

KAZAKSTAN COMMUNITY LOAN FUND

SEMI-ANNUAL REPORT:

April - September 2001

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TABLE OF CONTENTS	Pages
Summary	2
Program Accomplishments	2
Key Program Indicators	2
Portfolio Outreach	3
Program Activities	4
MCRIL Evaluation	4
Micro Banking Bulletin	4
Announcement at Donor Summit	5
Workshops, Training, & Planning	5
Fund-Raising	6
Consulting	7
General Issues	7
Financial Management	8
Financial Statement	8
Balance Sheet Data	9
Income Statement	10
Future Activities	10

SUMMARY OF TABLES

Table 1, Key Program Indicators	2
Table 2, Summary of Portfolio Outreach	3
Table 3, Balance Sheet	9
Table 4, Income Statement	10

ATTACHMENT A

MCRIL SUMMARY EVALUATION

ATTACHMENT B

2002 STRATEGIC PLAN

ATTACHMENT C

2002 BOARD OF DIRECTORS

SUMMARY

The highlights of the last six month reporting period include an international rating by MCRIL from India, a program presentation in the Micro Banking Bulletin, and a KCLF article in the Donor Summit in Monterrey, Mexico. During the reporting period, KCLF also restructured its Board of Directors, attended several best practice trainings and hired new loan officers in its Shimkent and Almaty branch offices.

PROGRAM ACCOMPLISHMENTS

Key Program Indicators

As can be seen in Table 1 below, KCLF has been maintaining its client outreach with a total active client base of over three thousand customers. Loan disbursements, a good sign of outreach and institutional efficiency, were over one billion tenge in the Taldykorgan branch office.

One of the key programmatic accomplishments in the period has been the lowering of the portfolio at risk rate from 3 percent to less than 1 percent. In addition, loan write-offs (for loans over 180 days) are decreasing as a ratio to the outstanding portfolio and recovery of write-off are averaging 32 percent a year.

Table 1
Key Program Indicators
Consolidated for Taldykorgan, Shimkent & Almaty
March 2002

Number of Loans Outstanding	3,264
Outstanding Loan Portfolio	\$863,000
Portfolio at Risk	.4%
Average Loan Size	\$280
Portfolio per EA	\$36,000
Number of Loans Disbursed (cumulative)	34,000
Number of Loans Disbursed (monthly)	1,109
Amount of Loans Disbursed (cumulative)	\$9.4 million
Amount of Loans Disbursed (monthly)	\$423,000
Loan Loss Ratio *	2%
Return on Operations (2001+ Q1)	110%

* Amount written off/average loans outstanding (for the reporting period)

Portfolio Outreach

As indicated in Table 2, KCLF continues to have very efficient lending operations. Currently, KCLF disburses over one thousand loans every month through more than \$420,000. This type of turnover requires excellent accounting systems and an MIS that is quick and responsive.

In addition to tracking its portfolio at risk and loan write-offs, KCLF also conducts a regular assessment of its loan recovery (after write-offs). On average, KCLF is recovering 32 percent of all funds that have been written off. This has been achieved through an aggressive policy of its full-time attorney in Taldykorgan who receives a commission based on her recovery efforts. None of the other branches have ever had one late payment from any client.

In March, the portfolio in dollars continued to increase with the group lending portfolio growing by 7 percent and the individual lending program increasing by over 10 percent. These trends are expected to continue during April and May which are typically very strong months for KCLF's trade-based clientele.

Table 2
Summary Portfolio Outreach
October 1997 – March 2002

PORTFOLIO/OUTREACH	AMOUNT/NUMBER
Number of active loans (as of Oct. 1997)	0
Number of active loans (as of September, 2001)	3,264
Number of loans disbursed (cumulative)	34,000
Amount Disbursed (cumulative)	\$9.4 million
Arrears (unpaid <i>balance</i> on loans with payments more than 1 day overdue) as of March '02	\$3,485
Percentage Female Clients	83%
Number of Staff (including Almaty)	63
Effective Annual Interest Rate	63%
Local, Annual Bank Lending Rate	9%
Local Inflation Rate (Source: NBK)	6%

PROGRAM ACTIVITIES

MCRIL Evaluation: KCLF Receives an "A"

In late 2001 KCLF decided to undertake an international standard rating. A tendering exercise took place to identify the best organization to complete this rating. KCLF received three proposals from: PlanetFinance, MCRIL, and Microfinanza. KCLF also approached CGAP to co-fund this rating and received a grant to off-set some of the costs.

