

**FOURTH QUARTER REPORT****USAID GRANT AWARD NO. 120-0009-A-00-9021-0****I. Executive Summary**

The above referenced grant was awarded from the USAID Mission in Almaty to Mercy Corps International (MC) on October 1, 1999 for the operation of a micro credit program in the Republic of Turkmenistan, in partnership with the Central Asian American Enterprise Fund (CAAEF).

In mid-June, CAAEF unilaterally changed the operational procedures and the ceiling capital amount committed for this program. An explanation of this change in the program was included in the *third quarterly report*. Therefore, the fourth quarter of the program was primarily involved in monitoring existing loans and providing training to both bank partners and small business owners.

This quarterly report covers July of 2000 to the end of September of 2000.

**II. Program Accomplishments****A. Portfolio Performance**

As shown in the appendix, this program has had a very successful record of repayment. The portfolio has a zero percent delinquency rating, with 100% operating efficiency. The only problem experienced during this quarter involved the conversion of Manat to Dollars. However, by the end of the fourth quarter all but one of the clients had received conversion.

**B. MC Registration**

Mercy Corps completed registration in the Republic of Turkmenistan during this quarter. The registration classifies Mercy Corps in Turkmenistan as a subsidiary division of the parent company, therefore providing certain amenities not otherwise bestowed on representative offices such as: no annual licensing fee and no annual re-registration. In addition, MC can conclude any contract and the statutory capital account is not fixed.

**C. International Finance Corporation (IFC)**

With the recent reduction in loan capital support from CAAEF, Mercy Corps decided to seek 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 work through the local banking structure, as a legal venue for fund disbursements.

IFC's response has been positive, but the plan will need to be changed to meet their requirements. Mercy Corps is currently working with IFC to prepare 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</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>	<i>\$5,000</i>	<i>\$5,000</i>	<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 body/face care by international specialists. This loan created 2 new jobs at the Salon. This is a woman owned business.</i>
<i>Makham Rozmetov Car Service Station</i>	<i>\$10,000</i>	<i>\$10,000</i>	<i>Paid Off</i>	<i>Purchase 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>	<i>\$22,624</i>	<i>\$22,624</i>	<i>\$22,624</i>	<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>	<i>\$14,840</i>	<i>\$7,420</i>	<i>\$2,155</i>	<i>Purchase TV parts</i>	<i>This company produces TV sets that can be sold at a low price for the average Turkmen citizen. Business increased by 20%.</i>
<i>Kakabai Gurbanov Cargo Transportation</i>	<i>\$24,800</i>	<i>\$12,400</i>	<i>\$12,400</i>	<i>Purchase of "MAZ" truck and semi-trailer</i>	<i>This is a start up business and will provide cargo transportation services for local companies. This loan created 3 jobs.</i>
<i>Erik Shumanyan Meat Shop</i>	<i>\$25,000</i>	<i>\$25,000</i>	<i>\$14,404</i>	<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 3 jobs.</i>
<i>Safa Company Plastic Bags</i>	<i>\$25,000</i>	<i>\$24,900</i>	<i>\$21,140</i>	<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>	<i>\$25,000</i>	<i>\$25,000</i>	<i>\$11,447</i>	<i>Purchase equipment and spare parts for "hot-cool" air conditioning systems</i>	<i>This company increased its client base by 25% and services their equipment; two jobs were created with this loan.</i>
<i>Alexander Kudlaenko Air Conditioners</i>	<i>\$25,000</i>	<i>\$25,000</i>	<i>\$21,258</i>	<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 4 new jobs and competition for the previous client.</i>
<i>Bumerang-Nygmatt Restaurant</i>	<i>\$24,950</i>	<i>\$24,950</i>	<i>\$12,533</i>	<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 6 new jobs and profit increased by 35%.</i>
<i>Muhammedurdy Khangeldyev Passenger Transportation</i>	<i>\$23,500</i>	<i>\$23,500</i>	<i>\$19,518</i>	<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 2 new jobs.</i>
<i>Electrocomplex Company</i>	<i>\$24,900</i>	<i>\$12,450</i>	<i>\$3,032</i>	<i>Purchase of electrostatic powder coating equipment</i>	<i>This company increased its client base by 15% and it's profit by 18%.</i>

<i>Client Name</i>	<i>Loan Amount</i>	<i>Disbursed Amount</i>	<i>Outstanding Balance</i>	<i>Purpose of Loan</i>	<i>Impact of Credit</i>
<i>Chargab Company</i>	<i>\$5,118</i>	<i>CAAEF has not released the funds</i>	<i>CAAEF signed the disbursement form for this loan August 2<sup>nd</sup>, but has not yet released funds.</i>	<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 4 new jobs and the business will be family owned and operated, providing quality potato chips at reasonable prices.</i>
<i>Moukhamed Bairamov</i>	<i>\$22,400 Approved</i>	<i>Client did not complete documents for credit.</i>		<i>Purchase paper for napkin production</i>	<i>This client has an existing company and equipment. This loan is for the purchase of the paper and should provide an increase in profit of 10%.</i>

