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“Economic and Social Mission of
Microcredit Institutions in Montenegro”

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Brief History of the MC sector in the ROM:

mid-90's: MC was introduced by the foreign humanitarian organizations.

late 1998: The Government of the ROM adopted the “Decree on the approval procedure for the loans to the private and institutional entities by the foreign non-governmental organizations in Montenegro”

2nd half of 1999: Three microcrediting programs, which are still in operation, were set up.

end of 2002: The Central Bank of the ROM adopted "Decision on Microcredit Financial Institutions”

MCI in the ROM and their partners:

Opportunity Bank – microcredit (USAID, Opportunity International)

Agro Invest (World Vision, CIDA, SIDA)

Alter Modus (UNHCR, NOVIB, US Department of Agriculture)

MCI's are under control of the Central Bank of the ROM which:

- provides licences,
- controls the business of MCI's and
- regulates their reporting activities.

MCI founding capital at least 100,000 EUR in cash.

MCI can approve a loan to an individual client that is not more than 10% of the MCI's capital, up to:

- 3,000 EUR to a private entity who is a first-time borrower, under the condition that any other loan to the same entity does not exceed 8,000 EUR;
- 5,000 EUR to a legal entity who is a first-time borrower under the condition that any subsequent loan to the same entity does not exceed 20,000 EUR.

External supervisors, approved by CB ROM

Basic performances of the MCIs in the ROM

Overview:

Outstanding portfolio in 2004: 24,3 million euros ($\text{Index}_{2004-03}=134.15$)

Number of MCIs: 3 (20 branches)

Total Number of active clients: 21.693 ($\text{Index}_{2004-03}=130.17$)

Total number of employees: 126 ($\text{Index}_{2004-03}=105.88$)

Total number of credit officers: 65 ($\text{Index}_{2004-03}=118.18$)

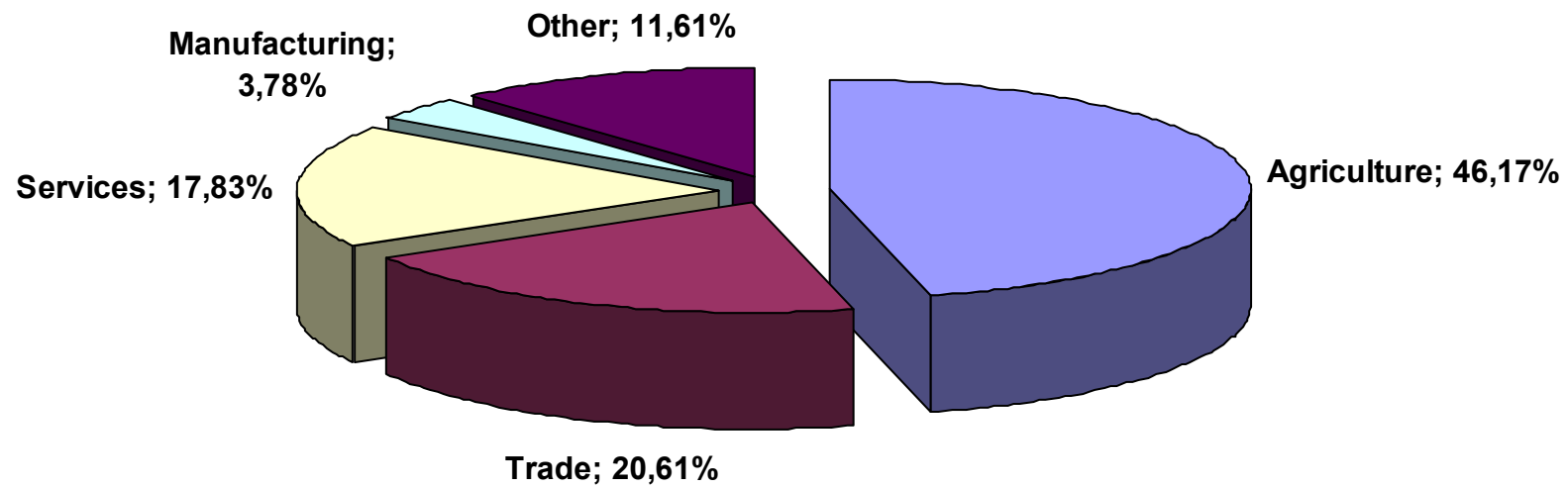
Participation of female clients: 56.4%

Annual interest rates of the MCIs in the ROM, 2004

- nominal interest rate on short-term loans 18%
- nominal interest rate on long-term loans 15%
- effective interest rate on short-term loans 31.5% - 39.48%
- effective interest rate on long-term loans 27.1% - 31.5%

Basic performances of the MCIs in the ROM (cont.)

Outstanding portfolio, 2004



Main problems:

1. deviations in the application of IAS:
 - incomplete presentation of financial reports
 - inadequate and poorly founded financial evaluations and forecasting
 - inadequate disclosure of information in financial reports
 - inconsistent application of accounting policies
 - shortcomings in the application of specific IAS in some unusual circumstances.
2. there is no clear strategy for MC sector in the ROM
3. MC sector is imbalanced (demand >> supply)

Main problems (cont.)

- inconsistent regulations and policies
- unclear proprietorship of the MC sector
- inappropriate structure of credit portfolios
- lack of crediting bureau
- problems with personal guarantors
- lack of consulting services
- lack of staff training

Further activities

- detailed analysis of the MC sector
- sustaining and further development of an effective credit support of the existing clients of these programs
- creating of a more favorable environment for further development of micro enterprise
- promoting cooperation among the micro crediting programs for the sake of their more effective and far-reaching impact on the entire society
- creating of a long-term strategy of the micro crediting sector based on the principle of participation