



**Comité catholique contre la faim et pour le développement**  
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**Project title:**

**POVERTY REDUCTION THROUGH MICRO-CREDITING PROGRAMME**

***Submitted by:***

***NGOs Forum -Kraljevo***

Vuka Karadzica 14, 36000 Kraljevo, Yugoslavia

Tel. / Fax: +381 (0)36 353 959

E-mail: [forumnvo@ptt.yu](mailto:forumnvo@ptt.yu)

[info@forumnvo.org.yu](mailto:info@forumnvo.org.yu)

[www.forumnvo.org.yu](http://www.forumnvo.org.yu)

***Program Manager***

Radovan Milicevic

Tel: +381 (0)63 601 796

### ***Recipient organization/local party:***

**NGOs Forum- Kraljevo (*Forum*)** is an association of two non-government organizations - ***Regional Centre of Civic Action LINGUA– Kraljevo*** and ***Belgrade Centre for Human Rights – Kraljevo Office***. These NGOs are non-political, non-profitable organizations intended for promotion of human rights, humanitarian activities, spreading the idea of civic society, health promotion, education of the young in domain of culture, informing, ecology... *Forum* emerged as an organization through a number of activities aimed at sensitizing local population on issues of democracy and tolerance during the height of Milosevic's regime. At the very outbreak of the Kosovo displacement crisis in June 1999, *Forum* assumed responsibilities in emergency assistance to the massive number of IDPs moving towards north. Information and database relating to internally displaced persons (IDPs) provided by *Forum* prove to have been essential professional background for most of international agencies and NGOs involved in humanitarian assistance. Since November 1999 owing to their large scope of activities, *Forum* of NGOs has been the implementing partner to Norwegian Peoples' Aid in realizing all the projects aimed to humanitarian, developing and psycho-social assistance for the IDPs and the refugees settled at the territory of Kraljevo region. Since May 2001, *Forum* has been the implementing partner of the Centre for Development of Non-Profit Sector (CRNPS) from Belgrade in opening an Office of Regional Centre for Development of Non-Profit Sector of Central Serbia (CRNPSCS) in Kraljevo.

*Forum* is presently active through a wide range of social activities and civil actions aimed to solving local community problems of social integration, multicultural interaction and self-management capacities building. Most of the activities take place in Community Development Centre *LINGUA* located in Kraljevo. The Centre has become the recognizable place for both IDPs/refugees and local people, as a spot where solidarity and social support are made use of.

There are presently 20 *Forum* activists (students, engineers, economists, lawyers, medical doctors, psychologists, agronomist...) engaged at realization of projects. Besides, *Forum* gathers over 30 members of various professions. *Forum* favours team work that is organized in accordance with the particular projects/problems worked on.

In democratization and transition process *Forum* is trying, in co-operation with local authorities, to help the citizens who would certainly be impoverished in the processes mentioned. Having identified and pointed to the most actual problems of the society, with projects of economic self-strengthening, micro-credits, education of citizens and the employed in institutions of the system *Forum* is active in helping both citizens and local authorities solve the key problems.

This could be an adequate way to create the preconditions for initiation and development of civic society as the first step in organizing a modern state.

### ***Background of the project***

The Municipality of Kraljevo, with 92 inhabited settlements covers the territory of 1530 sq. km. is the largest in the Republic of Serbia. In this municipality, inhabited by 127,000 people (70,000 in the urban town area), the overall situation is extremely difficult, due to economic collapse, which is the consequence of the fatal policy of the former regime that resulted in a very low living standard of citizens.

There are currently 18,000 unemployed persons and 2,000 persons on forced leaves, making 50% of work-capable population.

There are officially 28,700 of the employed in the Municipality. Out of this number 17,500 are employed in economy, 4,200 in non-economic activities and 7,000 (unofficially over 10,000) in private business.

Economic structure is wide, all economic branches covered, industry being the most significant.

**Industry:** In this sector over 9,000 are employed, making 40% of the employed in the whole economy of the Municipality. Most of these working people are employed with public-owned enterprises, the so called giants, such as *Magnohrom Refractories*, *Railway Car Factory*, *Kablar* Constructional Enterprise, *Jasen* Wood Processing, *Buducnost* Clothing, *Electron*, etc.