In January, 2002 MCRIL was selected as the rating agency and sent a team of two experts to conduct the rating. The MCRIL Team was very professional and requested and read many background documents before arriving in Kazakhstan. In addition, MCRIL outlined a detailed budget regarding their expenses and kept to those expenses during the course of the rating.

The MCRIL team consisted of two people that were both well-versed in micro finance, accounting, and general institutional development issues. They approached the rating in a structure similar to that of CGAP's standard methodology of institutional assessments.

The team spent one-week in Kazakhstan, working with KCLF's headquarters staff and spending most of the time at branch locations. They worked extensively with the accounting and MIS staff and also interviewed a majority of loan officers and randomly interviewed clients. A great deal of time was also spent with senior management in all locations to garner a proper understanding of their roles and responsibilities, governance issues, and planning procedures.

A draft report was prepared in early March and MCRIL provided ample time for KCLF to comment on the draft rating report before it became final. Attachment A provides a summary of the final report noting KCLF's rating of "A".

This is a major achievement for KCLF and they have been able to provide this rating report to various donors (such as CGAP) as an indicator of their credit worthiness. The final report has been sent to CGAP electronically who will place it on their website (which is one of the conditions of their mini-grant for funding the rating).

Micro Banking Bulletin Assessment

KCLF provided the Micro Banking Bulletin (MBB) its internal documentation in 2001 to support MBB's global effort to collect financial and portfolio data from leading MFIs. This data goes into a database, with the primary purpose to help MFI managers and board members to understand their performance compared with other MFIs. The secondary objective is to establish **industry performance standards** and enhancing the transparency of financial reporting and improving the performance of micro finance institutions.

Below are a few excerpts from the MBB's individualized assessment of KCLF's performance:

"KCLF has achieved operational [137%] and financial self sufficiency [119%] and displays an adjusted return on assets superior to that of its peer group (8.5% vs. .2%)."

"KCLF boast better profit margin (16% of operational income) and better net interest margin (46% of average total assets) than its peer group, even though it bears higher loan loss provision and other administrative expenses than the peers. This is because the loan portfolio in absolute terms (\$822,800) is a third larger than that of the peer group, increasing the relative size of productive assets at KCLF, and thus the proportion by which KCLF's operating income (53% of average total assets) surpasses that of the peer group (39%)."

"Compared to its peers, KCLF appears more efficient. Its level of administrative and salary expenses are lower (39% and 16% of average loan portfolio vs. 58% and 39%, respectively)..."

KCLF's entry into MBB's worldwide network of best practice MFIs raises its profile to an international level organization. As can be seen in the quotations above, KCLF compares favorably to that of other similar group lending MFIs and even surpasses some of its peers' performances. KCLF will continue to submit its financial data to MBB as a means of continuing its presence within the international micro finance community.

Announcement in the Donor Summit in Monterrey, Mexico

In a recent UN-sponsored Donor Summit in Monterrey Mexico, KCLF was selected as one of 15 examples of best practice programs. KCLF was highlighted in a brochure that was distributed to all Summit participants and contains an introduction from President Bush.

ACDI/VOCA has reprinted this brochure and distributed it to the USAID CAR Mission and other donors. It can be found in full-text on USAID's website under the Summit Section.

KCLF is very pleased with this type of high level recognition and hopes to continue its important work that has made it a successful role model for other MFIs.

Workshops, Training & Planning

In November, KCLF senior staff held an internal MICROFIN planning session. This session brought together all the KCLF staff responsible for developing MICROFIN projections. The one-day workshop was used to unify how KCLF uses MICROFIN and to establish a set of "assumptions" that would be used uniformly by all the branches.

In December, KCLF hired five new loan officers for its Almaty Branch Office bringing their total number to nine. During the first month of probation, the loan officers were provided with the standard set of internal training programs including business assessment training, how to work with clients, and financial analysis training. These loan officers will help the Almaty Branch Office begin to expand its outreach in this more competitive market environment.

