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**Proposal for
Structuring NOA's
Guarantee Fund**

NOA

Founded with initial support from USAID on 1998, NOA is a leading privately held financial institution, with 333 employees, 29 branches and around EUR 86 million of active loan portfolio dedicated to small entrepreneurs & businesses, farmers and financially excluded families, in line with socially responsible & human finance principles.

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This document is prepared with the support and in collaboration with CBS (Creative Business Solution). The information presented in this report has been compiled based on the progress of the implementation of the project, the disbursements made during the last 17 months from the beginning of the project as well as the changes that occurred in the Albanian economy in the last 12 months.

List of acronyms

USAID	United States Agency for International Development
GF	Guarantee Fund
FALP	Footwear and Apparel Loan Project
W-SMEs	Women Small and Medium Enterprises
ADGF	Albanian Development Guarantee Fund
WB	World Bank
ILO	International Labor Organisation
DIHA	Deutsche Industrie und Handelsvereinigung in Albanien
AIDA	Albanian Development Investment Agency
FIAA	Foreign Investors Association of Albania
AIC	Albanian Investment Council
SIDA	Swedish Development Cooperation Agency
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
UET	European University of Tirana
GADC	Gender Alliance for Development Center

KfW Kreditanstalt für Wiederaufbau

AICS L'Agenzia Italiana per la Cooperazione allo Sviluppo AGF Fundfor SME

IFC/WB International Financial Corporation/World Bank

EBRD European Bank for Research and Development

UNDP United Nation Development Programme

EU European Union

SIPPO Swiss Import Promotion Programme

FRLC First Loss Risk Cover

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GUARANTEE FUND STRUCTURE REPORT

1. Introduction

NOA is committed to financing underserved sectors of the economy and empowering small businesses to grow and expand operations. The FALP project aimed to introduce innovative financial solutions to address significant access to finance barriers faced by the footwear and apparel sector (FALP) and other industries predominantly owned, led or serving women (W-SMEs). This proposal outlines an approach for implementing a guarantee fund to ensure risk mitigation and sustainable lending to underserved segments of the economy of Albania. The initiative also leverages stakeholder collaboration to foster a supportive financial ecosystem.

2. The Importance of Credit Guarantee for Underserved Sectors

W-SMEs, particularly in sectors like FALP, tourism, agriculture and energy efficiency significantly contribute to economic development and employment but often lack access to necessary financial resources due to perceived high risks and inadequate collateral. A guarantee fund mitigates some of these risks, enabling financial institutions to extend credit *where they otherwise might not*, thereby promoting economic empowerment and sustainability within these key sectors.

By facilitating loans focused to W-SMEs, the fund not only supports individual businesses but also contributes to the broader economic context by fostering sector-wide growth and innovation. This expansion is particularly crucial in sectors like FALP with rapidly evolving market dynamics and, agriculture, tourism and energy efficiency, which are pivotal sectors for economic development of Albania.

Investing in women-led businesses has demonstrated significant social returns, including higher rates of reinvestment in local communities and education. By focusing on these sectors, the guarantee fund amplifies its impact beyond economic metrics, contributing to social development and gender equity.

3. Strategic Use of the Guarantee Fund to Improve Lending Conditions

3.1 Diversification of Fund Usage

Initially earmarked for the FALP industry, the internal guarantee fund will now support a broader range of sectors, including agriculture, tourism and energy efficiency, with a focus on W-SMEs, which are becoming increasingly significant for economic development in our country. This diversification will help stabilize the fund by spreading risk across various industries, thus not solely depending on the FALP sector, which has shown vulnerability due to recent market shifts. The proposed sectors, traditionally seen as higher-risk and often underserved by conventional banking, will be specifically empowered through NOA's initiatives, enhancing their access to critical financial resources and support.

3.2 Enhancing Credit Accessibility

The guarantee fund will serve as a risk mitigation tool, encouraging lending focused to W-SMEs that typically face barriers to securing finance. The fund reduces the perceived risk associated with lending to small and medium-sized enterprises without sufficient collateral and the loan product will be structured to mitigate the lack of collateral focused of this target groups. This will facilitate higher credit availability for W-SMEs, promoting entrepreneurial activities and supporting business growth.

3.3 Leveraging Additional Donor Support

With the strategic shift to include multiple sectors, the guarantee fund is positioned to attract additional donors and investments. By demonstrating a successful implementation model that supports diverse industries, the fund can secure further contributions, enhancing its capacity and impact.

