



PN-ABT-953  
110686

June 13, 2001

USAID/ CDIE/ DI  
Washington, DC  
20523-1082

Dear Sir or Madame:

Attached please find Mercy Corps International's final report for the USAID-funded Tajikistan Micro-credit project (119-0001-G-00-9012). The enclosed report covers the activities completed throughout the duration of the project, July 27, 1999 – April 30, 2001, with a particular focus on the final reporting period (January 1 – April 30, 2001).

Mercy Corps would like to thank USAID for its vital support in Tajikistan. If you have any questions regarding the project or this report, please do not hesitate to contact me.

Best regards,

Brandy Westerman on behalf of  
Lynn Renken, Senior Program Officer for Central and South Asia

Cc: Marcus Johnson, Contracting Officer-USAID /CAR  
Nadya Yegay - USAID/CAR

A

**Final Report**  
**“Tajikistan Microcredit Program”**  
**Mercy Corps International**  
**Grant # 119-0001-G-00-9012**  
**July 27, 1999 – April 30, 2001**

## **Introduction**

The “Tajikistan Microcredit Program” was established by Mercy Corps to provide working capital assistance to women entrepreneurs in order to increase their capacity to earn an income and expand their businesses. The program is designed to achieve this objective by working in close partnership with a local NGO, the National Association of Business Women (NABW) Khoujand. This allows the NGO to develop the capacity needed to manage this micro credit program, to make it sustainable and to eventually run it on its own.

In late July of 1999, a USAID grant of \$700,000 was awarded to Mercy Corps for this program. An additional \$95,000 was later awarded to purchase the Dushanbe and Shaartuz active loan portfolios from Save the Children’s (USA) Group Guaranteed Lending and Savings (GGLS) Project. Along with the purchase of the portfolios, staff from this project were absorbed into Mercy Corps’ project and the area of operation was expanded to include Shaartuz and its surrounding regions. Today the project is active in Dushanbe City and the surrounding districts of Leninsky and Gissor, in Shaartuz District and in the adjoining districts of Bishkent and Kabodion.

The original project end date was January 31, 2001 but with USAID approval the project was extended at no cost until April 30, 2001, to ensure that the handover process to the local partner, the National Association of Business Women (NABW), was as thorough and solid as possible.

## **Activities During Final Project Period (January – April 2001)**

The months between January and April 2001 marked the final period of Mercy Corps’ direct involvement in this project. The business climate during the early part of the year was marked by a decrease in the volume of trade in the marketplace. Winter is traditionally a ‘slow’ season, and as a result some clients had trouble making their repayments on time. However, in early April the trend in the market was more robust and the repayments picked up. In January of 2001, the repayment rate in Dushanbe was 96%, in February and March it was 95% and in April it was 97%.

The demand for microcredit is still very strong in both Shaartuz and Dushanbe and Mercy Corps and NABW will be exploring other sources of capital for the loan fund, which has been circulating within the communities since December of 2000.

As in the previous reporting period, one of the main activities was continuing the hand-over process between Mercy Corps and NABW. Several meetings were held in January, March and April of 2001 to discuss a range of issues, such as legal arrangements between the two branch offices and the main office in Khoujand in light of the as-yet unclear legislation surrounding the functioning of microcredit institutions. Other issues discussed were future relations with Mercy Corps and the level of support Mercy Corps would provide to NABW. Mercy Corps has made it very clear that it will continue to provide technical assistance and advice but that all direct financial support ended on April 30, 2001. Mercy Corps has successfully completed a transfer of staff, assets and equipment between the two organizations. However, to provide the NABW staff with a more secure position vis-à-vis the tax authorities, Mercy Corps continues to maintain ownership of the loan funds and has

issued employment contracts for a period of three months (until July 31st) for all staff. NABW is responsible for salary payments.

During this period, both offices increased their staff by employing additional Loan Officers to meet the demand of the growing portfolio. On average, each Loan Officer is now working with 40 groups representing 220 persons. However, this number keeps the officers very busy, especially in Dushanbe where clients tend to be mobile and following up is a very time consuming process. Therefore, group formation has slowed somewhat and NABW is discussing with Mercy Corps how to resolve this dilemma, i.e., how to nurture group formation but keep staffing costs to a reasonable level.

NABW continued to expand its own activities. In January of 2001, NABW began work on a new UNIFEM-funded project "Creating favorable conditions for women's entrepreneurship development". The NABW continued to meet with officials of the Asian Development Bank as part of the inter-agency working group on developing and improving legislation around the operation of the microfinance institutions (MFIs) in Tajikistan. In March and April of 2001, the Board of Directors of NABW met and approved the regulations of the Dushanbe branch of the organization. The same regulations for the Shaartuz office are still being discussed but this process has in no way impeded the operational aspects of the project.

