also has a relatively healthy distribution of income sources between salaries, agriculture and private business, although salaries have a majority share (no doubt reflecting the close proximity of Skopje and its job possibilities). Neraste and Murtino, in contrast have relatively concentrated distributions of primary income sources. For households in Neraste, it is foreign worker remittances that provide the major bulk of income. In Murtino, agriculture fulfills a similar role.

Table 6
Primary Sources of Household Income

	Bogovinje	Chegrane/ Forine	Marino/ Ilinden/ Petrovec	Murtino/ Monospitovo	Neraste	Rosoman
Agriculture	63.3%	14.3%	27.6%	96.0%	0.0%	56.7%
Independent Business	13.3%	25.0$	10.3%	4.0%	8.0%	33.3%
Salaried Employment/ Pension	20.0%	28.6%	62.1%	0.0%	24.0%	10.0%
Worker Remittances	3.3%	32.1%	0.0%	0.0%	68.0%	0.0%
Primary Income Source as a % of Total Income	69.0%	86.0%	91.0%	97.0%	83.0%	85.0%

Community Cohesiveness

A key factor which will influence the future success of pilot SCCs is the ability of the communities in which they are located to work together in a cohesive fashion. Although measuring this capacity is a difficult task, we have collected data on household contributions to community projects over the past two years as one indicator of a given community's potential to work together towards a common goal. This data is shown in Table 7.

A minimum of 76 percent of household surveyed in five of the six survey sites reported making some contributions to community projects. Average and median contributions were particularly large in Chegrane and Neraste--indicating especially high degrees of household involvement in community projects. Marino also has a high average contribution level--although this reflects mainly the impact of one respondent who mentioned a 30,000 DM contribution to the community sports and recreation club. Only in Rosoman, did households not appear to have contributed anything to a community project within the last two years. (However, as noted in the footnote to Table 7, this is partly because they have recently completed a major funding drive to bring a water system to the village.)

Fortunately, the imperfect quantitative indicators in Table 7 are consistent with the anecdotal impressions of the Team members who visited the six sites and of the survey interviewers themselves. Neraste, partly because of its small size and relative wealth, seems to be

the most cohesive community. Community members working overseas are organized into benevolent associations which contribute as a group to major community projects and have leaders who are in direct contact with the village leaders in Neraste. Although such organizations also exist in other Albanian villages,[5] the ability of Neraste to marshall contributions from both resident and foreign sources seems to be exceptional, as witnessed by the exceptional quality of both the roads within the village and of the main feeder road linking it to the Tetovo - Kosovo highway-- all of which were built from community contributions.

It should also be noted that including different villages under the umbrella of a single SCC may come at a cost to management cohesiveness. In Rosoman and Murtino, for instance, although village leaders and interview respondents said that they would not object to an SCC including people from surrounding communities, they exhibited some reservations about this. In Rosoman, the village President felt that it would take several years before people from outside of Rosoman could be brought into a SCC. In Murtino, some people interviewed said that it would be important for the SCC Director to be from their community and not from Monospitovo. Given doubts about the ability of single communities to work together, statements such as these do raise doubts about the advisability of targeting initial pilot efforts in areas where an SCC would have to draw on populations from different local communities.

Table 7
Household Contributions to Community Projects

	Bogovinje	**Chegrane/ Forine**	**Marino/ Ilinden/ Petrovec**	**Murtino/ Monospitovo**	**Neraste**	**Rosoman**
Percentage of Households Contributing	100%	100%	76%	88%	100%	0%
Average Contribution (DM)	346	2,440	1,720	172	1,440	
Median Contribution (DM)	300	750	150	111	1,500	
Maximum Contribution (DM)	1,500	30,500	30,000	1,000	2,900	
Major Projects	Road, Stadium, Water Mosque	Road, School, Mosque, Stadium	Road, Water, Church	Road, School	Road, School, Mosque	

[5] Similar organizations exist for overseas residents of Bogovinje and are likely to exist for Chegrane, although the team did not have time to verify this.

Leadership Interest.

The initial assessments of leadership interest in the idea of an SCC that began under Phase I continued during the Phase II surveys. A resume of the results of actions taken to identify leaders and assess interest among village officials is presented below for each survey site.

Bogovinje. The Team had repeated contacts with various community leaders in Bogovinje, including a prominent businessman (Faredin Ademi) the village Vice President (Safet Abazi) and the elementary School Principal (Hakil Abdiu). The Vice President and the businessman have expressed strong interest and invited the Team to give a short speech to townspeople after Friday Mosque during the survey period to officially "announce" the idea of an SCC to the village. Another community leader and businessman who has expressed strong interest is Isein Misimi.

Safet Abazi, Village Vice President, 094/41-520
Faredin Ademi, Businessman, 094/41-033 or 41-031
Hakil Abdiu, Elementary School Principal, 41-022 or 42-563
Isein Misimi, Businessman, 094/42-543

Chegrane and Forine. The Team held informal discussions with some members of the Forine village council and a subsequent meeting with the village President, Jeydat Ali. Although initial interest of council members was quite high, the President was less receptive to the concept. In Chegrane, however, both the village President, Bedri Azizi, and Vice President, Dr. Remzi Izairi, are extremely enthusiastic. The Vice President, in particular, is a key figure since he is a well respected doctor and plays an important role as the village council's leading intellectual advisor. A prominent businessman in Chegrane, Pajazit Neziri, has also expressed strong support for the idea--going so far as to offer office space to WOCCU without any rent for the first year.

Jeydat Ali, village President, Forine
Bedri Azizi, Village President, Chegrane
Dr. Remzi Izairi, Village Vice President, Chegrane, 094/83-642
Pajazit Neziri, Businessman, Chegrane, 094/83-842

Marino, Ilinden and Petrovec. Village leaders in Marino seem to be very interested in the prospect of starting an SCC. The Team met with the village Secretary, Atanasovski Mile, and the Secretary of the Gazi Baba *Opstina*, Ljube Bojakovski, who also lives in Marino. Both are strong supporters and have expressed interest in follow-up contacts. The Phase II survey identified Petkovski Trajko, another leading businessman who owns a small plastic factory in the village, as a key potential leader. In Petrovec, the team has had promising contacts with a leading farmer (Jove Sazdov) and the village Secretary (Angelina Kostadinovska) and with the village Secretary in Ilinden (Bozhinovski Borche).

Atanasovski Mile, Village Secretary, Marino, 091/751-139 or 751-054

Ljube Bojakovski, Secretary, Opstina Gazi Baba, Marino, 091/315-321
Petkovski Trajko, Businessman, Marino, 091/531-165
Angelina Kostadinovska, Village Secretary, Petrovec, 091/711-167 or 415-005
Jove Sazdov, farmer, Petrovec, 091/711-403
Bozhinovski Borche, Village Secretary, Ilinden, 091/751-124 or 313-891

Murtino and Monospitovo. Village Presidents in both places are receptive to further promotion efforts. Nikola Manev, The President in Murtino, is a particularly important person since he is an educated businessman who understands the potential role of an SCC and is interested in its success.

Nikola Manev, Village President, Murtino, 0902/71-363
Gorgi Hristov, Village President, Monospitovo, 0902/71-216

Neraste. After a preliminary visit, the Team held a meeting with the village council. Strong interest in having an SCC was expressed by the President, Ejup Latifi, and Vice President, Abdul Kamili, as well as by a trader in the village (Kazim Osmani) who has just invested in a modern bakery. In fact, of all the sites visited, the leadership in Neraste has expressed the strongest interest and most desire for an SCC. The village President, who owns a Travel Agency with offices in Tetovo and Denmark, has expressed a desire to meet with WOCCU to discuss further actions to be taken.

Ejup Latifi, Village President, 094/26-871 or 55-594
Abdul Kamili, Village Vice President/Secretary, 094/55-159 or 55-233
Kazim Osmani, Businessman, 094/55-098

Rosoman's village President, Jovanovski Bogoja, also a leading farmer, is a strong supporter of the SCC concept. In fact, as he accompanied the WOCCU interviewer for most of the Phase II interviews, he began to take an active role in explaining the concept and defending it during the last few sessions. Another key figure in Rosoman is Mladenovic Mihaijle, who owns a transport business and has also expressed strong interest in having an SCC in the village.

Jovanovski Bogoja, Village President, 093/70-891
Mladenovic Mihaijle, Businessman, 093/70-847

Pilot Site Rankings

Given the differences between the Albanian and Macedonian villages surveyed, as well as WOCCU's general desire to maintain a rough ethnic balance, the six survey sites have been grouped into two separate evaluation pools based on their ethnic composition. The rankings for each of these are presented below based on both the quantitative survey data, and the Team's impressions from its discussions with people in the six sites. It should be emphasized that all

rankings are relative, not absolute. Thus lower rankings do not mean anything is necessarily "wrong" in any given village, only that an individual site scored less well in this regard than its two ethnic pairs with which it is grouped for WOCCU's site evaluation purposes.

The following key should be used for interpreting the summary scores presented for each selection criteria at each survey site:

3 Site exhibits positive characteristics which distinguish it from its ethnic pairs;

2 Site exhibits generally favorable characteristics, but not significantly better than other sites among its ethnic pairs;

1 Site exhibits significantly less favorable characteristics than its ethnic pairs;

N Not enough information collected or conflicting data prevent a firm judgement.

Albanian Villages

Pilot site choice number 1: Chegrane and Forine. Chegrane and Forine score extremely well in terms of population, income, economic diversity, and leadership interest. As with the other two Albanian areas, there is also strong potential to mobilize savings--although this is less of a distinguishing factor since all three villages receive high marks. The relatively high and concentrated population of the twin villages is particularly crucial, since this means that not only are there more potential members, but that there is a larger pool of potential SCC officers to draw from. An area of concern is the initial mixed reaction of the village leadership in Forine to the idea of a SCC. Given this reaction and the more enthusiastic reaction of leaders in Chegrane, it would seem preferable to target initial promotion efforts in Chegrane and to permit members from Forine to join the pilot SCC as well. The two villages have, until very recently, shared post offices and schools. So sharing an SCC should also not pose too many problems. This way official contacts could be concentrated on the leaders in Chegrane, while important informal contacts could be made with key people in Forine to attract individual members. Because of the large population base in the area, if 75 percent of the households in Chegrane were to eventually join an SCC located in Chegrane, only 8 percent of households in Forine would also have to join to reach the 600 member plateau. (This assumes only 1 membership per household, which is probably conservative.)

Resume of Criteria:

3 Population
2 Income
2 Savings potential
3 Economic diversity

N Community cohesiveness
2 Leadership interest (Chegrane only)

Pilot site choice number 2: Bogovinje. Like Chegrane, Bogovinje also has favorable population base on which to start a pilot SCC. In fact, with 1,200 households in the village, the SCC would have a big enough potential audience in Bogovinje itself, without targeting any of the many surrounding villages. Bogovinje also scores relatively well on diversity of its economic base, even if it seems to be much more heavily concentrated in agriculture than the other two Albanian villages. Although income data is weak for Bogovinje, it is likely to resemble that of Chegrane--with which it shares many characteristics. Data on the savings behavior of Bogovinje households indicates a similar, if slightly smaller willingness to contribute deposits and to hold cash. The leadership in Bogovinje is also very interested in continuing to explore the idea of initiating an SCC. Future contacts should be made through the village Vice President.

Resume of Criteria:

2 Population
N Income
2 Savings potential
2 Economic diversity
2 Community cohesiveness
2 Leadership interest

Pilot site choice number 3: Neraste. While Neraste scores extremely high on leadership interest, community cohesiveness and income, it remains handicapped by its low population. There are surrounding villages, but the nearest significant population center that could raise the number of potential member households to something approaching 1,000 is Tearce, which is too far away (10 to 12 kilometers) for easy travel between the two villages. Households in Neraste also seem to be very dependent on remittance income, giving it relatively low marks on economic diversity.