3.4 Development Impact

The fund aims to empower women entrepreneurs by specifically targeting sectors where W-SMEs are prevalent. Supporting these enterprises not only drives gender equity in business but also contributes to broader socio-economic development, as women-led businesses are known to reinvest significantly in their communities and families.

3.5 Training and Capacity Building

Apart from financial support, the fund will facilitate capacity-building initiatives for W-SMEs, including training in financial literacy, business management, and digital skills. These programs are designed to strengthen the operational capabilities of W-SMEs, making them more viable and bankable in the long term.

4. Overview of the Project

As of the current status, NOA has successfully disbursed \$1,828,000 towards its goal of reaching \$2 million by end of July 2024. To date, 40 loans have been issued with the aim of increasing this number to between 40 and 60 by the project's conclusion. The initiative has so far financially supported 32 SMEs and provided technical assistance or training to 74 SMEs and 598 employees of these SMEs, including all levels, starting from Business Owners, Technical and operational Managers and other employees.

Consistent with the project's requirements, a minimum of 50% of the total guarantee fund, approximately \$120,000, is reserved for covering potential defaults in the loan portfolio and will remain earmarked until the end of the last loan disbursed under the FALP project, which could extend up to seven years post the project deadline. Operational costs for establishing and managing the guarantee fund are expected to consume between 5-10% of the fund, amounting to \$12,000 to \$20,000. The remainder, approximately \$100,000 to \$105,000, serves as the initial capital for a guarantee scheme designed to support the FALP sector and other women-focused SMEs, with potential for growth through contributions from other stakeholders.

5. Technical Structure of the Proposed Guarantee Fund

5.1 Fund Allocation and Management

- **Initial Fund Size and Allocation:** Starting with the accrued success fees by the CATALYZE Project, NOA sets up an initial guarantee fund sized at \$100,000 to \$105,000, with additional contributions sought from other stakeholders to increase the fund's capacity in the future

- **Operational Costs:** A designated 5-10% of the fund (approximately \$12,000 to \$20,000) will cover the costs associated with administering the fund, including risk assessments, monitoring, and stakeholder engagement activities.
- **Reporting:** All loans allocated under the guarantee fund will be distinctly flagged within the core banking system using a unique code. This coding will facilitate detailed reporting, allow for precise tracking of loan statistics, and support comprehensive analysis.

5.2 Market Cap and Guarantee Provisions

- **Guarantee Ceiling:** The total outstanding guaranteed loan portfolio will be capped at \$1,000,000 to maintain manageable risk exposure. The loan portfolio under the guarantee fund can be expanded once other stakeholders will commit to additional funds.
- **Guarantee Coverage:** The fund will be structured in the form of First Loss Risk Cover ("FLRC") of up to 10% of the Portfolio, with a ***cap of 50% for any single sub-loan***. This coverage ratio is designed to provide sufficient risk mitigation to encourage lenders to finance these sectors while ensuring that the fund can sustain its support over multiple lending cycles.
- **Maximum Principal Amount:** The maximum cumulative principal amount of qualifying loans made to any one Qualifying Borrower by any one Guaranteed Party is the Albanian Lek equivalent of EUR 40,000. A Qualifying Borrower includes any Affiliate of that borrower, including parent or subsidiary companies having the same or substantially similar ownership as such borrower.
- **Qualifying Borrowers:** Non-sovereign individuals, micro, small, and medium-sized enterprises established under Albanian law and operating in Albania, with special emphasis on those operating in agriculture, tourism, FALP and energy Efficiency sector with a special focus on women entrepreneurs.

6. Claim Requirements

Claims will be required as a consequence of a default by a borrower under any Qualifying Loan under the Guarantee. No claim relating to a Guaranteed Party's losses in connection with a Qualifying Loan shall be honored unless the following requirements are met:

- a. as a consequence of a default by a borrower under any Qualifying Loan (such borrower, a "Defaulting Borrower"), the total outstanding principal amount of the Qualifying Loan has become immediately due and payable, and the Guaranteed Party has made a written demand upon the Defaulting Borrower for full payment of all amounts due;
- b. reasonable collection efforts have been diligently pursued against the Defaulting Borrower and any other entity that may be liable on the Qualifying Loan, in accordance with applicable laws and standard banking practice in Albania.

7. Loan Disbursement and Renewal Strategy

- **Dynamic Loan Coverage:** As loans mature and the outstanding portfolio decreases, new loans will be disbursed and allocated in the Guarantee Fund, with the same 10% total portfolio coverage from the fund.
- **Monitoring and Adjustment:** Regular reviews of the fund's performance and the economic health of the supported sectors will inform necessary adjustments to the guarantee terms and portfolio cap to align with market conditions and the fund's financial health.

