

PD-ABW-740

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

**SEMI-ANNUAL REPORT
July 01, 2001 – December 31, 2001**

I. Executive Summary

With new lending activity suspended, Mercy Corps in Turkmenistan has been monitoring ten outstanding loans. Despite a breakthrough in loan interest payment due to an agreement between CAAEF and Mercy Corps, loan principal repayments remain incredibly difficult due to conversion issues. Four of the loan recipients have ceased business operations.

II. Program Accomplishments

A. Portfolio Performance

According to lending rules prior to November 30, 2001, Mercy Corps' clients had to apply to local servicing banks for currency conversions to make their loan payments. Since January of 2001, there has been no conversion for CAAEF/Mercy Corps loans in Turkmenistan. Despite a new system designed to circumvent this issue put in place at the end of November, no portfolio activity was reported throughout this time period. The conversion issue is the only reason that all Mercy Corps clients are in arrears. The total amount of overdue principal is \$135,156.12, which represents 100% of the principal balance outstanding. A 100% delinquency rate is entirely due to the conversion issues.

III. Program Activities

A. Portfolio Summary

The following is a list of the program's micro credit clients in Turkmenistan:

Client Name	Loan Amount Disbursed (\$)	Outstanding Balance (\$)	Purpose of Loan	Impact of Loan
Olga Mommodova, Beauty Salon	5,000	<i>Paid off</i>	Reconstruction of the office for a beauty school and training facility	After the reconstruction, they organized training seminars for body/face care and hairdressing. The loan created two new jobs at the Salon. Business profit increased by 15%.
Makham Rozmetov, Car Service Station	10,000	<i>Paid off</i>	Purchase of car parts and accessories	This loan created one new job. Business profit increased by 20%.
Feniks Company	22,624	17,238.75	Purchase of computer equipment for software development business	The company has expanded its business to generate special order software. Business profit increased by 10%.
WEIS Company	14,840	6,718.62	Purchase of TV parts	The company produces TV sets that

				can be sold at a low price at the local market. Their business increased by 20%.
Kakabay Gurbanov, Cargo Transportation	24,800	\$24,800	Purchase of MAZ truck and semi-trailer	This is a start-up business, which provides cargo transportation services between the regions of Turkmenistan. This loan created three jobs.
Erik Shumanyan, Meat Shop	25,000	\$14,403.83	Purchase of equipment from Russia for a meat shop	This is a start-up business. The client opened his own store to sell meat products. This loan created three jobs
Safa Company	25,000	10,449.68	Purchase of raw materials for an existing plastic bag and plastic film producing plant	There is no raw material for this business in Turkmenistan. The loan helped the client produce 20 tons of plastic bags and films.
Fast Company, Air Conditioners Assembling	25,000	<i>Paid off</i>	Purchase of equipment and spare parts for "hot & cool" air conditioning systems	This company increased its clientele base by 25% and now also services their equipment. Two jobs were created with this loan
Bumerang-Nygmat, Restaurant	24,950	9,636.32	Purchase of restaurant equipment (refrigerator, ice cream machine, oven, etc)	This company established a modern restaurant in Balkanabat, Balkan region of Turkmenistan. There are very few good restaurants in the region. This loan created six new jobs and profit increased by 35%
Alexander Kudlaenko, Air Conditioners Assembling	25,000	19,098.35	Purchase of equipment and spare parts for "hot & cool" air conditioning systems	There is a large demand for this kind of system in Turkmenistan. This is a new business and created four new jobs.
Muhametdurdy Khangeldyev, Passenger Transportation	23,500	12,210.58	Purchase of two Ford mini-buses for passenger transportation services	The client began a new business providing in-city and between-city passenger transportation. The loan created two new jobs
Electrocomplex Company	24,900	15,481.99	Purchase of electrostatic powder coating equipment	This client increased its client base by 15% and its profit by 18%
Charbag Company	5,118.00	5,118.00	Purchase of potato chip manufacturing equipment from Russia	This is a start-up business. This loan created four new jobs.

Program Efficiency	<i>Number of Loan Officers During the Reporting Period</i>	2
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 Reporting Period</i>	\$255,632
	<i>Outstanding Portfolio as of December 31, 2001</i>	\$135,156.12
	<i>Percent of Outstanding Portfolio Overdue because of Conversion</i>	100%
	<i>Portfolio at Risk at the End of the Reporting Period</i>	42.5% (4 of 10 clients did not sign the loan extension, therefore I think we should

		<i>consider them as "at risk"</i>
Portfolio Information	<i>The quality of life in the country goes down every year, so we can change these figures as follows</i>	
	<i>Average Family Income per Month</i>	<i>\$200</i>
	<i>Minimum Family Income per Month</i>	<i>\$50</i>
	<i>Maximum Family Income per Month</i>	<i>\$500</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>

The first loan was disbursed in March of 2000. By year-end 2000, Mercy Corps Turkmenistan had disbursed 13 loans totaling \$255,632. Sixty-seven percent of all loans were issued to expand existing private businesses, while 33% of the loans were granted for creation of new businesses. Thirty-three percent of the approved loans were production-related, including the manufacturing of plastic bags and films, potato chips, napkins and TV sets. Sixty-seven percent of the loans were for services such as a beauty salon, cargo transportation, taxi services, automobile servicing and repair, computer program development, restaurant and heating and cooling systems repair and maintenance.

Since that time, three of the clients have paid of their loans. Most of the inactivity in the portfolio came from the inability of the clients to convert manats into dollars. This issue is the main reason that all remaining Mercy Corps Turkmenistan clients are in arrears. The total amount of overdue principal as of December 31, 2002 is \$135,156.12, which constitutes 100% of the principal outstanding balance.

Taking into consideration the absence of conversion in Turkmenistan, CAAEF agreed to accept local currency, manats, for interest payments. This began in July of 2001. This was a very important achievement, which helped reduce clients' interest payments despite the inability to convert local currency into dollars.

According to a subsequent agreement reached November 30, 2001, CAAEF accepts manats from its clients at the official exchange rate of 5,200 manats per \$1 (the real, black market exchange rate is 21,500 manats per \$1). CAAEF then transfers the manats to Mercy Corps Turkmenistan's (MCT) account. Upon MCT's receipt of manats from CAAEF, Mercy Corps transfers the dollar equivalent to CAAEF's American bank account. This US dollar payment to CAAEF goes towards loan principal repayment.

In this reporting period, no payment was made towards loan principal repayment. This system represents potential significant progress, in relation to the year-long stalemate with loan principal repayment.

CAAEF extended the period of the loans through July of 2002. Only six of the remaining ten clients with outstanding principal extended their loans. Of the four who did not sign the extension, two are fully prepared to repay the remaining principal and interest in manats, though CAAEF will not accept their principal payments at the official exchange rate, due to the staggering difference between official and black market exchange rates.

The principal balance as of January 31, 2002 is \$135,156.12.