All the mentioned enterprises were successful exporters before disintegration of the former state of Yugoslavia and mainly orientated to the European market. Due to fatal economic policy of the former regime, to the sanctions imposed and the war, these enterprises lost their markets and are presently facing an economic collapse.

**Agriculture** of this municipality is characterised by differing resources for production, owing to good hydrologic conditions and fertile soils of different types.

The following agricultural productions are developed: cattle breeding, poultry keeping, fruit production, vegetables production, and the like.

In villages that are around Kopaonik mountain fruit production (plums, apricots, and apples) is specially developed. The land is mainly privately owned and development of agriculture is based on private sector. Owing to the resources, one of the largest agricultural products markets (everyday wholesale of agricultural products and cattle) is located in Kraljevo.

**Small enterprising and handicraft production** have been in large progress lately. About 1,000 private enterprises and 2,900 independent shops have been registered in this Municipality. These make a rational basis for future development of the municipality. There is a trend of increasing the number of such shops and enterprises from one year to another.

**Social Care Centre** covers about 600 user families with around 4,000 end users who receive social aid several months late.

There are about 20,000 retired people registered in the municipality, of which 50 % receiving below 60 EUR monthly.

Extremely hard economic and social situation, especially emphasised during the post-war period, influence the individuals having existential and psychosocial problems. The most vulnerable categories are children, the old, the sick and the handicapped. Financial support, children's allowance social aid, and personal incomes are also several months late and, when delivered; their amounts do not satisfy elementary life requirements.

**Such economic situation was further aggravated by a new wave of IDPs from Kosovo** who came in June 1999. At that time, most of them wanted to go to Belgrade, but, at the order of the then authorities, the police prevented their going to the north and kept them at the territory of Kraljevo municipality. The authorities claimed they had been the winners at Kosovo and that there were no IDPs in Serbia.

According to UNHCR FO Kraljevo data there are officially 23,000 IDPs and refugees at the territory of the Kraljevo municipality (unofficial number is about 25,000). The figure comprises 2,600 refugees from Bosnia and Croatia (about 600 are settled in 12 collective centres) and 19,860 displaced persons from Kosovo, who started arriving in the middle of June 1999, which makes about 25% of the entire municipality's population and the highest percentage in Serbia. Of 19,860 displaced persons from Kosovo, 19,000 are accommodated privately (in rented apartments, with relatives, etc.). Over 800 (300 children) are settled in 12 collective centres, situated in Kraljevo suburbs and the surrounding villages. From August 2001, of 12 collective centres, only the beneficiaries from the two (Maricic and Morava) are still getting a hot meal daily. Living conditions in the centres are extremely difficult due to the lack of toilettes, water, heating, winter clothing, personal hygiene items, medicines and proper nutrition. The rooms are overcrowded, with both adults and children sharing beds, and people are exposed to diseases due to extremely poor hygiene conditions. In Vitanovac center, accommodating about 70 people, there is no running water. There are no bathing, washing or

cooking facilities. Yet, the number of applications for collective center accommodation has been increasing, indicating the exhaustion of private funds for rent and food.

Frequent stressful situations, increased fears and uncertainty are the factors influencing the above stated population, especially children and adolescents, negatively.

Growing up in such social circumstances, where children are frequently left to themselves, causes permanent increase of minors' delinquency, consuming of alcohol, prostitution of the young, suicidal and other negative forms of behaviour.

Unfortunately, previous experience in Kraljevo shows that all the stated problems have most frequently been hidden, or solved partially only. Many actions and programmes have been directed to consequences, not to causes, and excuses found in insufficient financial sources or personnel.

### **Problem description**

Upon six months of realisation of the project *Micro-crediting Programme in Kraljevo Municipality* (the project was initiated in 2002 and donated by CCFD) the number of beneficiary families has grown from initial 25 (113 supported family members) up to 44 (183 supported family members). It is expected that the number of beneficiary families will grow up to 50 (approximately 220 supported family members) at the end of project realisation (in February 2004).

The interest of socially deprived persons in involving into the programme is much higher than expected. At the beginning of the project *Micro-crediting Programme in Kraljevo Municipality* in February, 102 candidates applied during five days of application – out of this number, 61 persons from the local population, 39 IDPs from Kosovo, and 12 refugees from Croatia. In the following months, although the application advertisement stopped running, on the average about 40 beneficiaries applied during one month.