Resume of Criteria

1 Population
3 Income
2 Savings potential
1 Economic diversity
3 Community cohesiveness
3 Leadership interest

Macedonian Villages

Pilot site choice number 1: Marino and Ilinden. In many respects Marino and Ilinden resemble Chegrane and Forine. Both are contiguous villages with large populations and relatively diverse economies. The presence of a strong agricultural base, coupled with growing private industrial activity in the area and favorable population characteristics make this an especially attractive area for SCC development. Marino and Ilinden benefit too from the proximity to Skopje, which means that there are a larger number of well educated people and of salary earners to ensure stable income. With the support of both the *Opstina* Secretary and the village officials in Marino, there is a core constituency around which to initiate promotional work. Although Marino did not score well on the survey questions designed to measure savings mobilization potential, this is probably the result of a bias introduced by the particular interviewer, who experienced some difficulty in putting people at ease in order to receive answers to these more sensitive questions. It is also the Team's recommendation that Petrovec not be included in the initial promotional work, since it is not contiguous with Marino and Ilinden and is not a "natural" partner. With over 1,600 households in the two villages, the population base is already sufficient without complicating the organizational tasks by including non-contiguous villages.

Resume of Criteria:

3	Population
3	Income
1	Savings potential
2	Economic diversity
2	Community cohesiveness
2	Leadership interest

Pilot site choice number 2: Rosoman. Rosoman does not score well on the count of population, since it has only 800 households and 3,800 people. To reach a potential population of over 1,000 households it would likely have to draw on surrounding villages. Although this is hardly an impossible task, it does introduce an added element of complexity to an already difficult task of setting up a pilot SCC. Despite these negative factors, Rosoman remains a potentially promising site for future work given its thriving agricultural economy, and its diverse economic base that includes a high number of private business owners and salary earners.

Resume of Criteria:

1	Population
2	Income
2	Savings potential
2	Economic diversity
N	Community cohesiveness
2	Leadership interest

Pilot site choice number 3: Murtino and Monospitovo. Murtino and Monospitovo share many basic characteristics with Rosoman. They are also relatively well off agricultural villages, that are a little small and would have to be grouped to reach the required critical mass--possibly with Bansko, yet another nearby village. Unlike Rosoman, however, there are fewer people operating in private business or drawing salaries or pensions to give the area a stable economic base. For these reasons, coupled with its distance from Skopje, Murtino and Monospitovo seem like the least favorable choice as a pilot site among the Macedonian villages.

Resume of Criteria:

1	Population
2	Income
2	Savings potential
1	Economic diversity
N	Community cohesiveness
2	Leadership interest.

ANNEX 7, PART TWO:

IMPLEMENTATION ISSUES RELATED TO FIELD SURVEY RESULTS

A number of important issues which may affect promotional work and subsequent SCC operations came to light during the Phase II survey. These issues are addressed in the section below, along with their implications for future WOCCU strategy.

(1) Informal Markets for Credit

Results presented above on the average amounts of cash kept in households and on the possible size of deposits in an SCC indicate that households maintain significant cash reserves. Indeed, just about everywhere, people acknowledged this fact quite openly. Although significant numbers of households in Neraste and Marino retain bank accounts in Macedonian banks, with only a few exceptions these accounts are maintained to receive automatic salary or pension payments. (Eight out of 10 households with bank accounts in Neraste said the accounts were used only for salary payments. In Marino this was true for 11 of the 13 households in the sample maintaining bank accounts.) As soon as these accounts are credited, the holders usually withdraw the money from them in the form of cash and store it in the household. In other villages, virtually no one maintained a bank account at all.

With over 50% of households in four of the villages surveyed (Neraste, Bogovinje, Chegrane and Rosoman) maintaining at least 2,000 to 5,000 DM in cash in the household, many families have access to funds in the informal market through cash loans from other people in the village. As could be expected in areas where cash holdings are significant, in most of the villages, people recognized that there is an active informal credit market through which they can obtain loans. Although it proved to be somewhat difficult to obtain frank responses on the terms of credit available in this market (particularly in the Albanian villages, where loans between individuals that are accompanied by interest payments are particularly frowned upon), it seems generally clear that two sorts of informal credit markets exist.

On one level there is what might be termed a **concessionary market**. In this market, people loan generally to friends or relatives for little or no interest. It is clear that in this market loan amounts are generally limited to amounts in the range of 2,000 to 3,000 DM. The duration of such loans is also extremely limited as most people indicated that they would expect such loans to be repaid within 3 months. It is clear that in this market a specific relationship of personal trust and social obligation exists between the borrower and the lender. Respondents in most of the villages exhibited little unease in describing these sorts of loans. Often loans of this type are said to be for some social reason, such as the necessity to treat a sick relative or purchase school supplies.

On another level, a more **"commercial" market** coexists with the concessionary market. Respondents generally, seemed much less wiling to speak about this, indeed in Neraste and

Chegrane, many people affirmed that such a market did not exist. Despite people's reticence to speak about this, the team was able to gain some information about this in individual discussions with community leaders and in casual interviews where people spoke freely. In this market, virtually every large village (in both Macedonian and Albanian areas) has a number of more wealthy people, usually businessmen or successful traders, who are known moneylenders. These individuals will lend money, without any formal contract other than verbal agreement, for amounts and periods that are generally greater than what people can get from friends or relatives in the concessionary market. According to respondents, the interest rates applied in these types of agreements generally vary from 3 to 5 percent per month. Loan periods can last for up to two years, although one year would be more common and amounts can reach the 10,000 to 20,000 DM level.

The activities of these moneylenders are not widely broadcast or openly discussed. In Forine, it was reported to the Team that one such moneylender had recently been murdered by a delinquent borrower who resented the moneylender's efforts to collect on his overdue loan. As this story (whether true or not) shows, this activity is subject to social stigma and carries a significant degree of financial and social risk.

The peculiar characteristics of these informal credit markets, along with the general "liquid" environment of the villages surveyed, are likely to affect the evolution of SCC activities in a number of ways:

The widespread presence of significant cash reserves means there is likely to be a pent-up demand for deposit facilities. Although respondents generally indicated they would like to see savings remunerated at rates of around 7 to 12 percent per year, it was also clear during many interviews that some people would deposit at least a fraction of their cash reserves in an SCC which was able to obtain their confidence without any remuneration at all. Particularly in the Albanian villages, where the effect of religious prohibitions on interest is combined with large and lumpy cash inflows from foreign worker remittances, people seemed extremely interested in having access to secure deposit facilities and were less concerned with potential rates of remuneration. In general, people placed security and convenience well ahead of return when considering their requirements for making deposits. This bodes well for future SCC savings mobilization efforts.

In a generally liquid environment in which people are used to receiving no return on cash, there may be a loan "threshold effect " which will have to be crossed before all people in the village will become potential loan recipients. People in most of the villages are generally used to borrowing amounts under 2,000 DM for short periods of time with little or no interest, since most families know people who can spare such amounts for short periods of time. Consequently, many people indicated they would not accept a 12 month loan of 2,000 DM at a monthly rate of 2 percent (or a 27 percent annual rate). In Chegrane, Rosoman and Marino, in particular, at least 50 percent of households surveyed indicated that they would not accept such a loan. While about a quarter of the households in Chegrane who said they would not take the loan

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refused it for religious reasons, many of the remaining households indicated that they could get such a loan already without paying any interest. This was also listed as a major reason for rejecting the loan by many households in the other villages. This is not to say that an SCC offering loans of under 2,000 DM for periods of under 12 months at 2 percent per month will not find takers. Rather that the audience for such loans is likely to be either the poorer or less well connected families in the village who cannot finance themselves or who do not have access to such amounts in the "concessionary" part of the informal market. WOCCU should not be surprised, therefore, if in initial organizing sessions, there is considerable pressure to set loan amounts at higher levels, since many households will not be enthusiastic about the prospect of limiting loans to 2,000 DM.

There is considerable interest in the SCC concept among village businessmen. It is hardly surprising that in virtually every village the most enthusiastic response to the idea of an SCC was from prominent local businessmen. (This is especially true in the Albanian areas--where there are significant numbers of businessmen and traders resident in the villages. But it is also true in such villages as Marino, where local entrepreneurs have also expressed keen interest.) As noted above, many businessmen are already lenders in the informal credit market. To such people, the advantages of an SCC over the current system are readily apparent. It would "depersonalize" their current activities, thereby removing some of the financial risk (by inserting credit agreements into a defined legal framework) and all of the social stigma attached to money lending. In addition, many of them see possibilities for using the bank as a vehicle for accumulating capital to finance larger investment projects, such as the construction of dairy packaging plants. These individuals are valuable potential members since they are potential suppliers of significant deposits and of management expertise. However, when the full implications of democratic governance of SCCs , based on one member one vote, become clear it is less certain that they will remain as enthusiastic since voting strength on Board elections will not be proportional to the amount of funds invested. WOCCU staff need to be sensitive to the advantages of working with local businessmen, while at the same time avoid giving them the impression that they will be able to exert significant control over the operations of the SCC.

(2) Islamic Prohibitions on Interest

Survey results in some of the Albanian villages confirmed that, for a minority of households in some villages, the issue of Islamic restrictions on the receipt and payment of interest in relation to financial transactions is an issue of concern. In Chegrane and Forine in particular, 4 out of 28 households surveyed mentioned that they could not pay interest on loans for religious regions and 5 out of 28 households also mentioned that they would not require any return on savings for similar reasons. In Neraste, only one household interviewed expressed a similar refusal to deal with interest payments and none of the households interviewed in Bogovinje expressed a categorical objection to the concept of interest. Even in these latter two villages,

however, a number of people did express some concern about how potential SCC policies regarding interest would be portrayed and "accepted" by others in the community.[6]

Despite the fact that the issue of interest appears to be of concern only to a minority of households, it is crucial for WOCCU to develop a promotional strategy which takes into consideration the unique aspects of implementing the SCC model in an area where Islamic law holds widespread legitimacy. Adapting the model to take into account these special concerns will not require fundamental changes in the basic approach to SCC development. It will also greatly facilitate the process of promoting SCCs in Albanian villages by placating the more religiously conservative members of the community who might raise objections if SCCs are perceived to be operating in a manner that is contrary to the tenets of Islamic law.

The section below reviews briefly the nature of the prohibitions placed on interest under Islamic law. It is followed by a number of suggested rejoinders and possible minor modification in the SCC model which could be introduced to make it consistent with Islamic teachings.

Treatment of "Interest" Under Islamic Law

A general consensus exists among Islamic scholars that the Koran prohibits the payment of interest, or *riba*. The exact technical interpretation of *riba* has been the subject of some controversy. A pragmatic school of thought has interpreted this to mean usury or an "excessive" rate of interest which causes debt to be rapidly doubled, tripled or quadrupled. Some have also argued that the prohibition on *riba* extends only to individuals and not to banks which are governed by regulatory authorities who prevent them from taking "excessive" interest. These pragmatist views generally held sway in the 19th century and early in this century. More recently, however, the pendulum has swung distinctly to a more literal interpretation of the prohibition on *riba*, which is applied to all forms of interest payments--including interest as it is applied normally in Western banks. Today, according to one recent study, "it is difficult to find a Muslim legal scholar with religious authority who supports the pragmatic interpretation of *riba* and advocates financial transactions based on interest."[7]

The prohibition on *riba* concerns two basic facets of interest that are fundamental to how Western banks and financial institutions function:

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[6] The seeming difference in the degree to which the three villages view the Islamic restrictions on interest as a real problem are probably more apparent than real. This is because in Forine, one of the WOCCU enumerator's first interviews was with the village Imam. During the interview the Imam expressed opposition to the concept of interest. He subsequently reiterated his opposition publicly in the mosque before the survey was completed--making this into a public issue and, no doubt, making it harder for respondents to openly express their willingness to pay and receive interest. Had the same thing happened in Neraste and Bogovinje, the survey results would likely have been similar to those obtained in Forine and Chegrane.

[7] Elias G. Kazarian, *Islamic Versus Traditional Banking*, Westview Press, 1993.

Payments connected to the loaning of money cannot be set as a function of the time for which the money is lent. While target repayment dates may be set for specific loans, if the underlying venture has not yielded a positive return in the expected time, the amount to be repaid cannot be adjusted upward as the date is surpassed.

