

SERVICING MICROENTREPRENEURS IN ALBANIA

ALBANIA GRANT REPORT TEN

Period from September 11, 2000 to December 10, 2000

To the United States Agency for International Development

In fulfillment of the 1998-2003

USAID/Opportunity International Cooperative Agreement

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Submitted by Opportunity International

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PRINCIPLE OBJECTIVES

1. Test the legal system for microcredit through suit of selected delinquent clients
2. Settle delinquency issues in Tirana
3. Examine middle management structure and possible re-structuring
4. Develop a branch office in Fier
5. Continue work with GVC in Shkoder to develop agriculture lending agreement
6. Develop a standard greenhouse loan product
7. Develop a mass marketing strategy and campaign

ACTIVITIES

1. Test the legal system for microcredit through suit of selected delinquent clients

We initiated 8 legal suits in the past quarter in an attempt to recover delinquent loans. As of this report, there has not been any result of the suits. The process can take up to one year and our legal counsel is not optimistic about executing court decisions due to an unmotivated and corrupt executors office. We are fairly confident that the suits will lead to decisions in our favor, but without execution this option gives us very little security. We expected this to be the situation when we first examined the legal environment in Albania, but this does not add much support to lending in Albania.

2. Settle delinquency issues in Tirana

Delinquency in Tirana rose a bit last quarter due to the poor work of one of our lending staff. We have isolated most of the delinquent loans and have made progress this quarter. Our delinquency as a company is back to normal levels, but Tirana continues to be the most difficult place to lend. This is primarily due to the large size of the city and the resulting lack of community. This is a common situation in most countries where OI has operations.

3. Examine middle management structure and possible re-structuring

After examination of the development of our middle management staff, we re-structured this management level to be more efficient. We replaced our Branch Manager for Elbasan with a quality loan officer from our Shkoder office that we have been considering for management for a few months. We also consolidated the management of our Tirana office under one manager to improve team communication and cooperation. The Durres office is now managed out of Tirana as well, as the Durres office is quite small due to slow demand for micro-finance products in the first few months of operation. These changes should increase efficiency and teamwork that are crucial for our continued growth.

4. Develop a branch office in Fier

We chose our branch manager for Fier from our original Tirana lending staff and she began the recruiting process for Fier in August. We completed the selection and training process in October and began lending operations in November. In one month of lending we have disbursed 35 loans. Fier seems to be a slightly better market for credit, as the mentality toward business and finance seems a bit more developed than in other parts of the country. Fier will be our primary branch in the south and will service lending staff in smaller surrounding cities and villages within the next year. We will continue to service Lushnje from the Fier office as well, and have assigned one loan officer to work permanently in Lushnje at this point.

5. Continue work with GVC in Shkoder to develop agriculture-lending agreement

We have finalized an agreement with the Italian NGO Gruppo Voluntario Civile (GVC) and their Albanian counterpart AFTD to service agriculture business and farmers in the district of Shkoder. GVC has been working in the rural areas around Shkoder for the past 2 years under a grant from the European Union. The goal of their program was to facilitate development of agriculture in Shkoder and improve local farming techniques. They had reserved an amount of funds for the end of the program to be used as a credit fund to facilitate purchase of small farming assets. However, they did not have experience in lending and needed to find a way of developing a solid credit fund without implementing the program themselves. They heard about PSHM from some of the farmers they worked with and wanted to form some sort of partnership. What we proposed is a guarantee fund where they would lend PSHM money which we would use as guarantee for loans to qualified farmers they worked with. The logic behind the plan is that we both use our expertise (PSHM with lending and GVC/AFTD with agriculture development) to ensure quality, sustainable lending to agriculture activities. Agriculture lending is more complicated and difficult than other business lending, so this partnership will enable both parties to hedge their risk through working together. The agreement has been drafted and will be signed by the end of the year. Implementation of the agreement will begin in January 2000.

6. Develop a standard greenhouse loan product

We researched the greenhouse business in three cities over a period of 6 weeks and experimented with an initial 8 greenhouse loans. We have had success thus far with our greenhouse clients and have developed a new loan product for this business. Greenhouses in Albania have good potential due to the moderate climate and the small portions of land. The development of greenhouses has increased in the last year and demand for the product should be high in agricultural areas. We will now conduct a pilot period of 6 months for the new greenhouse product and test it in Lushnje, Fier and Shkoder.

7. Develop a mass marketing strategy and campaign

To date, PSHM has done mostly direct, business-to-business marketing. This has proven a successful method of getting to know clients directly and develop relationships in the community. However, we decided last quarter that it was time for more mass marketing through traditional print and broadcast mediums to develop better name recognition and familiarity with credit. We ran a month-long campaign in two national newspapers last quarter and developed a radio advertisement that will air for one month starting December 15.

DIFFICULTIES AND CONSTRAINTS

Electricity has been a difficulty this past quarter and we see it as a long-term issue. A good deal of our operation is computerized and the power cuts of up to 6 hours per working day have been difficult. We have purchased a large generator for our head office and have purchased smaller generators for our Shkoder and Fier branches. We have been unable to install our generator in Tirana to date due to the owner of our building who is not allowing us to operate it without supplying the entire building. We may have to pursue legal channels with this, which is proving frustrating.

Another on-going constraint has been the poor functioning of banks along with increasing client numbers. The American Bank functions fairly well but is currently only operating in Tirana.

REVISIONS/ADJUSTMENTS

We are considering the development of a larger loan product to target the small and medium business sector that is currently under-served. Most of the infrastructure is in place to implement this loan product and we are able to start in January if funds are committed.

We are also looking into the possibility of developing a branch operation in Kosovo. Opportunity International plans to have a Balkan-wide presence and we are looking into the possibility of having PSHM develop a Kosovo lending unit.

FUTURE ACTIVITIES

1. Develop middle-management training regiment for 2001
2. Complete legal transformation into a joint stock company
3. Complete annual audit with KPMG
4. Implement new board structure
5. Explore SME lending product
6. Expand Tirana lending staff

PROGRAM INDICATORS

As of December 20, 2000

Number of Active Clients: 1,460
Number of Loans Made This Period: 400
Cumulative Number of Loans Made: 2,200
Amount Lent This Period: US\$ 475,000
Cumulative Amount Lent: US\$ 2,275,000
Current Loan Portfolio: US\$ 1,000,000
On-Time Repayment Rate: 95%