The reason for this high interest of socially deprived persons is a high unemployment rate (registered at the Labour Market Bureau). One year ago (August 2002) the number of unemployed persons was 12,000, while in August 2003 the number is 18,000 unemployed – that is 40% of the working capable population. It is expected that the number of unemployed will grow up to 20,000 by the end of 2003. The reason for this drastic growth of the unemployment rate is restructuring of public enterprises in Kraljevo that have been for years collapsed due to appalling politics of the former regime.

Another explanation of this high interest of citizens to be involved in the Micro-crediting Programme is the withdrawal of international humanitarian organisations to other crisis areas and the lack of humanitarian aid for IDPs from Kosovo and refugees from Croatia/ Bosnia, so the majority of these persons realize the Micro-crediting Programme as the only way to become economically independent.

One more reason is that indigenous banks approve credits with an interest rate that is twice as high as the interest rate of 1% (interest rate in the Micro-crediting Programme realised by Forum).

Unfortunately, with the existing Social Care Programme the present Government in Serbia is not able to protect this high number of social "victims" of the current transition process in an adequate way (because of a lack of funds).

The position of Forum is that continuance of the initiated Micro-crediting Programme in 2002, upon realisation of the project *Micro-crediting Programme in Kraljevo Municipality*, with a new portfolio from the project *Poverty Reduction through Micro-crediting Programme*, the planned number of beneficiary families (50) would increase up to 15- 20 new beneficiary families (in that case total number of beneficiary families would be about 70 in February 2004).

Along progressive growth of the number of beneficiaries, after one year of realisation of the project *Poverty Reduction through Micro-crediting Programme*, with a portfolio from the

project *Micro-crediting Programme in Kraljevo Municipality*, we will be able to finance approximately 150 beneficiary families (with about 700 supported family members) in February 2005.

For a successful realisation of the project ***Poverty Reduction through Micro-crediting Programme*** (because of an increased number of beneficiaries), it is necessary to engage a new Crediting Officer who would also be the Project Co-ordinator. Recruiting of a new Crediting Officer from the trained Forum team is necessary, because the Crediting Officer engaged in realisation of the project *Micro-crediting Programme in Kraljevo Municipality* already has the optimal number of beneficiaries.

A successful realisation of this programme could motivate also other social subjects (local authorities, Labour Market Bureau, Social Welfare Centre, other NGOs, etc.) to start to implement a Micro-crediting Programme with the support of international donors, and in such way have a significant impact on poverty reduction in Kraljevo Municipality.

### ***Project Objectives***

- Chances for new jobs opening
- Breakage of poverty chain, since it is known that the long lasting poverty they have suffered during the passed decade produces numerous social consequences that would even multiply in future and make sudden social victims of transition
- Economic strengthening of the most vulnerable population and consequently their more intensive socialisation
- Strengthening of the existing production processes as to make them more self-sustainable/justified
- Improved self-confidence and integration of vulnerable groups
- Support to female population, women being twice as vulnerable in transition process; they are the first to loose jobs and they work in activities that are first to be shut down , such as textile and trades in Kraljevo region; their family role also becomes questionable
- Assistance to local self-government to resolve key problems , such as unemployment and low living standard of population
- Strengthening of *Forum* NGOs (with projects of economic strengthening of population roll and significance of *Forum* would improve)

### ***Target Group***

15- 20 socially deprived families (7- 10 IDP/refugee families, and 8- 10 families from the vulnerable local population). With the portfolio from the project ***Micro-crediting Programme in Kraljevo Municipality***, total number of beneficiary families would be about 70 beneficiaries (approximately 300 supported family members) at the beginning of programme realisation (February 2004), and at the end of project realisation (February 2005) the number of beneficiary families would be about 150 beneficiary families (with approximately 700 supported family members).

***Project duration:*** 12 months

### **Activities**

In realisation of the project planned, activities would go on according to the following plan: According to the goals defined, initial phase activities can be divided into main and temporary ones. Temporary activities would comprise preparation, legal formulation, deposit bank account opening, intended to micro financing only, printing of applying forms and further credit processing per economic activities of the beneficiaries interested.