8. Governance and Operational Procedures

To ensure the guarantee fund operates transparently, efficiently, and effectively, a robust governance framework is essential. Drawing on best practices, the proposed governance structure for NOA's guarantee fund includes a Business Management Committee, integrating internal stakeholders from NOA. If it will be deemed necessary for the

engagement of a third-party consultant in the future especially if the project is scaled up with several stakeholders and larger amount of funding their role will be to a) avoid any potential conflict of interests between the creditor and the guarantor and b) provide sufficient credibility to enable fund-raising with other donors in later stages.

8.1 Governance and monitoring of the scheme

To ensure robust governance and streamlined operations, the Management will follow up the development of the program through its Business Management Committee, composed by NOA's business and risk management teams. This committee is tasked with overseeing all facets of the guarantee fund, notably the rigorous evaluation of loan applications. Applications will be assessed based on a set of criteria - developed by NOA - focusing on key factors such as sector relevance (e.g. FALP, agriculture, tourism, energy efficiency women-led initiatives), business age, and other relevant metrics.

Loan applications that qualify for coverage under the guarantee fund must be approved by NOA's internal credit committee. To maintain transparency and adherence to established protocols, all approvals will be systematically monitored by respective departments and reported every quarter to the Business Management Committee.

The Committee will convene quarterly to review the fund's performance, refine strategic approaches, monitor ongoing operations, and coordinate fundraising activities. These regular meetings are crucial for ensuring that the fund's activities are aligned with its strategic goals and for making necessary adjustments based on performance insights and market dynamics.

This setup enables periodic audits of the fund's operations, thereby upholding the integrity and compliance of its activities. This approach ensures that the guarantee fund operates under the highest standards of governance and accountability and enhancing the fund's effectiveness.

8.2 Guarantee Fund Procedures

8.2.1 Application and Approval Process

Business clients eligible for the guarantee scheme will undergo a thorough screening

process managed by NOA's internal committee. This comprehensive evaluation includes the assessment of criteria set by the Business Committee, risk assessments, business plan reviews, and credit scoring as per NOA's procedures. The final approval for loans under the guarantee fund will rest with NOA's internal committee.

8.2.2 Fund Allocation Monitoring

The Business Committee will closely monitor the allocation of funds to ensure compliance with the established caps and maintain solvency. This includes diligent tracking of the total outstanding guaranteed amount versus the fund's capacity and adherence to the 10% coverage rule.

8.2.3 Documentation and Archiving

For each loan application, all documentation will be meticulously archived to facilitate easy access and review. This will ensure all decision-making processes are well-documented and transparent, supporting both operational needs and audit requirements.

8.2.4 Claims Procedure in Case of Default

In the event of a loan default under the guarantee fund, a structured claims process will be initiated, being based on NOA's internal procedures and Default Definition.

9. A Long-Term Vision for the Initiative

Long-term Goals: The main vision for NOA's guarantee fund initiative is to create a sustainable and impactful financial support system that significantly enhances access to finance for underserved markets, particularly focusing on women-led SMEs in sectors like FALP, tourism, agriculture and energy efficiency. By demonstrating the viability and success of the guarantee fund, NOA aims to attract additional donors and investors to further amplify the fund's reach and impact.

Expanding the Fund's Capacity: To realize this vision, a key goal is to continuously increase the fund's capital base. This expansion will allow for a broader loan portfolio, enabling more extensive support for SMEs and fostering greater economic development within the target sectors. Increased funding will also enhance the fund's ability to absorb risks

associated with uncollateralized loans, encouraging more financial institutions to participate in lending to traditionally high-risk sectors.

Key to attracting additional Funds: Considering that there are other donors with an interest to support underserving sectors such as W-SMEs but also others such sectorial (agro or tourism) or standard-based (green, environmental etc.) there appears to be an increasing desire to support lending to these entities. The key to attracting funding however are a) reliable governance standards of the fund and b) strong performance (lower risk levels than benchmark).

Targeted Partners and Donors for the establishment of the Guarantee Fund: From its inception, the FALP project team has exchanged with several donors and other stakeholders in order to jointly establish a Guarantee Fund supporting this priority sector and WSME.

On January 2023, during the FALP launching event, among the participants invited and present in the event were: Albanian Development Guarantee Fund (ADGF), World Bank representatives, International Labor Organisation (ILO), Deutsche Industrie und Handelsvereinigung in Albanien (DIHA), Albanian Development Investment Agency (AIDA), Foreign Investors Association of Albania (FIAA), Universities, Albanian Investment Council (AIC), TUV Austria etc.

