

**Mercy Corps International Turkmenistan
USAID GRANT AWARD NO. 120-0009-A-00-9021-0**

**QUARTERLY REPORT
October 1 – December 31, 2000**

I. Executive Summary

With new lending activity suspended, Mercy Corps in Turkmenistan has been monitoring ten outstanding loans and putting extra effort in assisting clients to get conversion from local currency to dollars to make timely loan payments. Mercy Corps is seeking new sources of capital in order to continue work in Turkmenistan and has submitted a business plan to The World Bank/IFC requesting \$3 million dollars for capital.

USAID has requested an assessment of Mercy Corps' lending program to seek "subsequent recommendations intended to modify current MCI operations and/or expectations of current or expected partners." The assessment will consider target borrowers, loan size, the potential of group lending, risk sharing, regional lending, interest rate structure, and legal status. This assessment will take place in January.

In October of 2000, Elizabeth Houde, Country Director for Turkmenistan and Regional Director for Central Asia, left her position with Mercy Corps. Sue Savage, who has worked for almost 3 years on SME development with UNDP and IESC (USAID-funded) in Uzbekistan and Kyrgyzstan, has replaced her as Interim Country Director through February 28, 2001.

II. Program Accomplishments

A. Portfolio Performance

Currency conversion from manat to dollars has become a serious problem over the past quarter. The government of Turkmenistan continues to make enormous financial commitments to foreign companies at the expense of not converting small amounts for local businesses. As a result, five clients have become delinquent in their payments. All these clients have sufficient funds to cover the payment, however, were not granted conversion or were granted conversion by the Central Bank for only a portion of their payment.

The total amount of overdue principal is \$49,547 which represents 67% of the principal balance outstanding. Although the process of conversion is typically the sole responsibility of the borrower, Mercy Corps' Loan Officer is now putting effort into working with the clients and banks to increase the likelihood of conversion. Two loans that were denied conversion had final payment dates in November and December. CAAEF has agreed to restructure these loans, a necessary step in proving to the Central Bank the clients' continued payment obligation and need for conversion.

B. Mercy Corps Registration

Registration of Mercy Corps in the Republic of Turkmenistan was completed in October of 2000. The legal status is that of an "economic society," which allows Mercy Corps to make contracts. As with all legally registered organizations, registration must be renewed annually. This legal status also obligates Mercy Corps to submit financial documents to the tax inspectors on a quarterly basis. As no other donor organizations are registered in Turkmenistan, Mercy Corps will be breaking new ground on the murky tax issues of what constitutes profit and whether grant money is considered revenue. Like other local companies, the staff has spent considerable time trying to interpret the tangled tax code as it relates to Mercy Corps' particular situation.

C. IFC

With the recent reduction in the level of loan capital support from CAAEF, Mercy Corps is seeking alternative loan capital to meet existing market demand, as well as to implement plans for a strategic, sustainable expansion into other areas of Turkmenistan. Mercy Corps requested \$3,000,000 in loan capital from IFC, \$800,000 in the first

year and an additional \$2,200,000 in the second year. This program would then work through the local banking structure as a legal venue for fund disbursements.

This new agreement would target clients outside Ashgabat (focusing first in Dashoguz), target clients for loans under \$10,000, and target groups of individuals or associations involved in commercial activities. Mercy Corps anticipates that the impact of smaller loans in a less populated region would be more pronounced.

With a new capital source and shift in focus to smaller loans in regions outside the capital city, the project would work closely with other donor organizations to identify qualified prospects and ones with high potential for creating employment and contributing to the country's real economic base.

IFC's response has been positive, but the plan will need to be changed to meet their requirements. Mercy Corps headquarters staff is currently working with IFC to prepare such a revised plan. Once this has been completed, a grant revision will be submitted to USAID.