The repayment of cash loans used for productive ventures should be set as a function of the realized profit of the venture so that risk is shared between the lender and the borrower. This means that repayment of loans are contingent upon the success of the financed venture and the amount to be repaid may vary with its profitability. Lenders are prohibited from requiring collateral or other forms of security from borrowers with which to guarantee the security of their loans. This stems from the Islamic notion that borrowers and lenders must both share in the potential for profits and losses.

In addition to these specific restrictions related to loaning money, Islamic notions of financial conduct also prohibit the financing of activities which would be considered to be contrary to Muslim standards of ethical behavior. This would prohibit, for instance, the financing of alcoholic beverage trade or investments in swine farms.

Adapting the SCC model to fit the special requirements of Islamic law

Although on first sight the restrictions on interest outlined above would seem to leave little room for the development of SCCs , since any financial institutions wishing to operate along Islamic principles would have to be willing to accept the notion of contingent and variable reimbursement of its loans, mechanisms do exist which can reconcile Islamic law with what would be normal prudential practice for operating a SCC. The section below suggests some specific ways in which WOCCU promotional efforts in Albanian areas should be framed to not offend members of the community who may be inclined towards a more rigorous and literal interpretation of Islamic laws governing interest payments, while still permitting the constitution of SCCs on a sound financial basis. We first address the deposit side of the equation, which is relatively simple. Then the more complicated issue of reconciling Islamic law with prudential loan policy is tackled.

1. Deposits and savings policy

It is important to note that during the surveys, the number of respondents who expressed reservations about receiving interest on their deposits was slightly superior to the number of respondents who indicated that they would be unwilling to pay interest on loans for religious reasons. It should not be inferred, therefore, that the expressed concern with interest on religious grounds is merely a dodge to avoid paying interest on loans. A number of household heads are generally concerned with the moral implications of depositing funds in an SCC and receiving interest payments.

Fortunately, the basic SCC model, in which a democratically elected Managing Board determines basic policies for remunerating savers and allocating interest income, makes it quite easy to structure savings policy in such a way that it is completely consistent with even a strict interpretation of Islamic legal prohibitions on *riba*. They key element of the *riba* prohibition for depositors is the explicit linking of fixed rates of return that are applied for specific time periods to their savings account balances. Thus, rather than quoting fixed, guaranteed rates of return to depositors, the Managing Board of an SCC operating in an Albanian area might simply agree to set "target rates of return" to depositors , but make the actual payment of those rates conditional upon the overall level of net income received by the SCC. If net income is greater (less) than anticipated, or operating expenses are less (more) than expected, the Board would be free to adjust remuneration to savers as a function of the SCC's overall profitability. The target rate of return can be adopted as a guideline for planing purposes and for giving depositors an indication of what to expect, but because the actual amount of interest received by depositors can be affected by decisions of the Managing Board when they allocate net income, such an arrangement would fall fully within the bounds of acceptable Islamic practice under the sanctioned contractual relationship known as *mudaraba.*[8]

In practice, there is likely to be little difference between SCCs operating in Muslim and non-Muslim areas in regards to savings policies. Managing Boards for SCCs in Muslim areas might have a tendency to set "target rates of return" for savers at slightly lower levels than real contractual rates of return for savings deposits in non-Muslim areas, so that there will be more discretionary interest income to allocate between shareholders and savings account holders--thereby making it apparent to all that the returns being offered are not "interest payments" but rather distributions from operating profit. In economic terms, the difference is minimal, but in terms of religious perceptions, the distinction is important.

2. Loans and credit policies

Handling interest on credit which an SCC would want to grant is a somewhat trickier question. The strict interpretation of the prohibition on *riba* now in vogue effectively transforms the act of lending into an equity investment--since the return of both the principle and any "profit" become contingent on the success of the financed venture and the lender/investor cannot hold the borrower to any firm repayment schedule or require any fixed return other than a certain share of profits. Islamic banks operating in Muslim countries have developed instruments based on the *mudaraba* contract to finance ventures under these terms. Indeed, some proponents of Islamic banking argue that such forms of enterprise finance can compensate for imperfections in the

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[8] In a contract governed by *mudaraba*, depositors are considered to be taking what amounts to an equity investment in an SCC. This allow them to claim a share of the SCC's overall operating profits as a rightful payment to compensate them for the risk they are taking by depositing their money. The key aspect of this contract that makes it legal in Muslim law is that their is an implicit sharing of risk between the depositor and the SCC and that returns are not fixed in proportion to specific time periods.

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capital markets of developing countries, by increasing the amount of equity finance that is available in the absence of functioning stock markets.

For an SCC operating in Macedonia, however, transforming its loan portfolio into a portfolio of equity stakes, even with implicit short term investment horizons, is not a feasible option. This would expose the SCC to a greater degree of risk, which would be particularly dangerous because of informational asymmetries between the SCC and borrowers, and also seriously complicate the management of the SCC. Fortunately, other solutions exist in the Islamic law which permit banks (both Islamic and otherwise) to avoid the dangers inherent under *mudaraba* financing.

The most important loophole in the body of Islamic law governing financial relationships is that, while the lending of **money or cash** is subject to the strict injunctions against interest payments, the lending of **physical goods** is much less regulated. Islamic banks (and Western Banks operating in such places as Pakistan which have officially prohibited the payment of interest) readily exploit this distinction by structuring the vast majority of their short-term assets as "mark up financing" or *murabaha*. Under *murabaha* financing, the financial institution purchases something and then sells it to the "borrower" in installments on a cost-plus mark-up contract. In this manner, a specific rate of return is determined in advance and the goods purchased serve as collateral since ownership is transferred only gradually to the borrower as installments are paid. The financial institution itself never takes possession of the goods, but advances the money to the borrower who purchases the goods on its behalf.

This form of financing overcomes the problems associated with the contingent and variable payments associated with *mudaraba* financing. It does not, however, solve the problem that a lender cannot increase the absolute size of the repayment obligation of the borrower in response to slippage in the agreed to repayment schedule. In reality, however, banks have developed a system which seems to protect them from borrowers who wish to exploit Islamic legal restrictions against interest to abusively lengthen their repayment period. The mechanism, which is commonly used by Pakistani banks, is to contract with the borrower under a *murabaha* agreement for an effective rate of interest that is actually well over what the bank really requires. A side agreement grants the borrower a substantial prompt payment rebate if she or he adheres to the agreed repayment schedule. In this way, if the borrower does not repay according to the agreed schedule, the bank will seek to recover a higher amount which will ideally cover the costs associated with the extra time and effort needed to make the borrower pay.

Murabaha financing is commonly used for short term trade credit and working capital loans. The only limitation on this type of financing is that it must be linked to tangible goods. This should not be a major problem for the common types of loan that an SCC is likely to make in Macedonia--such as the purchase of trade stock or investments in livestock. Even for agricultural inputs that are used-up before they generate a corresponding cash inflow (and are therefore not viable as collateral), such as with fertilizer, borrowers could be required to obtain co-signatures for *murabaha* credit.

Besides *murabaha* financing, the other commonly used method in which banks overcome Islamic prohibition on *riba,* as it relates to loans, without resorting to *mudaraba* financing, is simply to charge zero interest, but to include substantial fees and service charges in loans which can be paid on a deferred or installment basis. In practice, there is a great variety in how such loans work in the Muslim world. In such countries as Pakistan, where strict religious principles are applied to bank regulation, fees cannot vary with the length of the outstanding obligation and they must be charged as a strict percentage of the loan amount that is calculated by dividing the bank's overhead expenses by total assets. In other countries, regulation of service charges and fees is much more fluid. In such countries, effective rates of interest (after fees and service charges) tend to be substantially higher than for normal loans contracted under Western banking principles, since the use of collateral is still not permitted and repayment schedules are less easily enforced (although, as with *murabaha* financing, it is often possible for banks to build in incentives for prompt repayment through the use of rebates on service charges).

These practices of replacing interest with "service charges" fall within a grey area of Islamic law. Whereas *murabaha* is unambiguously allowed, the degree to which an SCC operating in a Muslim area of Macedonia could simply replace interest on loans by calling it a service charge depends on how strict local religious authorities wish to be with the SCC.

Thus, in terms of practical guidelines for SCC loan policies, should questions regarding Islamic prohibitions on interest attached to loans be raised during WOCCU's promotional work in Albanian villages (which is likely), it is clear that the *murabaha* "mark-up" financing method offers a ready form of credit that should be both acceptable to the most conservative Imams while still presenting the same basic characteristics as a regular Western loan with a fixed return, repayment schedule and secure collateral. This form of financing can be used for both productive loans (buying a new cow) and for consumer loans (buying a television set). The only requirement is that the transaction must be structured so that the SCC takes title (or a share of ownership if the financing offered does not cover the whole purchase price) to some tangible good, and then "loans" this good (or its share of the good) to the borrower. The key is the transaction must be linked to an identifiable real good. For most loans an SCC is likely to make, this should be no problem, since many of the surveyed respondents expressed a desire for credit to finance investments in durable goods or livestock which could be easily supplied through *murabaha* transactions.

For financing needs which are not easily associated with tangible physical goods, such as loans to pay for school fees or wedding expenses, the "zero-interest loan" would probably be the vehicle that would best protect the financial interests of a SCC, while also being acceptable to religious conservatives in the Albanian community. WOCCU staff would need to work closely with Managing Boards to make sure the fees and payback incentives associated with such loans, give sufficient financial protection to the SCC and do not compromise its net operating results.

Recommendations for SCC Promotional Activities in Muslim Areas

The above discussion should be of use to WOCCU staff in their subsequent discussions with community and religious leaders in Muslim areas of Macedonia. However, before getting to this level of specific detail concerning "permissible" and "non-permissible" forms of credit and savings under Islamic law, it is essential that WOCCU staff convey to religious leaders the fundamental logic behind the SCC. If village Imams can be convinced that an SCC is a good thing which will help the development of the community, there may not even be any need to get into such issues as whether or not remuneration payed to savers is "interest" or "distribution of operating profits."

The Team therefore would suggest that the following points be used to guide WOCCU promotional activities in Muslim areas:

(1) Before beginning actual promotional activities in the targeted Muslim pilot sites, WOCCU staff should consult informally with two or three key figures listed in the "Leadership Interest" section under the Phase II survey results presented above on how best to incorporate the concerns of members of the community who might raise religious objections to standard SCC practices. WOCCU staff should explain how standard SCC practices might be structured so as to be consistent with Islamic law and solicit the opinion of these community leaders on how to best approach local religious leaders to enlist their support in early promotional efforts.

(2) In response to the suggestions of community leaders, WOCCU staff should develop specific promotional materials to address the specific religious concerns that may be raised. These promotional materials may be specifically addressed at religious authorities, or incorporated into a more general promotional campaign targeting potential members. Materials that might prove useful would include:

- a presentation emphasizing the collective nature of SCCs and specifically the idea that operating income belongs to all members of the community who wish to join and will be allocated by the Managing Board to benefit the community, not for the private profit of a few individuals;

- a presentation illustrating how all bank income is derived from operating profit and how the Managing Board would be free to determine guidelines for its allocation in manners that are consistent both with Islamic law and with prudential management of the SCC; and

- a presentation on potential credit policies, emphasizing the possible uses of such instruments as *murabaha* financing and interest free loans.

It is important not to overstate the potential problems that might arise when promotion of the SCCs actually starts in Muslim areas. Again, the survey results show that religious concerns about the receipt and payment of interest were raised by only a minority of households. The above promotional suggestions and discussion of Islamic law is meant to provide WOCCU staff with some understanding of the logic behind potential objections and with responses which may be useful for addressing them. It is not necessary to make a big issue of this. Rather WOCCU staff should be sensitive to the particular concerns that are likely to be raised in Muslim areas and not feel that they have to ignore or duck these issues when they are raised. Indeed, frank and open discussions with groups of religious conservatives and/or religious authorities on these issues are likely to be a necessary step in establishing a healthy climate of trust in Albanian villages.

