

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

SEMI-ANNUAL REPORT
January 01, 2001 – June 30, 2001

I. Executive Summary

With new lending activity suspended, Mercy Corps in Turkmenistan has been monitoring ten outstanding loans.

In January of 2001, USAID conducted 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 considered target borrowers, loan size, potential of group lending, risk sharing, regional lending, interest rate structure, and legal status. According to USAID's assessment team, there is a real market for micro-finance in Turkmenistan.

However, the investment climate in Turkmenistan does not benefit from extensive market-oriented reforms. Additionally, price and currency controls remain in place. Turkmenistan has good entrepreneurial potential, however, the necessary framework to support it has not yet emerged.

The adverse political and economic environment of Turkmenistan makes it difficult to make financial transactions and conduct business. There are strict rules about currency exchange in Turkmenistan. Due to a shortage of hard currency, the Central Bank provides commercial banks with limited foreign exchange to convert cash and non-cash manats into hard currency. The present conversion situation results in delays in receiving hard currency incomes and impedes doing business.

II. Program Accomplishments

A. Portfolio Performance

Conversion from local currency to dollars has become a serious problem in Turkmenistan. Turkmenistan's currency, the manat, is not freely convertible. The official exchange rate is overvalued and the manat trades at more than a 400% premium on the black market. Due to the shortage of hard currency, the Central Bank provides commercial banks with limited foreign exchange to convert cash and non-cash manats

According to existing lending rules, Mercy Corps' clients must apply to a local servicing bank for currency conversion to make their loan payments. Since January of 2001, there has been no conversion for CAAEF/Mercy Corps loans in Turkmenistan. This 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-Nygmatt, 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 June 30, 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>	0%
Portfolio Information		
	<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

The first loan was disbursed in March 2000. By year-end 2000, Mercy Corps 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.

Despite the serious problem with conversion in Turkmenistan, Mercy Corps provides assistance to help clients in repay their loans. The conversion issue is the sole reason that all ten Mercy Corps clients are in arrears. The total amount of overdue principal as of June 30, 2001 is \$135,156.12, which constitutes 100% of the principal outstanding balance. However, all Mercy Corps clients have sufficient funds to cover their loan payments, both interest and principal.

CAAEF extended the period of the loans that had expired through the end of 2001 or the beginning of 2002. Taking into consideration the absence of conversion in Turkmenistan, CAAEF has agreed to accept local currency, manats, for interest payments, starting in July of 2001. This is a very important achievement, which will reduce clients' interest payments.