Similarly, Mercy Corps signed an agreement with NABW in April of 2001, in Shaartuz, to provide support to a new microcredit and training program funded by the United States' State Department Bureau of Population, Refugees and Migration (BPRM). NABW's involvement in this program will not begin until later in the calendar year.

A complete portfolio report with figures covering all aspects of the project through April 30<sup>th</sup> is attached as Annex 1.

### **Progress Against Project Objectives and Activities**

The project's original objective was to 'expand the business services provided by the Association of Business Women Khoujand by establishing a branch office in Dushanbe and to mentor them as they begin to extend small loans to female entrepreneurs in and around Dushanbe.'

The objective was amended and expanded to the villages of Shaartuz, Kabodion and Bishkent and surrounding smaller *kislaks* or hamlets in the area of operations/lending. This was the result of Mercy Corps taking over the portfolio and operations of an existing microcredit project managed for several years by Save the Children Fund.

These objectives were to be accomplished through the following activities:

1. Set up and equip an Association of Business Women branch office in Dushanbe and Shaartuz that provides business training and lending services to female entrepreneurs.
2. Train staff on how to offer and market business training and lending services.
3. Train staff to extend and manage a group credit program targeting female entrepreneurs in and around Dushanbe and Shaartuz.
4. Provide fee-based business training services through the Association's branch offices.
5. Provide business training courses to female entrepreneurs in Dushanbe and Shaartuz.
6. Establishment of a client savings component.

Activity 1: Set up and equip Association of Business Women branch offices in Dushanbe and Shaartuz to provide business training and lending services to female entrepreneurs.

An NABW office was established in Dushanbe in August of 1999 and is fully equipped with computers, furniture and other necessary office equipment. The staff has been trained and are carrying out their duties, both in lending and the provision of business training services. As intended, the Dushanbe office now has two teams, one that implements the lending program and another that provides business-focused trainings and activities to partner organizations, clients and other interested parties. The Dushanbe Office has two full-time employed Trainers and five Loan Officers that are supervised by a Senior Loan Officer.

The former SCF office in Shaartuz was transferred to the management of Mercy Corps in August of 1999. Where needed that office has been upgraded with equipment. The staff is fully trained and has been competently carrying out their duties. The Shaartuz office has two part-time employed Trainers and four Loan Officers that are supervised by a Senior Loan Officer.

Activity 2: Train staff how to offer and market business training and lending services.

The staff in Dushanbe and Shaartuz has been fully trained by Mercy Corps' technical staff, NABW Khoujand staff and consultants. Several of the NABW staff are former employees of the SCF-funded project and therefore have several years of experience in microcredit programs. However, Mercy Corps did introduce some changes and innovations into the project and the staff was fully trained on these aspects. To improve staff skills, workshops on "Communication Skills", "Leadership Style", "Establishment of Effective Interest Rates" and "Operational Sustainability of Microcredit Program for 2000" were conducted at various times throughout the reporting period. These trainings were conducted by the Program Advisor, the Dushanbe Branch Director and the Informational & Educational Center Maniza.

In addition to training provided directly by Mercy Corps, several staff members attended a variety of relevant training sessions in Lvov (Delinquency Management and Establishing Sustainable Interest Rates); Almaty (Transparency and Effective Methods of Management); and Moscow (Training of Trainers). In addition, many of the staff attended local and regional trainings and workshops in Kazakhstan, Kyrgyzstan and Tajikistan.

Activity 3: Train staff to extend and manage a group credit program targeting female entrepreneurs in and around Dushanbe and Shaartuz.

Both Project Advisors employed by Mercy Corps to manage this project had extensive experience in a variety of microcredit and development programs. Together their leadership and 'on-the-job' training and mentoring helped to give the staff an excellent foundation in all the basics of microcredit program management.

In September of 2000, the out-going Project Advisor led a very detailed policy developing exercise that covered the mechanics of setting interest rates, methods of delinquency management, cost cutting, reporting requirements and the use of the database for planning. Measures for minimizing the cost of the program through networking of client groups, centralized collection of repayments, area-based focus for Loan Officers and cost budgeting were also discussed.

The current Project Advisor has continued this training by providing information and technical assistance in preparing cash flow statements, establishing reserve funds and other similar topics.

In addition, the Mercy Corps Project Advisors oversaw the compilation of a policies and procedures manual that covered all relevant topics from group formation to standards of professional conduct. (The manual is available from Mercy Corps or NABW upon request). All forms and policies were standardized for both offices and are also used in NABW's USDA-funded credit program in Khoujand.