(3) The Security of Deposits

Time and time again, in interviews with village leaders, farmers and political figures, it became apparent to the Team that a wide cross-section of Macedonians have lost confidence in the banking system as a result of the loss of access to foreign reserve accounts held in Yugoslav banks which followed the break-up of Yugoslavia. Older people also remember the Second World War and the losses of funds deposited in banks during that conflict. This concern with the safety of deposits held in banks stems not only from doubts about the prudential practices of Macedonian banks and the moral character of their managers. It is also grounded in the real doubts people have about the future security of the country. Certainly past history does not give people much reason to trust financial institutions.

It became apparent in many interviews that no matter how many times the cooperative nature of SCCs was explained to some people, they could not distinguish how such institutions might differ from existing banks in which they have zero confidence. Overcoming this deep mistrust of financial institutions, and demarcating village SCCs from discredited banks in the eyes of potential members will be the single greatest promotional hurdle that WOCCU must overcome.[9]

In many villages people exhibited a surprising degree of sophistication and knowledge of government regulations affecting banks and deposit security. It soon became clear that it will be

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[9] Although initial concerns about the security of deposits in SCCs may have been influenced somewhat by the vocabulary adopted in the interviews, in which the term "village bank" was used to describe the idea of the SCC (the "SCC" label had not been adopted by WOCCU at the time of the surveys and the Phase I interviews indicated that the term "village bank" was an efficient short-hand tool for conveying the essential role an SCC would play in a village), it is clear that the general mistrust of financial institutions revealed in the Phase II surveys is based on more than just a mistaken association of SCCs with discredited Macedonian banks. In their explanations of how these institutions would work, enumerators placed great emphasis on the control which people in the village would have on the operations of the SCC through electing the Managing Board and on how they could draw on WOCCU for initial promotional and technical support--both factors which distinguish them from existing banks. Despite these explanations, most respondents still expressed very high degrees of concern about the security of their deposits.

necessary to cite the exact legal status that a village SCC would have and how its relations with regulatory authorities and other banks would be defined before people could be convinced to put their money into such an institution. Until such measures are taken, suspicion in rural areas that the government will radically change the rules of the game or that WOCCU might somehow seize deposits will be very difficult to overcome.

To overcome fears about the safety of deposits, measures which will distinguish SCCs from existing banks will be crucial. Within this context the possibility of establishing a stabilization fund, with USAID support, to stand behind SCCs could help WOCCU overcome a very important psychological barrier. It is just this type of concrete measure, which existing banks do not offer, that can help to differentiate village SCCs in the eyes of their potential clients and increase people's confidence in the security of their deposits. Although people in rural areas do not have a lot of trust in official government pronouncements and programs, a USAID/WOCCU stabilization fund would likely inspire a higher degree of confidence, since it would be perceived as being more independent and less subject to changing political and economic winds than either a private or public Macedonian stabilization fund. Other possible mechanisms for enhancing security, such as purchasing insurance against robbery or embezzlement would also help overcome the confidence barrier.

(4) Deutsche-marks Versus Denars

Respondents in all villages exhibited a resounding preference for dealing in Deutsche-marks, as opposed to Denars. As shown in Table 8, this is true for both loans and savings accounts.

Table 8
Currency Preferences of Survey Respondents

	Bogovinje	Chegrane/ Forine	Marino	Murtino/ Monospitovo	Neraste	Rosoman	Total
Number of respondents expressing a preference for loans denominated in: a/							
DM	17	24	9	23	18	20	111
Denar	0	0	2	2	3	7	14
Indifferent	3	4	2	0	1	2	12
Total	20	28	13	25	22	29	137
Number of respondents expressing a preference for savings denominated in:							
DM	30	25	14	17	23	28	137
Denar	0	0	1	0	0	0	1
Indifferent	0	3	14	7	2	1	27
Total	30	28	15	24	25	29	165
Number of respondents who would be willing to maintain a savings account in Denar, if it were only choice:							
Would be willing	5	13	23	16	19	20	96
Would not be willing	25	13	4	8	6	10	66
Total	30	26	27	24	25	30	162

a/ Respondents were asked to choose between a DM denominated loan at 27 percent per year and a Denar denominated loan at 34 percent per year.

The reason for this preference for Deutsche-marks as a vehicle for savings seems to lie in doubts that households have about the long term stability of the Denar. Virtually every household interviewed noted that, currently cash was mainly kept in Deutsche-marks. Although a few households in the Macedonian villages did keep savings in both Denar and Deutsche-marks, there

is a clear preference for storing Deutsche-marks as opposed to Denars. Lack of confidence in the Denar and fear of a return of inflation are widespread. Still, when forced to chose between keeping savings in Denar, or not opening an account at all, a majority of respondents in four of the villages said they would opt for the Denar accounts--as shown at the bottom of Table 8. Rather than being a indication of a growing confidence in the Denar, however, this is probably more indicative of the desire of many households to have access to reliable deposit facilities, even at the cost of denominating their deposits in Denar. Whether such accounts would be seen as useful vehicles for savings accumulation, and would attract substantial amounts of capital, is less easy to judge.

It is clear from responses of many households that they would expect returns on savings in Denar to be set at a higher level than returns for Deutsche-mark savings. While most households who understood the concept of annual returns on savings indicated that returns in the 7 to 12 percent per year range would be acceptable for DM denominated accounts, expectations were much higher for Denar accounts -- generally ranging from 10 to 20 percent per year.

On the loan side of the equation, a surprising majority of people everywhere also expressed a preference for Deutsche-mark loans, when one might think that they would prefer to payback in Denars if they had doubts about its ability to maintain parity with the Deutsche-mark. Too much should not be read into this question, however, since many respondents merely noticed the lower rate of interest on the DM loan, without rationally weighing whether or not expected Denar depreciation might compensate for the interest rate differential.

In any case, while few households understood the economics of contracting debt in Denars as opposed to Deutsche-marks, it was clear that most respondents had a definite preference for calculating returns and investment costs in Deutsche-marks. Indeed, most people seem much more comfortable reasoning in Deutsche-marks than they do in Denar.[10]

This preference for Deutsche-mark-denominated operations, on both the savings and credit sides, has important implications for WOCCU. First of all, it is obvious that the task of savings mobilization will be considerably more difficult if WOCCU is not able to offer people what they want, which is Deutsche-mark accounts, or at least Deutsche-mark-indexed accounts. The corollary to this, that loans should also be denominated in Deutsche-marks, does not seem to pose a problem with villagers, since they also seem to prefer Deutsche-mark-denominated debt.

Another consequence is that it will be extremely useful for SCCs to also have the capability of engaging in foreign exchange transactions. If an SCC is not able to keep foreign currency accounts or engage in actual physical foreign exchange transactions, for instance members will be required to engage in separate foreign exchange transactions elsewhere in order to change Deutsche-marks into Denars before making deposits. This not only adds to transaction

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[10] Not once did anyone quote a price of a cow to the Team in Denars. Invariably prices for animals, crops and land were quoted in Deutsche-marks.

costs an inconvenience, it also represents a significant leakage of potential revenues for the SCC that could be captured through commissions and fees on foreign exchange transactions.

ANNEX 8: FIELD SURVEY INVERVIEW GUIDES

ENGLISH VERSION

INTERVIEW GUIDE FOR WOCCU MARKET ASSESSMENT

NAME OF VILLAGE: *INTERVIEW NO:*
OPSTINA:

Introductory Statement: explain that visit is to collect data for a survey that is being commissioned by WOCCU, a USA-based humanitarian organization that has just opened an office in Skopje and is interested in helping people in rural areas obtain better access to financial services for savings and credit. So that WOCCU can find out what people's needs and problems are, it needs information on the financial status and history of individual households in different regions of Macedonia--which is why the household is being interviewed today. INFORMATION GATHERED IS ONLY FOR THE USE OF WOCCU. It will not be communicated to any other organization--public or private. Responses will be strictly anonymous.

I. General Questions about the household

a. How many people live in the household at this moment? _____

b. How many family members do not currently live with the household, but regularly send in money? _____

c. How many people in the household have salaried employment? _____ What is monthly income from salaries of employed household members? _____

d. How many people work Full Time in agriculture (includes both crop farming and livestock)? _____; How many people work Part Time in agriculture?_____

e. Number of hectares of land belonging to household? _____ Rented for use by household? _____

f. Number of cows owned _____ Number of sheep owned _____ Major crops grown:
_____, _____, _____.

g. The household's principal source of income is (circle one):

- agriculture, - trade/commerce, -salaries of household members,

- remittances of family members outside of Macedonia - other (name: _____)

Percentage of total income coming from this Principal Source: _____

h. What is the percentage of agricultural income derived from sale of crops? _____ From livestock and dairy sales? _____

I. Has the household voluntarily contributed cash to a community project (such as a school, post office, road, church/mosque) in the past two years? Yes No

If Yes: for what? _____ And How much? _____

II. Access to Financial Services

a. Do you now have an active account in a Macedonian Bank or Savings House? Yes No

If Yes: Is the account in (circle one): DEM or Denar

If Yes: Is the account primarily to (circle one): To save money, to receive salary payments,
b. Does anyone in the household have an active account with a bank outside of ex-Yugoslavia? Yes No

c. Has anyone in the household received a credit in the past 3 years from a Macedonian bank/savings house?

Yes No

If yes: for most recent loan, in what year was it made?_____ what was the monthly interest rate?_____ repayment period? _____ loan amount? _____

d. During the past year have some people in your village received cash loans from private lenders? Yes No

If yes: what is the usual monthly interest rate? _____ maximum loan period _____? maximum amount loaned? _____

Do these loans come from (circle one): other villagers, people outside the village, both

e. Do some people in your village place their cash with friends/ private businessmen/ traders? Yes No

If yes: for how long do they leave it_____? How much interest do they receive (if any)?_____

III. Savings Demand

a. Over a year, are there months when the household experiences particularly large inflows of cash? Yes No

If Yes: What are the months of peak income? _____; what is the source of this income? _____

b. Are there particular months when household expenses are especially great? Yes No

If Yes: what are the months of large expenses? _____ What are the expenses for? _____

c. In general, the annual gross income per household for most of the poorer households in the village was probably how much in 1995? _____. For the richer households? _____

d. Which of the following are ways in which people in the village save income that is not consumed immediately? :

CHECK BOXES THAT RESPONDENT SAYS ARE PRACTICED BY PEOPLE IN VILLAGE

_____ people keep it in cash, spending it when needed

_____ people put it into a Macedonian Bank or Savings House

_____ people put it into a foreign bank

_____ People confide it to a businessman or a trader

_____ People lend it to relatives/friends

_____ People buy trade goods which they sell within a month or two to get more money

_____ people invest in goods they intend to keep for a long time

_____ Other (Name: _____)

Of the different checked boxes: rank the 1st and 2nd in order of importance

e. The average level of cash reserves held by most villagers in their homes is about how much right now?

Check one box:

_____ 0 - 500 DEM

_____ 500 - 1,000 DEM

_____ 1,000 - 2,000 DEM

_____ 2,000 - 5,000 DEM

_____ 5,000 - 10,0000 DEM

_____ 10,000 - 20,000 DEM

_____ 20,000 - 50,000 DEM

_____ over 50,000 DEM

f. Do people generally hold cash in: (circle one:) DEM or other foreign currency, Denar, both

IV. Credit Demand

a. If you were offered a loan of 2,000 DEM that had to be payed back in one year or less at 27% per year (pay back 2,540 DEM in 12 months, or less if paid back before then): Would you take it? Yes No

If Yes: What would you use the money for? *(no restrictions on use--it can be for anything-even a wedding)*:

If No: Why would you not take the loan? (*Spontaneous response. Describe*:)

b. If you were offered a loan of 54,000 Denar that had to be payed back in one year or less at 35% per year (payback 72,900 Denar in 12 months, or less if paid back before then): Would you take it? Yes No

c. Given the choice between the two loans presented above (*in a and b*) which would you prefer?