Credit officer will visit all the 21 collective centres and directly explain the project to potential beneficiaries. The tender would be opened for 10 days and application forms handed out in *Forum* premises for the following activity branches: production, trade, services, cattle breeding and agriculture. After forms filling by applicants, the credit officer would visit them all and check validity/correctness of data stated in applications.

Credits, advocated by credit officer, are approved by the Credit Committee consisting of two members (Program Coordinator and Financial clerk). Credits would be approved for the period of 6-12 months with 1% of interest rate on monthly basis and one month grace period. Credit approval and its amount would depend on intentions, capabilities and social standing of potential beneficiaries (such as unemployment, sick child, handicapped in the family and the like). Amounts to be approved would range from 500 to 1,500 EUR.

As for guarantees, applicants can not guarantee with their own property; it has to be a third person, two citizens to guarantee regular repay instalments with a bill.

Another form of guarantee that an applicant has to provide is a pledge on movable property, mainly a passenger car or, if appropriate, a tractor for a person living in a collective centre. Crediting Committee would also take care that business plans comprise as many economic activities as possible and sex equality to be even to the greatest extent. Delinquency degree (impossibility to pay-off the credit) is planned to be 3%.

### **Sustainability:**

From the previous experience it is known that amounts defined for the start the project with would not meet requirements off all interested beneficiaries. In accordance with the proposed target group, the plan is that approved amounts range from 500 to 1500 EUR, the total amount being subject to 1% of monthly interest rate to be, together with the principal amount, divided into monthly instalments to be paid-off/back. Should a beneficiary be late with an instalment, daily penalty rate would be established of 1 %. By each instalment paying chances would be opened for additional beneficiaries and credits, extending the circle each month.

Instalments would be due the last working day for the current month, while new credits would be released on the first working day of a month. The Committee would favour 6 months credits, which would increase the number of beneficiaries. Repayment would, for all beneficiaries, start the following month upon credit approval. Amounts collected from interests would be directed to portfolio increase, and after a year to operative costs, which would provide for organisation independence.

Upon one cycle completed, the beneficiaries found not to have violated any rule, would be given a chance for the second cycle crediting. Credits would be increased in the second cycle as evaluated by the Committee up to a maximum of 50%. Based on this increase rate of the number of beneficiaries and of portfolio, after a year period of the initial 90 we would have 300 micro crediting beneficiaries.

With planned delinquency of up to 3%, portfolio is to increase by about 30% relating to the initial one. Amount of money collected each month from credit beneficiaries, with 1% of monthly interest rate, after a year would be 15 times greater compared to the first month. The amount of money returned each month from beneficiaries, after a year would be 3 times larger than the sum collected after the first month. It would, together with interest rate, after a year, provide for 8-10 new credit approvals.

To preserve successful image of the organisation in the field of micro crediting of the interested clients, portfolio has also to be preserved (amount of money available daily for new investment); otherwise, sustainability would be questionable and the project become unprofitable.

Portfolio preservation (providing for sustainability) requires protection measures, such as: Prevention of undesired delinquency by careful selection of potential Clients/beneficiaries; crediting officer is the one who completely investigates all details and activities of candidates and finds whether applications are justified; He has to be completely informed of clients' activities. If he finds a request justified and real, he presents it to the Credit Committee. The Credit Committee decision is final.

- Upon approval of the Credit Committee, a client has to sign the contract obliging him to repay the approved amount and the agreed interest rate. To preserve portfolio we would apply several forms of guarantees, depending on the activity the credit is approved for.
- External bill would also be used, as well as pledge on movable property (car, tractor...)
- Constant monitoring of beneficiaries is another measure we intend to apply in order to reduce delinquency risks; credit office will visit beneficiaries at 15 day intervals to get informed and achieve direct insight
- Though the contracts will precisely define terms of instalments and interest payment, there would always be chances for delays. In such cases grace periods of several days would be given.
- Should, in spite of all precautions to preserve portfolio some delinquencies occur, possible problems would be solved amicably. This failing to give results, due amounts would be collected by orders of bill given as guarantees.

After 12 months period (realisation of 1<sup>st</sup> project phase), *Forum* would cover operative costs portion from due and collected interests.