An in-house Management Information System was developed by the Project Advisor and has been used for training and program management since April of 2000. This database has information on groups, individual members of groups, loan and repayment details as well as business data. The database has been an effective tool to monitor and evaluate lending activities by area as well as by Loan Officer. The information collected has also been useful to discern trends and track successful business activities.

This project has also benefited from a loan tracking software program developed by Mercy Corps for use in all its credit programs around the world. All offices of NABW have received training on the operation of the software and it is now in place in Dushanbe. An equipment upgrade in Shaartuz is necessary before it can be installed there.

The lending activity has been successfully carried out. For the whole project period, starting from September of 1999 till April 30, 2001, the lending statistics are as follows:

	Dushanbe	Shaartuz
<b>Principal Outstanding</b>	\$176,542	\$149,659
<b>Principal Collected</b>	\$540 895	\$524 075
<b>Interest Collected</b>	\$76 241	\$67 918
<b>New Loans Disbursed</b>	\$727 665	\$750 236
<b>Repayment Rate</b>	97%	96%
<b>Default Rate</b>	Less than 1%	Less than 1%
<b>Number of Active Groups</b>	225	202
<b>Number of Members</b>	1,292	1,696

<b>Average # of people in the group</b>	5-7
<b>First loan size</b>	\$75-100
<b>Loan increase</b>	1 cycle – \$75-100 2 cycle – \$150-200 3 cycle – \$300 4 cycle – \$500
<b>Maximum loan</b>	\$500
<b>Loan cycle</b>	3 and 4 months
<b>Repayment schedule</b>	Bi-monthly or once a month
<b>Interest rate</b>	2% up-front fee plus 4.5 % on the declining balance

Both Project Advisors worked closely in providing practical and theoretical training to the staff in Shaartuz and Dushanbe. By the fourteenth month an active hand-over plan of action was developed jointly by Mercy Corps and NABW and a core group of staff began meeting regularly to discuss various aspects of the hand-over. These meetings were very detailed and far ranging. An example of the topics/issued covered: cash flow, income vs. expenditures, dollar denomination of loans, interest rates, program expansion, legal aspects of NABW and use of Mercy Corps' logo and equipment. The Shaartuz branch has always been a strong cohesive team, and therefore the Senior Loan Officer (later Branch Director) was managing the day to day operations of the program from the very initial stages of the project. In Dushanbe, where the team was new and less experienced, the Branch Director took full control of the day to day operation in January of 2001 (month 18).

Activity 4: *Provide fee-based business training services through the Association's branch offices.*

The Dushanbe branch has begun to provide fee-based business services. In early 2001 NABW secured two contracts for such services with two national NGOs and has provided both training and documentation on various aspects of business development and entrepreneurship. NABW has also had discussions with Counterpart Consortium on developing and conducting joint trainings. In April of 2001, NABW trainers carried out training of trainers for the new Mercy Corps credit program in Shaartuz District funded by BPRM. A four-day workshop on the "Basics of Entrepreneurship" and a three-day training on "Methods of Working in Groups" were held. Trainers used new materials and training techniques. In all, thirty-five people attended these events.

As of April of 2001, twenty-three local NGOs had participated in NABW's business trainings, though most of them were not yet able to provide a fee. Nevertheless, the trainings have been highly regarded and this aspect of NABW's profile is certain to grow in the coming months and years.

The Shaartuz branch training-unit has been working independently since August of 2000, although it does not yet provide fee-based services.

Activity 5: *Provide business training courses to female entrepreneurs in Dushanbe and Shaartuz.*

One of the unique and most effective components of this project has been the training provided to the clients and others.

The Microcredit Educational Program started in October of 1999. NABW employees from Khoujand conducted clients' needs surveys in Dushanbe City. Based on the results, a two-day workshop on "Education Plus Credit" was designed. In November of 1999, Dushanbe branch NABW employees participated in training in Khoujand where the manual "Education Plus Credit" was tested. The same year, this manual was handed to the Dushanbe branch where adaptation of the handouts to the needs of the clients and a translation into Tajik was made. In December of 1999, NABW training and management staff designed an Educational Program Concept for the Dushanbe branch that was supported and approved by the Program Advisor. Implementation of the subsequent training and educational activities was based on this concept.

The first workshop of "Entrepreneurship Plus Credit" was held in December of 1999 with sixteen participants from the Dushanbe branch and Mercy Corps. In January of 2000, a second, two-day training for clients was conducted in Dushanbe. Thirty-one women entrepreneurs participated in this training. In February of 2001, the training was extended to clients in Leninski District. As a rule women entrepreneurs that wished to become program clients participated in the training and were recommended to the group guarantee loan program. This sort of training made it possible to select appropriate clients and strengthen program quality.