V. Questions about village banks

Read following statement:

"The reasons that we are asking these questions is that WOCCU has an idea which it thinks may help households such as this one to gain access to credit and to get a return on its savings. We want to see whether or not the idea might work in this village. Our idea is that people in the village would come together to form a **village-owned bank** which would take deposits of cash from people in the village and use this money to make loans to villagers who would pay back with interest to the village-owned bank. The money received from the interest on loans would be used to pay interest to savers. In this way, cash that people keep in their houses could be put to work in the village for productive uses--benefitting both savers (who get a return on their savings) and loan recipients (who get credit.) The village-owned bank would be overseen by the villagers themselves. They would elect the board of directors that would be responsible for setting lending and savings policies and that would appoint a manager to run the village bank on a day to day basis. Both the Board of Directors and the Manager would receive technical training and advice from WOCCU through its office in Skopje."

Ask respondent if he understands the concept and has any questions.

Then ask some general questions for discussion:

The goal of this section is to judge: (1) What do people think are the major obstacles to creating village banks as described above, (2) identify individuals who would be likely to support the idea within the community, (3) provide some specific information about how much money people would invest in a village bank.

a. Do you think this idea could work in this village? Why, or why not?

b. Do you have confidence in the capacity of people in the village to oversee the operations of a village bank (with technical support from WOCCU)? Why, or why Not?

c. Who are the people in the village whose support would be most important to the village bank?

d. For yourself, what is the minimum rate of interest that you would require to open a savings account in the village bank? Specifically, what would this rate be for a DEM account? _____ and a Denar account?_____ *(Note: reassure respondent that these are SECURE deposits in village bank run by the villagers themselves, not deposits in a Macedonian bank in which they have no control)*

e. Approximately how much would you be willing to deposit initially in such an account? (Take response in DEM): _____

f. Would you prefer to deposit the money in a: (Circle one)

- DEM account, - Denar Account, - it does not matter

g. If only Denar accounts are available, would you still be willing to keep money in the account? Yes No

MACEDONIAN LANGUAGE VERSION

VODI^ PRI INTREVJUTO NA VOKU ZA PROCENKA NA PAZAROT

IME NA SELOTO: BROJ NA INTERVJU:
OP[TINA:

Voved: objasnete deka ovaa poseta e so cel da se soberat podatoci za eden pregled, koj se izveduva od strana na VOKU, Amerikanska humanitarna organizacija, koja neodamna ja otvori svojata kancelarija vo Skopje i koja e zainteresirana da im pomogne na lu|eto vo selskite podra~ja, da dobijat podobar pristap do finansiskite uslugi za {tedewe i kredit. Za da mo`e VOKU da gi razbere potrebite na lu|eto i nivnite problemi, potrebna e informacija za finansiskiot status i istorijata na poedini doma}instva vo razli~ni regioni vo Makedonija-toa e pri~inata zo{to denes gi intervjuirame doma}instvata. DOBIENATA INFORMACIJA E SAMO ZA POTREBITE NA VOKU. Dobienata informacija nema da se diskutira so druga organizacija-javna ili privatna. Odgovorite }e bidat strogo anonimni.

I. Op{ti pra{awa za doma}instvoto

a. Kolku lu|e `iveat vo doma}instvoto sega? _____

b. Kolku ~lenovi na familijata momentalno ne `iveat vo doma}instvoto no, redovno ispra}aat pari? _____

v. Kolku lu|e vo doma}instvoto primaat plata? _____ Kolku iznesuva mese~niot prihod na vrabotenite ~lenovi na doma}instvoto?_____

g. Kolku lu|e rabotat polno rabotno vreme vo zemjodelie (vklu~uvaj}i `etva i dobitok) _____; Kolku lu|e rabotat skrateno rabotno vreme vo zemjodelie? _____

d. Kolku hektari na zemja ima doma}instvoto? _____ Iznajmena za upotreba od doma}instvoto? _____

|. Kolku kravi poseduvate? _____ Kolku ovci _____ Kakvi `etvi odgleduvate najmnogu:
_____, _____, _____.

e. Glavniot izvor na primawa vo doma}instvoto e (zaokru`ete eden):

-zemjodelski, trgovski, plata od ~lenovite na doma}instvoto,

-ispra}awe na pari od ~lenovite na familijata koj `iveat nadvor od Makedonija,

-drug (imenuvajte go _____)

Procent na vkupen prihod koj e glaven izvor na primawa:_____

z. Kolkav e procentot na zemjodelskiot prihod, koj proizleguva od proda`ba na `etvata? _____ Od dobitok i proda`ba na mle~ni proizvodi? _____

I. Dali doma}instvoto vo poslednive dve godini, volonterski pridonelo za nekoj proekt vo op{tinata (kako na pr. {kolo, po{ta, pat, crkva/xamija)? Da Ne

Ako pridonelo: za {to? _____ I kolku? _____

II. Pristap do finasiski uslugi

a. Dali momentalno imate aktivna smetka vo nekoja Makedonska Banka ili [tedilnica? D a Ne

Ako imate: dali e smetkata vo (zaokru`ete eden): DEM ili Denari

Ako imate: dali e smetkata primarno za (zaokru`ete eden):
[tedewe pari, za primawe plata.

b. Dali nekoj od doma}instvoto ima aktivna smetka vo nekoja banka nadvor od Biv{a Jugoslavija?
Da Ne

v. Dali nekoj od doma}instvoto, vo poslednive 3 godini ,zel kredit od Makedonska Banka/[tedilnica?

Da Ne

Ako zel: vo koja godina bil zemen posledniot zaem? _____ koj bil procentot na mese~nata kamata? _____ period za vra}awe na parite? _____
suma na zaem? _____

g. Dali vo poslednava godina, nekoi lu|e od va{eto selo, zele zaem od privatni pozajmuva~i? Da Ne

Ako zele: koja e voobi~aenata mese~na kamata? _____ za maksimum period na zaemot _____? Maksimum pozajmena suma? _____

Dali ovie zaemi doa|aat od (zaokru`ete eden):
drugi sela, od lu|e koj ne se od toa selo, dvete

d. Dali nekoj lu|e od va{eto selo gi vlo`uvaat svoite gotovinski sredstva/ke{ pari, kaj prijateli/privatni biznismeni/trgovci? Da Ne

Ako gi vlo`uvaat: kolku vreme gi ostavaat _____? Kolku kamata dobivaat (ako dobivaat)? _____

III. Potreba od {tedewe

a. Dali vo tekot na edna godina, imalo meseci koga doma}instvoto iskusilo golem priliv na ke{ pari? Da Ne

Ako se slu~ilo toa: Vo koj meseci imalo najgolem prihod? _____; koj e izvorot na ovoj prihod? _____

b. Dali vo odredeni meseci tro{ocite na doma}instvoto se osobeno golemi? Da Ne

Ako se: vo koi meseci ima najgolemi tro{oci? _____ Kakvi se tie tro{oci? _____

v. Kolku bil pribli`no godi{niot bruto prihod po doma}instvo vo 1995 na pove}eto od posiroma{nite doma}instva vo seloto? _____. A kolku na pobogatite? _____

g. Na koj na~in lu|eto vo seloto gi {tedat parite, koj ne se vedna{ potro{eni?

[TIKLIRAJTE GI ODGOVORITE KOI SPORED ISPITANIKOT SE PRAKTIKUVAAT VO SELOTO

_____ gi ~uvaat vo ke{ i gi tro{at koga e potrebno

_____ gi stavaat parite vo Makedonska Banka ili vo [tedilnica

_____ gi stavaat vo stranska Banka

_____ gi doveruvaat na nekoj biznismen ili trgovec

_____ gi pozajmuvaat na rodnini/prijateli

_____ kupuvaat trgovska roba, so cel da ja prodadat za mesec ili dva, za da zarabotat pove}e pari

_____ investiraaat vo roba, koja planiraat da ja ~uvaat podolgo vreme

_____ Drug (imenuvajte go: _____)

<u>Podredete gi odgovorite po va`nost</u>

d. Momentalno, kolkava e prose~nata suma na rezervi vo ke{, koja ja imaat najpove}eto od selanite?

[tiklirajte edno od navedenite:

_____ 0 - 500 DEM

_____ 500 - 1,000 DEM

_____ 1,000 - 2,000 DEM

_____ 2,000 - 5,000 DEM

_____ 5,000 - 10,000 DEM

_____ 10,000 - 20,000 DEM

_____ 20,000 - 50,000 DEM

_____ preku 50,000 DEM

Dali lu|eto koi naj~esto gi ~uvaat parite vo ke{, gi ~uvaat vo: (zaokru`ete edno:)
DEM ili druga valuta, Denari, i dvete

IV. Potreba od krediti

a. Ako nekoj vi ponudi zaem od 2,000 DEM koj }e treba da se vrati za edna godina ili pomalku, so 27% kamata godi{no (da vratite 2,540 DEM za 12 meseci, ili pomalku, ako se vrati pred rokot): dali }e gi zemete? Da Ne

Ako gi zemete: Za {to }e gi upotrebite parite? (*nema ograni~uvawa-mo`e da se upotrebat za bilo {to-duri i za svadba*):

Ako ne gi zemete: Zo{to ne sakate da go zemete zaemot? (*Spontan odgovor: Opi{ete go:*)

b. Ako nekoj vi ponudi zaem od 54,000 koj }e treba da se vrati za edna godina ili pomalku, so 35% kamata godi{no (da vratite 72,900 denari za 12 meseci, ili pomalku, ako se vrati pred rokot):]e go zemete? Da Ne

v. Koj od gore navedenite zaemi (a i b) pove}e Vi se dapa|a?

V. Pra{awa za selski banki

Pro~itajte go sledniov izve{taj:

"Pri~inata poradi koja gi postavuvame ovie pra{awa, e bidej}i VOKU ima edna ideja koja mo`e da im pomogne na vakvite doma}instva, da se zdobijat so pristap do krediti i kamata na nivnite {tedni vlogovi. Nie sakame da vidime dali na{ata ideja }e uspee vo ova selo. Na{e mislewe e deka lu|eto vo edno selo, mo`e da se zdru`at za da formiraat **banka-vo sopstvenost na seloto**. Taa }e gi koristi gotovinskite vlogovi na lu|eto vo seloto i }e gi upotrebi ovie pari za da dava zaemi na selani koj so kamata }e ja vratat pozajmenata suma, na bankata-sopstvenost na seloto. Parite dobieni od kamata na zaemi, }e se upotrebat za kamata na {teda~ite. Na ovoj na~in, gotovinskite sredstva koi lu|eto gi ~uvaat vo svoite domovi, }e mo`e da se upotrebat za produktivna potreba-i korist }e imaat (onie koj }e dobijat kamata na {tedeweto) i (onie koj zemaat zaem/ kredit). Bankata-vo sopstvenost na seloto, }e bide nadgleduvana od samite selani. Tie }e izberat izvr{en odbor na direktori, koj }e bide odgovoren za donesuvaweto na polisi za zaemi i {tedewa i istotaka }e izberat menaxer, koj sekojdnevno }e rakovodi so bankata. Odborot na direktori i menaxerot, }e bidat tehni~ki obu~eni i }e dobijat tehni~ki sovet od strana na VOKU, preku nejzinata kancelarija vo Skopje."

Pra{ajte go liceto koe go intervjuirate dali go razbira konceptot i dali ima nekoi pra{awa:

Posle toa postavete nekolku op{ti pra{awa za diskusija:

Celta na ovoj del e da se proceni: (1). koi se najgolemite pre~ki spored lu|eto, za formirawe na gore navedenite selski banki, (2) da se identifikuvaat onie lu|e koi se spremni da ja poddr`uvaat ovaa ideja vo op{tinata, (3) da se nabavi posebna informacija za toa kolku pari lu|eto }e investiraat vo selskite banki.

a. Dali mislite deka ovaa ideja }e uspee vo ova selo? Zo{to ili, zo{to ne?

b. Dali veruvate deka lu|eto vo seloto imaat dovolno kapacitet za nadzor i kontrola na selskata banka (so tehni~ka pomo{ od VOKU?). Zo{to ili, zo{to ne?

v. Koi lu|e od seloto bi mo`ele da i pru`at najgolema poddr{ka na selskata banka?

g. Koj procent na minimum kamata bi go barale Vie ,za da otvorite {tedna smetka vo selskata banka? Poto~no, koj procent bi go barale za devizna smetka (DEM)?