The participants during the launch event were informed on the intent of NOA to use the FALP initiative as a learning mechanism in order to establish a future Guarantee fund.

Throughout the implementation of the initiative, follow-up meetings were held with ILO, GIZ, Swedish Development Cooperation Agency (Sida), European University of Tirana and the Albanian Ministry of Finance.

Specifically, GIZ and Swedish Development Cooperation Agency (Sida), – the German Technical Advisory organization and the Swedish Development Cooperation Agency (Sida) has been studying the potential implementation of a Guarantee Fund targeting Youth and WMSME. In a dedicated meeting on 20th April 2023, NOA discussed with GIZ team about the FALP initiative and its potential ambitions to establish a larger Guarantee Fund for the future. As of the date of this report, GIZ has not yet come forward with a final decision over its ambitions We will have a follow

ILO- International Labor Organization is currently working on a project targeting specifically the skills and working conditions of SMEs engaged in the sector. The objective of the exchanges was to identify potential synergies so in the future, financial instruments such as the Guarantee Fund are linked with social/TA elements increasing the socio-economic impact of the initiative.

UET – the European University of Tirana and Gender Alliance for Development Center (GADC), supported by the U.S. Embassy in Tirana, have been conducting a research study on the textile and leather sector. NOA's objective was to promote the lessons learned from the FALP initiative so other stakeholders' attention is attracted to be included in the potential incoming Guarantee Fund.

Association ProExport Albania– The Albanian business association of textile and leather sector, has been requested by the Albanian Government to gather data and ideas over the potential creation of a national Guarantee Fund following the great impact of the recent euro/lek exchange fluctuation. ProExport, being a project partner of NOA in the FALP initiative, has jointly promoted the idea of creating a Guarantee Fund, yet to be finalized.

Albanian Ministry of Finance – NOA has reached out to the Ministry of Finance as part of a state initiative to establish a potential Guarantee Fund for the sector. For the moment being, as of the current date of this report, the Ministry of Finance has not yet clarified the impasse for the implementation of the Guarantee Fund and any structural element relating to the establishment and execution of such fund. NOA has issued an official letter (28/06/24) requesting more information on the issue but has not yet received an answer.

Action plan for next months -Among the important potential partners or donors to be reached during July/August 2024 as of the potential establishment of a Guarantee Fund, NOA will seek dedicated meetings with KfW, ADGF, (AICS) Cooperazione Italiana's AGF fund for SME's, IFC/WB and EBRD.

In addition to this first group, other donors with specific vision for supporting sector based or standard based SME growth initiatives such as UNDP, EU Commission, SIPPO, USAID and many others.

These meetings for both groups will be held prior to the Final FALP report to be delivered on 31 August 2024, according to the NOA/ USAID CATALYZE Engines of Growth (EoG) implementation contract. These meetings will set up the pre-conditions for the project closing conference during which the final lessons learned, and future commitments will be shared with all interested parties and stakeholders.

It should be noted that the very important structural changes in the sector during the last 12 months have highly impacted the stakeholders' vision (short and medium term) as of the establishment of a Guarantee Fund. Directly affecting as a result, the viability of NOA's Guarantee Fund.

Role of a third party as Strategic Consultant: The role of a third-party consultant as a strategic consultant in managing and consulting on guarantee funds and other mechanisms, will play a crucial role in this initiative, especially if the project is scaled up with several stakeholders and larger amount of funding. The role will consist on:

- **Provide Expertise:** Offer guidance on best practices for fund management, risk assessment, and stakeholder engagement based on its extensive experience.
- **Enhance Credibility:** Help in validating the fund's strategic approach and operational protocols to potential donors and financial partners.
- **Facilitate Donor Engagement:** Assist in identifying and engaging with potential donors, presenting the fund as a proven, viable investment opportunity to support economic development in Albania.

9.1 Launching Conference and Donor Engagement

A pivotal moment in the fund's rollout will be the launch conference, planned as a high-profile event to officially announce and detail the guarantee fund's strategy, objectives, and benefits. This conference will:

- **Showcase Successes and Strategy:** Highlight successful case studies from the pilot phases, present detailed plans for the fund's operational rollout, and discuss the strategic vision for scaling the initiative.

- **Attract and Secure Donors:** Serve as a platform to attract further investment by demonstrating the fund's potential impact and operational viability. The event will target local and international donors, financial institutions, government representatives, and other stakeholders.
- **Facilitate Networking and Partnerships:** Create opportunities for stakeholders to connect, discuss collaborative opportunities, and commit to supporting the fund either financially or through other means.