From December of 1999 to April of 2001, thirty-six training sessions on "Entrepreneurship Plus Credit" were conducted. In Shaartuz sixteen sessions were successfully carried out. In April of 2001, a three-day "Improve Your Business" training was conducted in Dushanbe for clients who wished to receive credit for five hundred dollars for their businesses. The workshop was based on the manual "Aspects of Business Planning" that was designed by the Khoujand branch of NABW. In addition to the trainings mentioned, program clients were provided with legal advice services on a weekly basis each Friday.

NABW's workshops on "Entrepreneurship Plus Credit" have attained recognition among the NGOs in and around Dushanbe and Shaartuz and other districts. Over the project period more than twenty NGOs such as "Civil initiatives", "Open Asia", "Avesto", "Nilufar", "Women and Electors", "Adabsaro", "Jahon", "Diyor" and the Women's Center "Chashma" have been trained by the Dushanbe branch trainers in basic entrepreneurship and credit management.

Feedback from the participants of the trainings was gathered through interviews and questionnaires. These showed that 70% considered that they successfully achieved their goals. In response to the question "Are you satisfied with the training?" 62% of the participants answered "very much". *The handouts were deemed to be understandable and interesting and participants reported that the course helped them to significantly improve their business and overcome conceptual problems, discover creative potential and define ways to overcome both internal and external drawbacks. Many clients mentioned that they discovered new ways of doing business and expressed a desire for further development of their organizations, businesses and employees.*

#### Activity 6: Establish a client savings component.

Based on SCF's practice in Dushanbe and Shaartuz a client savings component was stipulated in the original proposal. However, Mercy Corps received repeated feedback from both clients and loan officers that this was not an appropriate mechanism, at least not in the way in which it was designed and implemented. Therefore, the NABW teams in Shaartuz and Dushanbe and the Project Advisor devised an innovative alternative that met the clients' needs more effectively.

The savings scheme was replaced by a voluntary group insurance fund that is self-managed by the group. The suggested contribution to the fund is 8% of the loan amount and individual members can draw from this fund on the basis of rules framed by the group members and included in their group charter. This fund is to help individual members to meet emergency cash requirements, as at times of sickness and other needs.

#### *Survey and informational work*

In addition to these activities, the trainers did a significant amount of surveying and information gathering for the project. Trainers, jointly with Loan Officers, conducted two microcredit market surveys in Dushanbe to learn about women entrepreneurs' needs for credit and training. The survey results were used by NABW and Mercy Corps to strengthen and refine the project. In October of 2000, a marketing survey in Turzunzade District was carried out with the aim of studying the market and ascertaining women entrepreneurs' need for small credit. Based on survey analysis, several proposals were designed for the expansion of the microcredit project to this region. Materials were submitted to Mercy Corps and NABW management. In November-December of 2000, the Dushanbe branch started to implement both lending and training activities in this new region.

Program clients were kept informed of NABW activities, amendments to the legislation of the Republic of Tajikistan, and best practice through the publication of a special newsletter. The first edition was issued in April of 2000 and the most recent edition in April of 2001.

#### **Problems Encountered During The Reporting Period**

The project did not face any major problems or hindrances over the twenty-one months. The two major chronic challenges were inflation, and therefore a devaluation of the loan portfolio, and unclear and imperfect legislation on a whole range of issues pertaining to MFI status and taxation.

As mentioned above, NABW is a key member of the working group, organized jointly by the National Bank of Tajikistan and the ADB, to discuss the difficulties and issues surrounding matters of legislation and taxation. Progress in this area is very slow with the government not in any hurry to formulate clear guidelines and regulations to govern this new sector. In order to protect the loan fund from a predatory tax regime Mercy Corps will retain control and ownership of the funds used for the loan program until such time as the legal structures are firmly in place. *In the meantime, NABW continues to work as a member of the broader community of organizations involved in microcredit to develop these structures.*

The issue of inflation and the fluctuation of the dollar is a macro problem over which neither Mercy Corps nor NABW have any control. Certain adjustments were made as needed (i.e. denominating the loans against the dollar) and the introduction of the new currency, the Somoni, stabilized the devaluation against the dollar for some time. However, only long term investment and development of Tajikistan's economy will resolve this particular issue.

