

SERVICING MICROENTREPRENEURS IN ALBANIA

ALBANIA GRANT REPORT SIXTEEN

Period from March 11, 2002 to June 10, 2002

To the United States Agency for International Development

In fulfillment of the 1998-2003

USAID/Opportunity International Cooperative Agreement

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Submitted by Opportunity International

July 2002

PRINCIPLE OBJECTIVES

1. Consultant to review finance policies and finance organization
2. Annual Audit to be performed by KPMG, Statutory Audit to be completed by Chartered Accountant.
3. Manager to attend training on Operations and Internal Auditing
4. ETIMOS Loan Agreement to be signed
5. Revision of Legal Contracts
6. Board of Supervisor Meeting to include visit by potential Swiss finance source
7. Micro Finance Center Annual Conference
8. Opportunity International Peer Evaluation Team
9. Initiate SME lending through SCAP activities
10. 2 staff to participate in SEED training for SME development

1. Consultant reviews finance policies and organization

Opportunity International technical consultant Nick Davenport provided external consulting on a number of finance department related issues including revision of the position description of PSHM's finance manager and consultation in filling the vacancy (including interviewing candidates), identification of risk areas and issues, and suggestions for key finance policies. Suggestions to minimize key risk areas included: People, Business Management, System Administration, Transaction Processing, and Regulatory Environment. A revised Finance Policies Manual will be updated by September 2002 in four areas: Accounting, Loan Administration, Staff Administration, and Systems Administration.

2. Annual Audit performed by KPMG, Statutory Audit completed by Chartered Accountant.

PSHM completed its Annual KPMG audit to International Accounting Standards. To date PSHM has realized interest income when it is received rather than when earned (accrued). Other than this statement, KPMG stated "the financial statements give a true and fair view of the financial position of the PSHM as at 31 December 2001..."

As a Sh.A., PSHM is also required to complete a "Statutory Audit" under Albanian Law, completed by an Albanian Chartered Accountant. Key issues included what expenses can be reported under Albanian accounting laws, loan provisioning, and certain payroll benefits. The audit was used to fill out the "Statutory Blue Form" for Albanian Officials.

3. Two Managers Attend training in Internal Auditing and Controls

The branch managers from the south (Fier, Lushnje, Vlora) and central (Tirana, Elbasan, Durres) attended a three-day session on internal auditing and controls. Training areas covered internal audit methodology, audit ethics, communications, internal auditing as a management tool for efficiency improvements, relationships between internal controls and the internal audit, how and when to use the internal audit, and risk evaluation of policies and procedures. Opportunity International's Technical Service Division sponsored the training by Tony Goodard, who brings over 25 years of internal auditing experience at several international banking institutions.

4. ETIMOS Loan Agreement Signed

PSHM received a 115,000 Euro loan from ETIMOS Consortium SCARL of Italy. The loan terms are 3 years with bi-annual repayment, and 9.3% interest. This is the first commercial loan taken by PSHM, and PSHM hopes to develop a credit history that will allow it to secure additional commercial funds in the future as PSHM develops and grows. The loan is renewable and the potential to access larger loans from ETIMOS exists in the future.

5. Revision of Legal Contracts

A complete review and revision of PSHM legal contracts took place to simplify and shorten contracts, allowing one contract for all loans whether secured with guarantors, movable, or immovable properties. The new contract also incorporates requirements from the new movable properties and executive title laws – developed by IRIS.

6. Board of Supervisor Meeting to include visit by potential Swiss finance source

The Board of Supervisors held its normal quarterly meeting to review first quarter results as well as the management of PSHM. Vision, Mission and Core Value Statements were revised to meet changes in PSHM activities such as the new SME component. The board expressed interest in an internal auditor position. Agreements with ETIMOS and Chemonics International were approved by the board.

During the last part of the meeting, Cedric Lombaard representing Blue Orchard SCARL, a provider of funding to Micro Finance Organizations gave a presentation of the Swiss organization. Mr. Lombaard spent about half a day at PSHM to begin the due diligence for a possible loan to PSHM, potentially around October 2002. While terms still need to be negotiated and will be based on the final application, PSHM will seek an initial loan of around \$250,000 for 1.5 years. Prior to confirmation of the loan, a rating will be performed by “Microfinanza”.

7. Micro Finance Center Annual Conference

The CEO and one Branch Manager attended the annual Micro Finance Center Conference in Budapest. The conference is attended by MFI's in Eastern Europe, Eurasia, and Central Asia including Mongolia. The conference provided an opportunity for networking with other MFIs, service providers and funding agencies as well as seminars and plenary sessions outlining main issues facing MFI's in the region.

8. Opportunity International Peer Review

Due to scheduling, the peer review was postponed until July 31 – August 6, 2002.

9. Initiated SME Lending through SCAP in coordination with Chemonics International

PSHM initiated lending under its agreement with Chemonics International. As of 10 June, four SME loans were pending disbursement. PSHM also held the first SME training for 6 designated SME Loan Officers given by Stuart White. Stuart is an SME expert and advisor to PSHM. The training focused on Cash Flow Analysis, Balance Sheet Analysis, and Business

Analysis using the “Top-Line” methodology. During the training two case studies were evaluated in depth giving participants a stronger understanding of SME lending.

10. Two Staff Participate in SEED training from SME Development

PSHM’s Director of Business Development/SME and a Senior Loan officer attended the two one week “Strategic Planning for SME” training sessions sponsored by SEED. The trainings took place in Skopje, Macedonia and representatives from four Balkan countries were in attendance. Topics covered during the training were: change of management, quality management, strategic planning process for SMEs, exercises in strategic planning and a field practice in strategic planning. The first week was particularly useful, although the practical exercise during the second week was with Macedonian companies and translation problems limited the experience.

Other Activities:

1. Annual Staff Retreat
2. Selection of new Branch Manager in South
3. Visit by OI-UK Director and Regional Manager

DIFFICULTIES AND CONSTRAINTS

Delinquency issues in the region of Kruje and the village of Kurcaj have slowed PSHM’s growth. Electricity problems, slow economy, and poor credit culture from past state banking experiences are the main issues in this region.

PSHM’s clients have raised concerns about the level of the economy and indicated that a slow down is influencing their businesses. This issue and electricity problems were also noted by Fefad loan officers and attributed to a higher level of delinquency for this period.

FUTURE ACTIVITIES

1. Opportunity International Peer Evaluation
2. Complete transfer of operations and loan tracking to eMerge system
3. Hiring and training of new loan officers in Tirana, Shkodra, and Lushnje
4. Revision of PSHM loan documentation and application forms with training
5. Revision and Update of PSHM Finance Manual
6. Updated Annual Market Plan
7. Testing of Bailiff/Execution office in Kruje in collaboration with IRIS project

PROGRAM INDICATORS

As of June 30, 2001

Number of Active Clients: 1,773
Number of Loans Made This Period: 448
Cumulative Number of Loans Made: 5,449
Amount Lent This Period: US\$905,163
Cumulative Amount Lent: US\$8,052,092
Current Loan Portfolio: US\$ 2,316,663
On-Time Repayment Rate: 96.0%

Note: (1 USD = 140 Leke)