<b>Program Efficiency</b>	<i>Number of Loan Officers During Quarter</i>	<i>3</i>
	<i>Loans Disbursed per Loan Officer</i>	<i>7</i>
	<i>Total Staff During Quarter</i>	<i>6</i>
<b>Portfolio Quality</b>	<i>Total Number of Loans Approved</i>	<i>15</i>
	<i>Total Amount Approved by the End of Quarter</i>	<i>\$289,174</i>
	<i>Total Amount Disbursed by the End of Quarter</i>	<i>\$218,244</i>
	<i>Outstanding Portfolio at the End of the Quarter</i>	<i>\$144,486</i>
	<i>Percent of Outstanding Portfolio Overdue because of Conversion</i>	<i>13.2%</i>
	<i>Portfolio at Risk at the End of the Quarter</i>	<i>0%</i>
<b>Portfolio Information</b>	<i>Average Number of Employees</i>	<i>6.8</i>
	<i>Average Family Income per Month</i>	<i>\$315</i>
	<i>Minimum Family Income per Month</i>	<i>\$58</i>
	<i>Maximum Family Income per Month</i>	<i>\$630</i>
	<i>Average Number of Dependents</i>	<i>3</i>
	<i>Average Number of Children</i>	<i>2</i>
	<i>Number of Women Owned Businesses</i>	<i>1</i>
	<i>Number of Jobs Created</i>	<i>15</i>

## **B. Strategic Planning**

### **1. Technical Assistance and Training**

During this reporting period, Mercy Corps concentrated its efforts on technical assistance and training: both for bank partners and small business owners in Turkmenistan.

#### **Bank Seminars**

Seminars for employees of local banks were held each month for the past three months. The majority of the participants were from Senagat Bank and from Garashsyzyk Bank. Several other banks also sent employees to these seminars. The courses offered included the following:

- **Advanced Loan Analysis:** This course is divided into two sections, each lasting two days. The first section provides an overview of methods and procedures for analyzing the financial statements of small to medium size enterprises. Also included in this section is training on policies and procedures for organizing lending departments, collecting loans, dealing with problem loans, asset/liability management and other organizational issues. The second section uses "business games" to analyze loan requests, utilizing actual case studies from Mercy Corps' micro credit programs.

- Asset Liability Management: This is a one-day course that provides an overview of the methodology of managing assets and liabilities in relationship to bank and credit operations.
- Trade Finance: This course is held for one day and covers types of trade financing available in the Republic of Turkmenistan for those businesses that do not need conversion through the Central Bank.
- Business Planning: This two-day course helps the Turkmenistan banks develop their own business plan. Discussions include short term planning, long term planning, organizational planning and strategic planning. This course used the plan of a Russian bank as an example.
- Bank Analysis: This is a one day introductory course comparing western-style commercial banks to banks of Turkmenistan and the former Soviet Union. The course provides the methodology used by U.S. bank analysts and focuses on various ratio analyses and analytical formulas.

### Client Seminars

Seminars for clients and small business owners were held twice a month for the last three months. The average number of participants was approximately 50 clients. These seminars presented a fixed agenda.

9:00 to 9:30	Introduction to Market Economy Concepts
9:30 to 10:30	Capital Demand: Fixed Capital, Working Capital, Pre-operational Capital, and Reserved Capital
10:30 to 10:45	Break
10:45 to 11:30	Enterprise Environments: Internal and External to Operations
11:30 to 1:00	SWOT Analysis
1:00 to 2:00	Lunch (provided free to participants)
2:00 to 3:00	Management
3:00 to 3:15	Break
3:15 to 4:30	Financial Management: Balance Sheets, Profit and Loss Statements, Cash Flow, and Credit Management
4:30 to 5:30	Micro Credit: Why is credit important to business, how to manage credit, how to apply for credit.

## **2. Business Plan to IFC**

In August, a business plan for sustainable micro credit operations in Turkmenistan was presented to the World Bank/IFC in Washington, D.C. This plan focuses its efforts on individuals living in both urban and rural communities who currently operate, or want to begin operating micro and small businesses and who have authorized capital of no more than \$5,000 and ten employees or less. The objective is to create income and employment opportunities in targeted communities throughout Turkmenistan through development and support for micro and small businesses, while creating a sustainable, commercially-viable local entity that will both service these businesses as they grow and support new businesses as they are created. The goals proposed to IFC and as set forth in this plan include:

- Mercy Corps will successfully disburse a total of \$3,000,000 within a 24-month period and will continue to manage the \$3,000,000 loan portfolio on an ongoing basis. Mercy Corps will target those private micro and small enterprises that have no

more than \$5,000 in authorized capital and that will endeavor to maximize community impact in terms of job creation and income generation.

- Mercy Corps will continue the program's initial focus on Ashgabat, and will strategically expand the program's outreach into other areas of Turkmenistan within the 24-month period.
- Mercy Corps will achieve operational sustainability in Turkmenistan by the end of a 30-month time period by:
  - a. Generating interest from loans that is sufficient to cover local operating costs and a 10% cost of capital.
  - b. Maintaining a portfolio with an over 30 day at risk rate of less than 5% and with a write off rate of less than 3% of the average outstanding portfolio.
  - c. Building capacity of the local staff, in preparation for eventual localization of operations.
  - d. Building capacity of the local partners (private banks) to service loans, thereby helping to reduce operating costs over time.
- Mercy Corps will maximize the likelihood of full, on-time repayment and enhance the ability of repeat borrowers to successfully graduate to larger credit products through the provision of targeted technical assistance to entrepreneurs and small business owners and managers.

IFC has indicated its interest to support MC's micro-lending program in Turkmenistan. Their reaction to this plan was positive, but there are certain requisites that must be included in order to comply with World Bank regulations. IFC has proposed an alternative plan whereby they would contribute up to \$1 million, with additional participation from other investors. Disbursements would be managed through a local private bank. Administrative costs would continue to be financed by USAID.

#### **IV. Conclusions**

The major accomplishment during this quarter was the completion of registration for Mercy Corps in the Republic of Turkmenistan.

Since the withdrawal of CAAEF's support, the program has concentrated on two areas: training-technical assistance and monitoring existing loans. This has resulted in a zero delinquency rate for this portfolio with a 100% efficiency rating.

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