III. Program Activities

A. Portfolio Summary

The following is a per client summary of the micro credit clients in Turkmenistan.

| <i>Client Name</i> | <i>Loan Amount Approved</i> | <i>Disbursed Amount</i> | <i>Outstanding Balance</i> | <i>Purpose of Loan</i> | <i>Impact of Credit</i> |
|--|-----------------------------|-------------------------|----------------------------|---|--|
| <i>Olga Mommodova Salon "OLDI"</i> | \$5,000 | \$5,000 | <i>Paid Off</i> | <i>Reconstruction of the office for a beauty school and training facility.</i> | <i>After the reconstruction, the Salon expanded its range of activities. They organized training seminars for bodyface care by international specialists. This loan created two new jobs at the Salon. Woman owned business.</i> |
| <i>Makham Rozmetov Car Service Station</i> | \$10,000 | \$10,000 | <i>Paid Off</i> | <i>Purchasing car parts and accessories</i> | <i>With the stocking of car parts, this owner was able to expand his business and hire one new employee. Business profit increased by 20%.</i> |
| <i>Feniks Company</i> | \$22,624 | \$22,624 | \$18,256 | <i>Purchase computer equipment for software development business</i> | <i>With this credit, the company now has expanded its business to generate special order software. Business increased by 10%.</i> |
| <i>WEIS Company</i> | \$15,000 | \$14,840 | \$6,718 | <i>Purchase TV parts</i> | <i>This company produces TV sets that can be sold at a low price for the average Turkmen citizen. Their business increased by 20%.</i> |
| <i>Kakabai Gurbanov Cargo Transportation</i> | \$24,800 | \$24,800 | \$24,800 | <i>Purchase of "MAZ" truck and semi-trailer</i> | <i>This client is a start up business and will provide cargo transportation services for local companies. This loan created three jobs.</i> |
| <i>Erik Shumanyan Meat Shop</i> | \$25,000 | \$25,000 | \$14,404 | <i>Purchase of equipment from Russia for a meat shop</i> | <i>This is a start up business. The client has opened his own store to sell meat products. This loan created three jobs.</i> |
| <i>Safa Company Plastic Bags</i> | \$25,000 | \$24,900 | \$10,450 | <i>Purchase raw material for a plastic bag plant</i> | <i>There is no raw material for this business in Turkmenistan. The loan helped the client produce 20 tons of plastic bags and films. The factory employs 10 workers.</i> |
| <i>Fast Company Air Conditioners</i> | \$25,000 | \$25,000 | <i>Paid off</i> | <i>Purchase equipment and spare parts for "hot-cool" air conditioning systems</i> | <i>This company increased its client base by 25% and now includes servicing their equipment, so two jobs were created with this loan.</i> |
| <i>Alexander Kudlaenko Air Conditioners</i> | \$25,000 | \$25,000 | \$19,098 | <i>Purchase equipment and spare parts for "hot-cool" air conditioning systems</i> | <i>There is a large demand for this kind of system in Turkmenistan. This is a new business and created four new jobs and competition for the previous client.</i> |

| Client Name | Loan Amount Approved | Disbursed Amount | Outstanding Balance | Purpose of Loan | Impact of Credit |
|--|-----------------------------|-------------------------|--|--|--|
| <i>Bumerang-Nygmatt Restaurant</i> | \$24,950 | \$24,950 | \$9,636 | <i>Purchase restaurant equipment (refrigerator, ice cream machine, oven, etc.)</i> | <i>This restaurant established a modern restaurant in Balkanabat. There are very few good restaurants in this region. The loan created six new jobs and profit increased by 35%.</i> |
| <i>Muhammedurdy Khangeldyev Passenger Transportation</i> | \$23,500 | \$23,500 | \$12,211 | <i>Purchase of two "Ford" mini buses for private transportation service.</i> | <i>The client began a new business providing in-city and between-city passenger transportation. The loan created two new jobs.</i> |
| <i>Electrocomplex Company</i> | \$24,900 | \$24,900 | \$15,481 | <i>Purchase of electrostatic powder coating equipment</i> | <i>This company increased its client base by 15% and its profit by 18%.</i> |
| <i>Chargab Company</i> | \$6,000 | \$5,118 | \$5,118 | <i>Purchase high quality potato chip manufacturing equipment from Russia</i> | <i>This is a new business. The equipment will be installed in a warehouse outside of Ashgabat. This loan will create four new jobs and will be family owned and operated business providing quality potato chips at reasonable prices.</i> |
| <i>Moukhamed Bairamov</i> | \$22,400 Approved | none | <i>CAAEF has not released the funds due to conversion difficulties</i> | <i>Purchase paper for napkin production</i> | <i>This client has an existing company with equipment. This loan is for the purchase of the paper and anticipates an increase in profit of 10%.</i> |
| <i>Oligarh Company</i> | \$10,000 Approved | none | <i>The loan was refused by the client on 7/18/00</i> | <i>Purchase sports equipment to expand the business</i> | <i>This client has an existing fitness club equipped with modern sports equipment. This loan is for the purchase of additional sports equipment and anticipates an increase in profit of 15%.</i> |