_____ a koj za denarska smetka _____? (*Zabele{ka: ubedete go ispitanikot deka ovie se SIGURNI vlogovi vo selskata banka, upravuvana od samite selani; a ne vlogovi vo Makedonska Banka vo koja tie nemaat doverba)*

d. Od okolu, kolku bi bil Va{iot po~eten vlog na takva edna smetka ? (Zemete odgovor vo DEM):

_____

|. Kako bi sakale da gi vlo`ite parite: (Zaokru`ete eden)

-vo DEM, -vo Denari, -bilo kako

e. Dali bi {tedele ako ima samo denarski smetki?

Da Ne

ALBANIAN LANGUAGE VERSION

UDHEHEQES GJATE INTERVISTES TE WOCCU PER VLERESIMIN E TREGUT

EMRI I FSHATIT : NUMRI I
INTERVISTES :
KOMUNA :

Hyrje: sqaroheni se kjo vizite eshte me qellim te mblidhen te dhena per nje pasqyre, e cila pregatitet nga ana e WOCCU, organizate humanitare Amerikane, e cila para pak kohe ka hapur zyren e saj ne Shkup dhe eshte e interesuar ti ndihmoje njerezve ne regjionet fshatare, qe te fitojne qasje me te mire deri te sherbimet finansiare per kursim dhe kredi. Qe te mundet WOCCU ti kuptoje nevojat e njerezve dhe problemet e tyre , eshte e nevojshme informata per statusin finansial dhe historija e familjeve ne regjione te ndryshme ne Maqedoni - kjo eshte shkaku pse i intervjuojme familjet. INFORMATA E FITUAR SHERBEN VETEM PER NEVOJAT E WOCCU. Informata e fituar nuk do te diskutohet me organizate tjeter apo person fizik. Pergjegjet do te jene reptesisht anonime.

I. Pyetje te pergjithshme per familjen

a. Sa njerez jetojne ne familje tani ? _____
b. Sa anetare momentalisht nuk jetojne me familjen por, regullisht dergojne te holla ? ____
c. Sa anetare ne familje pranojne rroge ? _____ Sa jane te ardhurat mujore te anetareve te punesuar ne familje ? _____
d. Sa njerez punojne orar te plote pune ne bujqesi dhe blektori ? _____; Sa njerez punojne orar jo te plote ne bujqesi ? _____
e. Sa hektare toke ka familja ? _____ E huazuar per nevojat e familjes ? _____
f. Sa lope posedoni ? _____ Sa dhen _____ Cfare te mbjella kultivoni me shume _____, _____, _____ .
g. Burrimi kryesor i te ardhurave eshte (rrethoni njeren)
- bujqesija -tregetija -rroga nga anetaret e familjes
-dergimi i te hollave nga anetaret e familjes qe jetojne jashte nga Maqedonija,
- tjera (emeroheni _____)
Perqindja e te ardhurave te pergjithshme te cilat jane burimi kryesor i te ardhurave : _____
h. Sa eshte perqindja e te ardhurave bujqesore, qe vine nga shitja e korrjeve ? _____
Nga kafshet shtepiake dhe shitje te prodhimeve qumeshtore ? _____
Ne dy vitet e fundit a ka kontribuar familja vullnetarisht ne ndonje proekt ne komune (sic jane shkolla, posta, rruga, xhamija) ?. Po Jo
Nese ka kontribuar : per se _____ Dhe sa ? _____

II. Sherbime finansiare

a. Momentalisht a keni llogari aktive ne ndonje Banke Maqedone apo Biro Kursimi ?
Po Jo
Nese keni : llogarija eshte ne (rrethoni njeren) DEM apo Denare
Nese keni a eshte llogarija per (rethoni njeren) :
Kursimin e te hollave, Per marjen e rroges

BEST AVAILABLE DOCUMENT

b. A ka ndonje anetar i familjes llogari aktive ne ndonje banke jashte Ish Jugosllavise ? Po Jo
c. A ka marre dikush nga anetaret e familjes ne tre vitet e fundit , kredi prej Banke Maqedone / Kursimore?
Po Jo
Nese ka mare : ne cilin vit eshte mare kredija e fundit ? _____ sa perqid ka qene kamata mujore ? _____ periudha kohore per kthimin e te hollave ? _____ suma e kredise ?
d. Ne vitin e fundit, a ka mare dikush nga njerezit e fshatit tuaj , borxh nga ndonje huazues privat ?
Po Jo

Nese ka mare : sa eshte zakonisht kamata mujore ? _____ per maksimum period kohor _____?
Maksimum sume e huazuar ? _____

A vine keto huazime nga (rethohe njeren)
fshatrat tjera njerez qe nuk jane prej fshati te dyja
e. A i investon dikush nga fshati tuaj te hollat e gatshme / kesh te holla, te ndonje mik / biznismen privat / tregetar ? Po Jo
Nese investojne : per sa kohe i huazojne ? _____ Sa kamate fitojne (nese marin) ? _____

III. Nevoja per kursim

a. Gjate nje viti a ka patur muaj kur familja ka pranuar me shume kesh te holla ? Po Jo
Nese kjo ka ndodhur ; Ne cilin muaj ka patur me teper te ardhura ? _____ cili eshte burimi i ketyre te ardhura ? _____
b. A ka ndonje muaj-e kur harxhimet e familjes jane dukshem te medha ? Po Jo
Nese ka : ne cilat muaje ka me shume harxhime ? _____ Cfare harxhime jane ato ? _____
c. Sa kane qene per afersisht te ardhurat bruto vjetore e njeres nga familjet me te vobekta te fshatit ne 1995 ? _____ E sa i familjeve me te pasurave _____ .
d. Ne cfare menyre njerezit ne fshat i kursejne te hollat qe nuk i harxhojne menjehere ?

SHENONI PERGJEGJET TE CILAT SIPAS TE PYETURIT PRAKTIKOHEN NE FSHAT

_____ i ruajne kesh i harxhojne sipas nevojes
_____ i deponojne te hollat ne Banke Maqedone apo Kursimore.
_____ i deponojne ne Banke te huaj
_____ i huazojne ndonje biznismeni apo tregetari
_____ i huazojne ndonje miku / fisi
_____ mblejne mallra tregetare, me qellim ti shesin per nje apo dy muaj dhe te fitojne me shume te holla
_____ investojne ne mall, qe planifikojne ta ruajne kohe me te gjate
_____ tjera (emeroheni : _____)

Renditini pergjegjet sipas vleres

f. Momentalisht, sa eshte suma mesatare e rezervave ne kesh, qe e posedojne shumica e fshatareve ?

Shenoni nje nga te paraqiturat

_____ 0 - 500 DEM
_____ 500 - 1.000 DEM
_____ 1.000 - 2.000 DEM
_____ 2.000 - 5.000 DEM
_____ 5.000 - 10.000 DEM
_____ 10.000 - 20.000 DEM
_____ 20.000 - 50.000 DEM
_____ mbi 50.000 DEM

Njerezit qe i ruajne te hollat ne kesh, a i ruajne ne (rethoni njeren)
DEM apo valute tjeter Denare, te dyja

IV. Nevoja per kredite

a. Nese dikush Ju ofron hua-borxh prej 2.000 DEM qe ti ktheni per nje vjet apo me pak, me kamate vjetore prej 27 % (te ktheni 2.540 DEM per 12 muaj, apo me pak, nese kthehen para afatit): a do ti merni ?
Po Jo

Nese i merni : Per cka do ti shfrytezoni te hollat ? (nuk ka kufizim - mundet te shfrytezohen per cka do - edhe per dasme) : _____

Nese nuk i merni : Pse nuk doni ta merni huane ? (Pergjegje spontane: pershkruani :)

b. Nese dikush Ju ofron hua-borxh prej 54.000 denare qe ti ktheni per nje vjet apo me pak, me kamate vjetore prej 35 % (te ktheni 72.900 denare per 12 muaj apo me pak nese i ktheni para afatit) : A do ta merni ? Po Jo
c. Cili nga huate-borxhet e mesiperme Ju pelqen me shume ?
a) b)

V. Pyetje per banka fshatare

Lexoheni raportin qe vijon :

" Shkaku per parashtrimin e ketyre pyetjeve, eshte pasi WOCCU ka nje ide qe mundet tju ndihmoje familjeve si ju, te fitojne mundesi per kredite dhe kamate ne kursimet e tyre. Ne duam te shohim a do te kete ideja jone sukses ne kete fshat. Mendimi i jone eshte se njerezit ne kete fshat, munden te bashkohen

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dhe te formojne **banke ne pronesi te fshatit.** Kjo do tju shfrytezoje deponimet e gatshme te njerezve ne fshat dhe do ti perdore keto te holla qe tju jape hua fshatareve e keto do ta kthene sumen e te hollave me kamate, ne banken - pronesi e fshatit. Te hollat te fituara nga kamata, do te pedoren per kamaten e kursimtareve. Ne kete menyre, mjetet e gatshme te cilat njerezit i ruajne neper shtepi, do te mundet te shfrytezohen per nevoje produktive- dhe dobi do te kene (ata qe do te marin kamate per kursimet) dhe (ata qe do te marin kredit /hua) Banka ne pronesi te fshatit , do te jete e mbikqyryr nga vete fshataret. Ata do te zgjedhin keshill ekzekutiv te drejtoreve, qe do te jete pergjegjes per sjelljen e polisave per kredite dhe kursime e poashtu do te zgjedhin menaxher-drejtor i cili do ta udheheqe me banken cdodite. Keshilli i drejtoreve dhe menaxheri do te pergatitet dhe do te pranojne keshilla tehnilke nga WOCCU, nepermjet zyres ne Shkup."

Pyeteni njeriun qe e intervjuoni a e kupton konceptin dhe a ka ndonje pyetje :

Pas kesaj parashtroni disa pyetje te pergjithshme per diskutim :

Qellimi i kesaj pjese eshte te vleresohet: (1). cilat jane pengesat me te medha sipas njerezve, per formimin e bankave fshatare te permendura me siper, (2). te identifikohen ata njerez qe jane te gatshem ta permbajne kete ide ne komune, (3). te pervetesohet informate e vecante per ate se sa te holla do te investojne njerezit ne bankat fshatare.

a. A mendoni se kjo ide do te kete sukses ne kete fshat ? Pse apo, pse jo?

b. A mendoni se njerezit ne fshat kane kapacitet te mjaftueshem per mbikqyrje dhe kontrolle te bankes fshatare (me nduhme tehnike te WOCCU ?). Pse apo, pse jo ?

c. Cilet njerez ne fshat munden ti ofrojne permbajtje me te medhe bankes fshatare ?

d. Sa perqind minimum kamate do te kishit kerkuar Ju, qe te hapni llogari kursimi ne banken fshatare ? Me sakte, cilen perqindje do ta kishit kerkuar per llogari devizore (DEM) ? _____ a cilen per llogari denarike _____ ? (Verejtje : bindeni te pyeturin se keto jane kursime te SIGURTA ne banken fshatare, e udhehequr nga vete fshataret; e jo deponime ne Banken Maqedone ne te cilen ata nuk kane besim)

e. Perafersisht, sa te holla kishit dashur te investoni fillimisht, ne kesi lloj llogarie? (Pergjigje me DEM)

f. Si deshironi ti depononi te hollat : (rethoni njeren)
ne DEM ne Denare -sido qofte

g. A kishit kursyer nese ka vetem llogari denarike ?
Po Jo

ANNEX 9: THE MACEDONIAN SETTING

Macedonian Agriculture

Macedonia is a land of small farms, with about 85% of the land in private hands. In 1991 there were 163,000 farm families, each with an average of about 2.8 hectares. Private farms are highly diversified and grow a comparatively large number of crops. About 35% of private land is planted in cereals such as wheat, maize, and barley, and 12% in vegetables, such as tomatoes, watermelons, and paprika. About 11% is planted to artificial meadows to feed livestock, and 7% is in vineyards and orchards. All private farms maintain some livestock, principally dairy cattle and sheep. Farms are operated almost exclusively by labor of the extended family, although casual labor may be employed during peak demand periods, particularly with vegetable production.[1]

Farm family incomes are derived from both farm and non-farm sources. Marketable products include beef, lamb, wool, milk, cheese, cereals, oilseeds, sugar beets, tobacco, vegetables, fruit, grapes, hay, eggs, and poultry. Non-farm income includes remittances from family members working abroad, wages from work in urban areas, and social security payments.