**Annex 1. Complete Portfolio Report for Dushanbe and Shaartuz**  
**MERCY CORPS INTERNATIONAL**  
**MPG MONTHLY PORTFOLIO REPORT**  
**DUSHANBE - USAID**  
**April 2001**

	Tajik Somoni	Cum. TS.	US Dollars	Cum. \$US
Exchange Rate at End of Month:	2,55			
<b>A Group Statistics</b>				
1 No. of Groups in Formation	14			
2 No. of Groups Beginning of Month	227			
3 No. of New Groups this Month	12	246		
4 No. of Groups Discontinuing this Month	8	52		
5 Total No. of Groups at End of Month (EOM)	231			
6 Total No. of Active Groups (EOM)	225			
<b>B Client Statistics</b>				
1 No. of Clients at the Beginning of Month	1 275			
2 No. of New Clients this Month	82	1 996		
3 No. of Clients Discontinuing this Month	65	704		
4 Total No. of Clients at EOM	1 292			
5 Client Retention Rate	95%	65%		
<b>C Lending Activity</b>				
1 Total Value of Loans Disbursed during Month	227 415	1 639 980	\$89 182	\$727 665
2 Total # of Member Loans Disbursed during Month	373	3 825		
3 Average Loan Size Disbursed during Month	610	429	\$239	\$190
4 Total Value of Loans Disbursed to New Clients	21 420		\$8 400	
5 Value of Loans Outstanding (EOM)	450 183		\$176 542	
6 Total # of Member Loans Outstanding (EOM)	1 215		1 215	
7 Average Outstanding Balance of Loans	371		\$145	
8 Value of Principal Payments in Arrears (EOM)	5 128		\$2 011	
9 Number of Group Loans in Arrears (EOM)	5		5	
10 Value of Outstanding Bal. of Loans in Arrears (EOM)	5 766		\$2 261	
11 Value of Loans Written Off during Month		2 402	\$0	\$1 031
12 Average First Loan Size	255		\$100	
13 Average Loan Term (months)	4		4	
<b>D Principal &amp; Interest Collected</b>				
1 Principal Due this Month	174 232		\$68 327	
2 Principal Collected this Month	169 104	1 217 437	\$66 316	\$540 895
3 Repayment Rate	97%		97%	
4 Service Charge Due this Month	22 247		\$8 724	
5 Service Charge Collected this Month	21 903	170 177	\$8 590	\$76 241

**MERCY CORPS INTERNATIONAL**  
**MPG MONTHLY PORTFOLIO REPORT**  
**SHAARTUZ - USAID**  
**April-2001**

	Tajik Somoni	Cum. TS.	US Dollars	Cum. \$US
Exchange Rate at End of Month:	2,55			
<b>A Group Statistics</b>				
1 No. of Groups in Formation	10			
2 No. of Groups Beginning of Month	232			
3 No. of New Groups this Month	6	217		
4 No. of Groups Discontinuing this Month	2	36		
5 Total No. of Groups at End of Month (EOM)	236			
6 Total No. of Active Groups (EOM)	202			
<b>B Client Statistics</b>				
1 No. of Clients at the Beginning of Month	1 660			
2 No. of New Clients this Month	36	2 330		
3 No. of Clients Discontinuing this Month	0	637		
4 Total No. of Clients at EOM	1 696			
5 Client Retention Rate	100%	73%		
<b>C Lending Activity</b>				
1 Total Value of Loans Disbursed during Month	153 220	1 579 509	\$60 086	\$750 236
2 Total # of Member Loans Disbursed during Month	306	4 959		
3 Average Loan Size Disbursed during Month	501	319	\$196	\$151
4 Total Value of Loans Disbursed to New Clients	8 080		\$3 169	
5 Value of Loans Outstanding (EOM)	381 630		\$149 659	
6 Total Number of Loans Outstanding (EOM)	1 161		1 161	
7 Average Outstanding Balance of Loans	329		\$129	
8 Value of Principal Payments in Arrears (EOM)	5 436		\$2 132	
9 Number of Group Loans in Arrears (EOM)	10		10	
10 Value of Outstanding Bal. of Loans in Arrears (EOM)	21 015		\$8 241	
11 Value of Loans Written Off during Month	0	1 260	\$0	\$547
12 Average First Loan Size	220		\$86	
13 Average Loan Term (months)	3-4		3-4	
<b>D Principal &amp; Interest Collected</b>				
1 Principal Due this Month	131 287		\$51 485	
2 Principal Collected this Month	125 850	1 196 702	\$49 353	\$524 075
3 Repayment Rate	96%		96%	
4 Service Charge Due this Month	16 076		\$6 304	
5 Service Charge Collected this Month	15 184	149 469	\$5 955	\$67 918