| | | |
|------------------------------|---|-----------|
| Program Efficiency | <i>Number of Loan Officers During Quarter</i> | 3 |
| | <i>Loans Disbursed per Loan Officer</i> | 7 |
| | <i>Total Staff During Quarter</i> | 6 |
| Portfolio Quality | <i>Total Number of Loans Approved</i> | 15 |
| | <i>Total Amount Approved by the End of Quarter</i> | \$289,174 |
| | <i>Total Amount Disbursed by the End of Quarter</i> | \$255,632 |
| | <i>Outstanding Portfolio at the End of the Quarter</i> | \$136,173 |
| | <i>Percent of Outstanding Portfolio Overdue because of Conversion</i> | 67% |
| | <i>Portfolio at Risk at the End of the Quarter</i> | 0% |
| Portfolio Information | <i>Average Number of Employees</i> | 6.8 |
| | <i>Average Family Income per Month</i> | \$315 |
| | <i>Minimum Family Income per Month</i> | \$58 |
| | <i>Maximum Family Income per Month</i> | \$630 |
| | <i>Average Number of Dependents</i> | 3 |
| | <i>Average Number of Children</i> | 2 |
| | <i>Number of Women Owned Businesses</i> | 1 |
| | <i>Number of Jobs Created</i> | 15 |

B. Progress Toward Strategic Objectives

In December, the Country Director and Program Manager visited Dashoguz, a region in the north of Turkmenistan, to investigate the demand and feasibility for small loans (less than \$10,000) and group lending. A round table meeting was held with representatives of Counterpart, Winrock and GTZ staff in Dashoguz to get their input on the demand for these types of loans. The donors expressed a great deal of enthusiasm for such a loan program and offered assistance to Mercy Corps in identifying potential clients. They indicated a large need for group lending and small size loans for the region, citing the following groups they are currently involved with:

- A doctors' association that would like to purchase testing equipment
- A group of farmers that would like to purchase soil test equipment
- A group of honey producers that want to purchase packing equipment
- A farmers' association that would like to purchase sausage making equipment
- A small scale water purification business that needs a loan to purchase replacement filters
- Wood and iron workers who would like to collectively purchase raw materials and tools

A day was spent at the Business Center in Dashoguz where graduates of their two-year course were presenting their business plans. Out of 16 business plans, there were several that were excellent micro-credit candidates. All required capital of \$5,000 or less:

- Poultry farm to replace eggs currently imported from Iran
- Selling candy in Dashoguz that is produced by a firm in Mary
- Producing tomato sauce and other "canned" vegetables for sale in Turkmenbashi, where produce is scarce
- Cookie production for a market niche not currently served
- Minibus service between Dashoguz and Ashgabat

Mercy Corps also conducted a small survey in the five regions of Turkmenistan to determine demand for loans under \$10,000. Of the 156 businesses and proprietorships surveyed (roughly 1% of businesses) 45% said they would be interested in a loan of \$5,000 or less, and over 78% indicated that they would be interested in receiving a loan of up to \$10,000 to expand or establish their business.

In Ashgabat, the Director met with other donor organizations involved in SME development (Pragma, Winrock, Eurasia Foundation) to develop a plan for working co-operatively to maximize resources. Involving clients with all the organizations that offer training and support will further accelerate their chances for growth and development. A plan will be developed in earnest once a source of lending capital is secured.