Public sector farming consists of 221 agricultural *kombinats*, farming about 200,000 hectares of prime farm land and accounting for 25% of production and 55% of input supply, processing, and marketing services. These kombinats are typically organized into vertically integrated production and agro-processing complexes. The future of the kombinats remains unclear. Many are deeply in debt, and the World Bank and International Monetary Fund are encouraging the government to privatize them. A draft law has been produced for this purpose; however, it remains in draft form and has not been passed by Parliament.

Agricultural kombinats traditionally handled a large portion of the marketing of private farmer's output; however, as the kombinats have decayed in recent years, their ability to market effectively has also decayed. Private farmers must rely increasingly on private marketing channels. Farmers are free to purchase inputs and market produce on the open market, and private marketing channels have become more developed in recent years. Many farmers, however, miss the price security and supplier credit that kombinats traditionally offered. The trade embargos of Serbia and Greece closed Macedonia's major agricultural export markets, making the task of private marketing more difficult and causing considerable disruptions in traditional marketing arrangements. The recent re-opening of the borders with these countries is a positive development, but it will take more time for its benefits to filter down to the small farm level. If successful, Macedonia's efforts to join the European Union will greatly affect agricultural marketing; however, this process will take many years to succeed, and many other Eastern European countries are far ahead of Macedonia in the line at Europe's door.

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[1] Much of this information is adapted from materials provided by VOCA Macedonia.

Implications for WOCCU

Savings and Credit Cooperatives are well adapted to the small farm structure of private Macedonian agriculture. SCCs are capable of making the types of small loans that small farmers need, for, for example, purchase of a cow, vegetable seeds, or plastic sheeting for greenhouses. They also should be appropriate for financing small-scale agricultural trade.

The movement towards privatization of the kombinats is also relevant. If these holdings are broken up and privatized, the farmers who take over will need credit. The larger ones will probably be supported by government programs or special credit line developed by the World Bank. Smaller farmers also will need credit support, and SCCs can make a contribution in this regard. The acting Resident Representative of the World Bank suggested to the Assessment Team that this can be a major "selling point" for the SCC idea. His opinion is that government officials will be more receptive to the promotion of SCCs if WOCCU explains to them that SCCs can help fill the small farmer credit niche and thereby help small farmers participate more fully in the agricultural transition. He also stressed that as agricultural price reform progresses, the relative prices of agricultural products will change, requiring farmers to change their choices of crops -- a process that SCC-supplied credit can facilitate.

Donor Activity in Agriculture and Rural Credit

A number of foreign donors provide or are considering support for Macedonian agriculture. USAID has by far the most active program focused on improving economic performance in, and market access for the agricultural sector. PHARE has been largely absent due to the political disputes with Greece, but recently has begun to develop a program. The German Government has assisted with irrigation rehabilitation and the Dutch Government is in the process of defining their strategy which may include assistance to agriculture. IFAD is in the process of developing a project to provide assistance in the more remote and economically disadvantaged *obstinas*.

The World Bank plans to support Macedonian agriculture through the Private Farmer Support Project, which should be signed in May. This project will help privatize veterinary services, improve analysis skills in the Ministry of Agriculture, help develop market information services, revise legislation critical to the transformation of the kombinats, and make credit available through commercial banks for agriculture and private enterprise. The World Bank is also planning a Structural Adjustment Loan (SAL) for 1996 that will promote trade and price liberalization measures, reduce subsidies to agriculture, and help restructure and privatize the kombinats.

Many donors are developing programs that will make credit available to private business and agriculture. Most of these, however, are not yet operational. A list of programs is attached. It includes large schemes such as the 40 million Deutsche-mark credit line that the European Bank for Reconstruction and Development plans to open to help companies in the process of

privatization, and small schemes such as the $100,000 credit fund managed by VOCA and the Open Society Institute through IK bank.

Implications for WOCCU

Other donor programs are unlikely to compete with WOCCU, because most of them do not target small farmers. And only WOCCU plans to develop savings services . In the area of credit provision, WOCCU probably has the most to learn from the VOCA/Open Society program, which makes 6-12 month loans to farmers of about $5,000 each at a 17% per annum interest rate. The program director should continue to network with VOCA and the other donors involved in credit and agricultural assistance to facilitate coordination and harmonization when appropriate.

LATEST INFORMATION ON CREDIT LINES AS AT 16.01.96
(please let us know if you acquire better information)

1. FOR THE SMALL BUSINESS:

Macedonia Centre for International Co-operation (Програма за промоција на бработувањето)
- **Fund:** 600,000DM is available from Swiss and Dutch church organisations.
- **Contact:** Sasho Klekovcki 365 381 (better to fax: 365 298). They are appointing a new member of staff to deal specifically with this programme.
- **Beneficiaries:** for projects which lead to the employment of women, handicapped persons and other socio-economic marginalized groups (eg ethnic minorities) and involving these groups in management of the business.
- **Projects:** not for trade. A feasibility study of the project will be required. Loans to be in the range 10000DM - 75000DM
- Rates: 5-10%, DM loan.
- **Conditions:** 2 year loan, 1 year without repayment
- **Other:** expected to start February 1996. Will also offer courses for participants.

Можности
- **Fund:** 1.5 million dollars is available via USAID over the next four years and Opportunity International will try to acquire more funds if there is a demand.
- **Contact:** Nicholas Colloff or Antonia Janeva 222 037. Macedonian Director to be selected in January.
- **Beneficiaries:** for those unable to get loans from commercial banks.
- **Projects (to be finalised):** various small loan schemes are being developed (to 3000$ for working capital, with a 5-person group guarantee, 3-15000$ with a mortgage and for capital leasing a maximum of 30000$)
- **Rates:** around 13% pa to be discussed by the Board.
- **Conditions:** to be discussed by the Board
- **Other:** to be operational March 1996

North-Rhine Westphalia (Not primarily a credit scheme. Their economic qualification programme aims to give people confidence to invest their own money).
- **Fund:** micro-credit fund of 0.5million DM from North-Rhine Westphalia
- **Contact:** Klaus-Peter Gerstberger and Roman Wigand 234 937 and 119 807
- **Beneficiaries:** persons from Skopje. Will be the best from each series of courses eg 5 out of 20 on the course may get some financial assistance.
- **Projects:** production or service sector, 1 - 10 workers. 10000 - 75000 DM. Investment preferred to working capital.
- **Rate:** around 10% pa
- **Conditions:** 30% own capital. Need one friend as guarantor
- **Other:** Careful selection for the courses. First one starts January 1996. Apply early for the second one, due April.

IK Bank / OSI / VOCA for agriculture.
- **Fund:** 100,000$ from OSI for work with VOCA. Started November 1995.
- **Contact:** Dragon Nikoleski for application forms (IK Bank 230 945), Mark Leverson (VOCA 222 550) OSI 361 393

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- **Beneficiaries:** small agricultural producers and agribusiness. Must have received technical help from VOCA. Other similar western sources may be considered.
- **Projects:** 6-12 month loans of 500-5000 - seasonal working capital or small equipment
- **Rate:** 17% pa
- **Conditions:** $ loan. Not necessary to have own capital.
- **Other:** hope to extend the scheme in Spring 1996, using repayments plus additional sources of funds.

Rural credit programme - USAID
- **Fund:** the contractor - the World Council of Credit Unions has no funds. The aim is to create institutions to mobilize rural savings.
- **Contact:** Bruce Bjornson. 239 433. Will recruit 6 local field workers January 1996.
- **Beneficiaries:** areas to be defined Jan-march 1996. rural communities of about 2000 inhabitants. aim for 2 in first 18 months, 20 at end of four year project.
- Project: 500 - 5000$ depending on availability of funds in the community and decisions of the local Board
- **Other:** Much will be consumer lending. May act as broker to find capital for agricultural and business lending

2. FOR LARGER SCHEMES:

European Bank for Reconstruction and Development.
- **Fund:** Total of 40million DM. The first tranche of 30million DM will be operated via four banks: Stopanska (10M), Almalko (6M), Makedonska (10M) and Import-Export (4M).
- **Contacts:** not yet able to establish. Most information via EBRD in London.
- **Beneficiaries:** companies must be privatised or in process of privatisation. 60% (?or 40%) of the capital must come from the company.
- **Projects:** likely maximum of 1 million DM and unlikely to be interested in projects of less than 300000DM. (However, rumours mid-Jan suggest this may not be right). No sector restrictions. Can be investment, working capital or share purchase.
- **Rates:** to be finalised for February start
- **Conditions:** to be finalised for February start
- **Other:** many applications seem to be already in the pipe-line but, if there is a waiting list of good projects, we can expect the facilities to be extended.

NB EBRD may also have a separate credit line via Kommercialna Bank.

German - Macedonian government programme.
- **Fund:** 20 million DM, 10 million German government, 7 million Macedonian Government (from the Phare compensation fund), 3 million Almalko Bank + 5 million technical help from German Bank.
- **Contact:** Almako Bank 113 200 / 113 702 / 119 171
- **Beneficiaries:** Macedonians living in Germany will get priority but probably firms with good trading connections with Germany will get consideration.
- **Projects:** no recent information. Early discussions focussed on industry, agriculture and crafts.
- **Rates:** to be finalised for February start

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- **Conditions:** to be finalised for February start
- **Other:** early discussions suggested that the maximum loan would be 150000DM of which the first 20% would come from the company. May help to have support from the Ministry of Development.

International Fund for Agricultural Development
- **Fund:** 8 million $ at 0.75 - 1% over 40 years loan to Government. will be a self-contained fund within a commercial bank. (To be agreed - probably Almako)
- **Contact:** no local contacts yet. Information from Harold Kelly 99 44 1624 815852 or IFAD in Rome 99 39 6 54591
- **Beneficiaries:** Must be residents of the designated Economically Underdeveloped Areas in south and east of the country. Associations and groups preferred.
- **Projects:** 500 - 10,000$ agriculture and small business projects. Need business plan paid for by bank or done by local partner (100$ fee pre loan)
- Other: Macedonian Government yet to sign. If agreed in April 1996, lending likely Oct/Nov 1996. (September 1996 next date for signing). This is probably also known as the World Bank credit line for agriculture.

JOPP: Joint Venture Phare Programme:

Support for joint ventures between SMEs in EU and Phare countries. The EC partner should have <500 employees, net fixed assets below ECU 75m and not more than one third of the share capital held by a major company. Priority is given to Phare partners with net fixed assets below ECU 10m. Support is given to the EC partner for a feasibility study. If the project goes ahead, loans or equity financing are available for the joint venture or for expansion and grants are available for training and technical assistance.

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ANNEX 10: ENVIRONMENTAL SCREENING OF LOAN APPLICATIONS

Each Macedonian savings and credit cooperative (SCC) should adopt its own set of written lending policies. The WOCCU office in Skopje has a detailed lending policy handbook that can be adapted to the needs of individual SCCs in Macedonia.

Lending policy should stress safe loans. These normally will be relatively short-term loans, from 1 to 12 months, with as many as possible being 6 months or less. The decision to issue a loan should be based primarily on a careful analysis of the loan application, the borrower's character, and the possibilities for security such as co-guarantors' signatures or collateral. The SCC should also check if the project to be financed by the loan is likely to have negative environmental impacts on the community. Projects that pose a serious risk should not be financed.

