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#07099

CROATIA GRANT PROGRAM REPORT, Quarter Three, Year Four

Period from February 01, 2000 to April 30, 2000

To the United States Agency for
International Development

In fulfillment of the 1996-1999+2000 Amendment
AID/OPPORTUNITY International Grant
EPE-0023-A-00-6022-00

Submitted by "NOA" SAVINGS AND LOAN COOPERATIVE, OSIJEK
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QUARTERLY REPORT: NOA February 2000 to April 2000

PRINCIPLE OBJECTIVES

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

MAJOR IMPLEMENTATION ACCOMPLISHMENTS

Up to date we have received 2030 loan applications. Out of that, 1763 individual loan applications and 316 group loan applications. We have processed for the loan committee 1525 applications, which has approved 1367 loans to be disbursed. After loan approval, 251 persons withdrew from the application, mostly due to insufficient guarantee or some difficulty in possible loan realization (lack of business space, registration or location permit). At this time, 7 loans are in the procedure of disbursement. In the third quarter NOA has disbursed 108 loans, what from the beginning of the project totals 1113 loans. Up to date 1735 jobs were sustained and 1038 jobs were created. We also have 523 paid off loans.

ACTIVITIES

1. Development strategy

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

NOA has strategically decided to extend the agreement with USAID and Opportunity International for another year, ending December 31st 2000. During this period NOA will get additional 500.000 \$ for Southern Croatia, initiating the tourism.

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

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

2. Financial annual report

Ending 1999 we started working on the annual report for year 1999. Parallel we were entering all data from the "Loan administrator" and "Dukic" programs into BANKPOS IPC program, which will in the future be our main database for loans and bookkeeping.

3. Resolve legal issues regarding taxation

Beginnings of January 2000 major political changes have happened in Croatia, so the Finance Minister Mr. Škegro was also replaced. For now we don't have any new suppositions regarding interpretation of the Bilateral Agreement between Governments of USA and Croatia, nor the tax obligation regarding the Opportunity International deposit to NOA

2

Croatian Government has brought a resolution of annulment the 35% profit tax, if the profit will be reinvested. Also, contributions for health and pension insurance are lowered, so now the human labor has become cheaper for the employee for 3.5%.

4. Coordinate efforts with other NGO's

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

5. Financial Ratios and Indicators

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

6. Strengthening of Entrepreneurs through Business Training Sessions

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

PROBLEMS AND CONSTRAINTS

Economic situation in Croatia has been worsening during last 3 years, and it culminated in past 6 months. Reciprocal debts are huge, payments have almost stopped in the whole country, and the rate of unemployment is 22%. In our region over 31.500 people are registered as unemployed (there are probably more that are not registered), which is the highest unemployment rate in last 50 years.

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

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

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

As a constraint in the past period, we definitely need to mention completely repaid 523 loan, 1735 sustained jobs and 1036 new opened jobs. Another success is also continuance of loan activity with the old clients, whom we trust and who trust us. In the last quarter we have disbursed 106 new loans, out of what 25 are group loans.