In 1991, Lawrence Kent of DAI wrote a report on this topic for USAID's Office of Small, Micro, and Informal Enterprise.[1] Well received, the paper was later presented at a United Nations conference on the environment in Mexico City co-sponsored by the World Bank. The final chapter of that report makes recommendations that are relevant to the Macedonian SCC program:

> A.I.D.'s assistance to small enterprises should not ignore issues of environmental concern; however, support to small enterprises should not be expected to significantly modify their behavior towards the environment -- this behavior is mostly a function of the environmental policy environment. An A.I.D.-supported financing organization should not have to impose on its clients pollution control standards that are not enforced under national environmental policies. Such a requirement would impose higher costs on the client than those faced by her or his competitors, and it would impose additional costs on intermediary financial institutions, when the sustainability of such institutions requires reducing, not increasing, costs. A.I.D.-supported small lending operations should not be expected to solve environmental problems on a micro level. These problems need to be addressed through improvements in national-level government policies and enforcement procedures.
>
> At the same time that A.I.D. should not use its small enterprise support tool to do a job that its policy dialogue tool is designed for, the Agency should avoid financing the start-up or expansion of small enterprises that cause excessive environmental degradation. One way to avoid supporting such enterprises,

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[1] *The Relationship Between Small Enterprises and Environmental Degradation in the Developing World*, Lawrence Kent, Development Alternatives Inc., Prepared under the Employment and Enterprise Analysis Project, September 1991.

> without requiring intermediate financial organizations to carry out costly loan-by-loan environmental impact assessments, is to draw up a list of activities to be simply barred from financing. Such a list might include small enterprise activities like lead smelting, electroplating, and chromium-based leather tanning, but further study of these and similar small enterprise activities must be conducted before a list can be defined. Use of such a list will allow A.I.D. to avoid financing particularly harmful small enterprises without imposing significant costs on intermediate organizations. The list will not solve the environmental problems of small-scale polluting industries, but this is not the task of small enterprise support operations -- it is the task of government environmental policy and enforcement mechanisms.

In Macedonia, WOCCU should not impose requirements for environmental impact assessments on SCCs, but it should encourage SCCs to adopt lists of barred activities in their lending policies. These lists should be limited to the worst-offending activities such as lead smelting, electroplating, and chromium-based leather tanning, plus other activities that may be identified as environmentally abusive by the board of the SCC or by WOCCU staff. When the World Bank concludes its Environmental Review for Macedonia, WOCCU should consult it to see if it identifies any other small enterprise or agricultural activities that cause serious environmental damage. If so, WOCCU should encourage SCCs to add them to their lists of barred activities. At this point, it should be pointed out, none of the activities that SCCs propose to finance in Macedonia can be considered environmentally abusive.

The 1991 DAI report also addresses the topic of positive environmental impacts:

> Just as A.I.D. should avoid financing small enterprises that are particularly harmful to the environment, the Agency should increase its support to small enterprises that contribute to environmental preservation by serving as alternative sources of employment to people who would otherwise encroach on fragile lands or destructively exploit natural resources. In this context, rural, labor-intensive industries deserve special support, and A.I.D. should consider supporting intermediary organizations that lend to or otherwise assist such enterprises.

This passage is relevant to the WOCCU program in general. Because the program is designed to work in and stimulate the rural economy, it should have indirect beneficial impacts on the environment.

The lending decisions of individual SCCs, however, should not be prematurely complicated by attempts to favor environmentally-positive projects. New SCCs must primarily base their lending decisions on a careful analysis of the loan application, the borrower's character, and the possibilities for security such as co-guarantors' signatures or collateral.

ANNEX 11: LIST OF PERSONS CONTACTED

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Catholic Relief Services
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Ziber Ziberi
Director
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Sveti Nikole

Saso Klevkoski
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Zufi Aliu
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Opstina Tetovo
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Abdurauf Prussi
President
Behigudin Sahapi
Secretary
El Hilal

Stojan Kitanov
Village Secretary
Lozovo/ Sveti Nikole
Popovski Janko
Village President
Vasilevo/Strumica
0902/24-908

Abdulmutalip Aliu
Village Council Member
Forine
094/83-021

Hajdar Idrizi
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Forine
094/83-424

Atanasov Mile
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Note: Additional village contacts are available in the write-up on Phase II research in the potential pilot villages (field survey).

ANNEX 12: DRAFT SCOPES OF WORK FOR THE LEGISLATIVE AND ADVOCACY CONSULTANTS

I. Draft Scope of Work for the Legislative Consultant

Qualifications

The Consultant should be experienced with legislative initiatives on behalf of savings and credit cooperatives in Eastern Europe. He should be able to commit to making three trips to Macedonia.

Overview and Timing

The Consultant should make three trips to Macedonia, each approximately three weeks in duration. The first trip should occur in April, the second in late May or early June, and the third sometime between June and September, depending on the need. The overall goal of these trips is to help the Program Director to achieve the legislative changes necessary for the registration and operation of Savings and Credit Cooperatives (SCCs) in Macedonia.

First Trip: Help Prepare and Implement a Two-Day Seminar

1. Coordinate closely with the Program Director and the Advocacy Consultant, whose visit will be scheduled for these same three weeks.

2. Review the legislative strategy mapped out in the Assessment Team Report.

3. Dialogue with government and donor officials to improve and refine the strategy.

4. Work with the Program Director and Advocacy Consultant to prepare and implement a small, two-day seminar on the potential benefits of SCCs and the amendment necessary to allow them to operate. Preparations should be coordinated with USAID and the NBM, whose formal support will be crucial for a successful seminar. The first day of the seminar should focus on the benefits and modes of operation of SCCs. Approximately twenty invitees should represent the National Bank of Macedonia, the Ministry of Finance, the Ministry of Agriculture, and the World Bank. The purpose of the first day should be to build understanding and support for the SCC concept.

   The second day of the seminar should focus on the required legal amendment. It should be attended by a smaller group of lawyers representing the NBM, the Ministry of Finance, and the Ministry of Agriculture. The purpose should be to explain the need for a new SCC subsection in the Bank and Savings House Act (BASHA), outlining clearly the arguments for each article in the new proposed subsection, and beginning the process of review and discussion that will be necessary before the NBM will be satisfied with a draft. The model

statute in Annex 1 of the Assessment Team Report should also be presented to give the attendees an idea of how SCCs will be internally regulated. During the seminar, WOCCU should encourage the NBM to establish the internal committee that will work on the draft amendment. If the seminar is successful, such a committee should be formally established at the close of the second day or shortly thereafter.

5. Help prepare for the seminar by reviewing, editing, and refining a precise ten-page report drafted by the Program Director to describe how SCCs operate, how they are different from savings houses, their potential benefits to Macedonia, the origin of the WOCCU project, and WOCCU's plans for the program. The report should be written to speak directly to Macedonian officials in the NBM, and the Ministries of Finance and Agriculture. After review and refinement, the report should be translated. A separate two-page summary of the report should also be developed and translated.

6. Review and improve the draft proposed amendment and its associated explanations (see Annex 11 of Assessment Team Report). Coordinate with the Advocacy Consultants, local lawyer, and Program Director to review and refine the draft, after which the office should arrange for translation.

7. Meet with invited government officials on an individual basis the week before the seminar to encourage interest and attendance. These will be follow-up meetings to ones the Program Director will have already held, during which he will have distributed written materials.

8. Serve as one of the main presenters during the two-day seminar, which will be scheduled for the consultant's final week of the trip.

9. Conduct individual follow-up meetings with key officials after the seminar, if time permits.

Second Trip: Work with the drafting committee to develop an acceptable amendment

About three weeks after the seminar, the legislative/legal consultant should return to work with the local lawyer and the internal legislative committee in the NBM. Hopefully a decision to put the amendment on the committee's agenda will be taken at the two-day seminar or shortly thereafter. The international consultant, then, should time his or her visit to coincide with the period when the committee can work most intensely. The local lawyers' skills should be called upon during this period as necessary. If appropriate, the consultant should continue to meet other officials in the NBM and the Ministry of Finance to shore up their support for the amendment.

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Third Trip: Further follow-up

Depending on how things proceed, a third visit by the legislative consultant may be necessary before a good draft amendment can be finalized and meet the approval of the NBM and the Ministry of Finance.

Once an acceptable draft emerges, the Program Director will need to track closely its progress though the parliamentary system, including the traditional vetting by the parties and the Law Faculty at the University. The local lawyer should be called upon during this time to help track and facilitate these processes. If necessary, the legislative consultant should return to help on critical issues.

If all goes well, this should culminate in the enactment of the amendment in July, August, or September. WOCCU, however, will have to remain flexible on the timetable and be prepared to adjust the program to the various timing concerns of the NBM, the Ministry of Finance, and Parliament. Some delays and rescheduling are inevitable.

II. Draft Scope of Work for the Advocacy Consultant

Qualifications

The Advocacy Consultant should be experienced with legislative initiatives on behalf of savings and credit cooperatives in Eastern Europe or elsewhere. He or she should also be an excellent communicator, able to help develop and organize a lively, interesting, and effective seminar.

Overview and Timing

The Consultant should make one trip to Macedonia for approximately three weeks in duration. It should be scheduled to coincide with the visit of the Legislative Consultant in April. The overall goal of the consultancy is to help the Program Director to achieve the legislative changes necessary for the registration and operation of Savings and Credit Cooperatives (SCCs) in Macedonia. The main task will be to help prepare and implement a two-day seminar on SCCs for government officials. The consultant must ensure that the seminar is lively, interesting, and effective.

Activities

1. Coordinate closely with the Program Director and the Legislative Consultant, whose visit will be scheduled for these same three weeks.

2. Review the legislative strategy mapped out in the Assessment Team Report.

3. Dialogue with government and donor officials to improve and refine the strategy.

4. Work with the Program Director and Legislative Consultant to prepare and implement a small, two-day seminar on the potential benefits of SCCs and the amendment necessary to allow them to operate. Preparations should be coordinated with USAID and the NBM, whose formal support will be crucial for a successful seminar. The first day of the seminar should focus on the benefits and modes of operation of SCCs. Approximately twenty invitees should represent the National Bank of Macedonia, the Ministry of Finance, the Ministry of Agriculture, and the World Bank. The purpose of the first day should be to build understanding and support for the SCC concept.

   The second day of the seminar should focus on the required legal amendment. It should be attended by a smaller group of lawyers representing the NBM, the Ministry of Finance, and the Ministry of Agriculture. The purpose should be to explain the need for a new SCC subsection in the Bank and Savings House Act (BASHA), outlining clearly the arguments for each article in the new proposed subsection, and beginning the process of review and discussion that will be necessary before the NBM will be satisfied with a draft. The model statute in Annex 1 of the Assessment Team Report should also be presented to give the attendees an idea of how SCCs will be internally regulated. During the seminar, WOCCU should encourage the NBM to establish the internal committee that will work on the draft amendment. If the seminar is successful, such a committee should be formally established at the close of the second day or shortly thereafter.

5. Help prepare for the seminar by reviewing, editing, and refining a precise ten-page report drafted by the Program Director to describe how SCCs operate, how they are different from savings houses, their potential benefits to Macedonia, the origin of the WOCCU project, and WOCCU's plans for the program. The report should be written to speak directly to Macedonian officials in the NBM, and the Ministries of Finance and Agriculture. After review and refinement, the report should be translated. A separate two-page summary of the report should also be developed and translated.

6. Work with the Program Director to develop and prepare overheads and other audio-visual tools for the seminar. Arrange for rehearsals of all presentations.

7. Identify two village leaders (from different communities) who are interested in establishing SCCs and are articulate spokespersons. They should be invited to the seminar to speak of their belief in the SCC concept and its ability to coax Deutsche-marks out of hiding places and into productive investments in their villages. Their oral contribution to the seminar should be discussed thoroughly and prepared to touch on the concerns of NBM officials.

8. Review and improve the draft proposed amendment and its associated explanations (see Annexes 5 and 6 of the Assessment Team Report). Coordinate with the Legislative Consultant, local lawyer, and Program Director to review and refine the draft, after which the office should arrange for translation.

9. Meet with invited government officials on an individual basis the week before the seminar to encourage interest and attendance. These will be follow-up meetings to ones the Program Director will have already held, during which he will have distributed written materials.

10. Serve as one of the main presenters during the two-day seminar, which will be scheduled for the consultant's final week of the trip.

11. Conduct individual follow-up meetings with key officials after the seminar, if time permits.