In January, KCLF held its annual strategic planning session. This meeting involved all the senior staff and branch managers. Before coming to Almaty for this meeting, branch managers met with their staffs' to discuss their vision and thoughts about the coming year; each branch presented branch-level plans at strategic planning session. During this planning exercise, KCLF set out its goals and targets for 2002 including the introduction of one new loan product, consumer loans, and the continued consolidated of its branch operations. The final strategic plan is presented in Attachment B.

In March, a senior staff meeting was held with the branch managers to finalize KCLF's procedures for its new consumer loan. The internal documentation and associated changes to the MIS have been completed and the Taldykorgan office is currently testing this product. [The first consumer loans were disbursed in April 2002.] During this meeting, senior staff also changed a key element of KCLF's methodology – that is to allow group sizes from 4 – 10 individuals (previously, the minimum number in a group was five).

In late March, a group of five new loan officers was hired in the Shimkent branch. This hiring was conducted in the normal procedure of a three-day training to screen participants. Finalists are given a written test and then went through a one-month probation period. As of the beginning of April, three new loan officers remain working with the Shimkent branch office bringing the total number to ten.

Fund-Raising

KCLF undertook several fund-raising activities during the last reporting period. Most of this involved follow-up actions to its on-going efforts with IFC, HIVOS/TRIODOS, the Eurasia Foundation, and CGAP.

As such, meetings were held with Richard Rutherford to discuss KCLF's possible loan guarantee through the IFC. This was coupled with meetings with local, commercial banks that are interested in the micro finance sector. As a result, two banks were identified as strongly interested in working with KCLF. KCLF is following up with these banks to discuss interest rates and the terms and conditions of their loan agreements.

In October, KCLF submitted a second grant application to the Eurasia Foundation. This grant will supplement the existing \$150,000 grant to KCLF to support the Almaty branch office. Its acceptance is contingent upon securing a second “challenge” grant that would also co-fund the Almaty office. KCLF has submitted a grant application to HIVOS/TRIDOS in this respect.¹

In October, KCLF submitted a \$1 million grant application to CGAP to open a new branch office in Karaganda and for lending capital to expand the Almaty branch. CGAP responded favorably and are now seeking a co-donor to sponsor KCLF’s grant application. As a follow-up to its application, Doug Pearce visited KCLF’s office in late January and was very impressed with its facilities and in particular its MIS.

Consulting

In January, KCLF began its consulting to ACDI/VOCA’s start-up MFIs in Uzbekistan and Tajikistan. This involved sending KCLF’s Senior Trainer to Uzbekistan and Tajikistan for two weeks to conduct loan officer training and to help in the initial group formation process. The success of this training was indicated from both programs’ ability to disburse its first loans in late March.

In February, KCLF sent its programmer to Uzbekistan and Tajikistan to install its loan tracking system in both ACDI/VOCA program offices. This installation also included training for the IT specialists and the programming of local language documentation within the MIS. As such, both MFIs can automatically produce credit contracts, and repayment schedules in Uzbek and Tajik languages.

KCLF anticipates a variety of follow-on consulting assignments with these two programs over the coming months.

General Issues

In November, KCLF’s Almaty Office held a Grand Opening Ceremony that was attended by the US Ambassador to Kazakhstan, Larry Napper, in addition to ACDI/VOCA’s Vice President Sally Iadarolla. This marked the formal establishment of KCLF’s Almaty Branch and new Headquarters Offices.

In November, KCLF promoted the Shimkent Chief Accountant to Branch Manager and moved the previous Branch Manager to Almaty to become the Director of Operations.

In December, KCLF began its sub-sector activities. This sub-sector work is linked to the Eurasia Foundation grant agreement to fund the Almaty office. As such, KCLF has agreed to build on its sub-sector work in Taldykorgan and begin research in Almaty on how to strengthen KCLF’s outreach to the service and manufacturing communities there.

¹ As of April 22, KCLF has received a positive response from HIVOS and expects to receive this funding in early May 2002.

Over the next six months, KCLF's Sub-Sector Specialist will identify 4-5 potential sub-sectors and begin gathering baseline information on them. One sub-sector will be selected for a complete analysis by the end of April, 2002.

In February, KCLF finalized the completion of its new Almaty-based Board of Directors (see Attachment C for complete list of names and bios on each person). This was a restructuring of KCLF's existing client-led Board to a more NGO-oriented structure. The objective of this restructuring was to attract leaders within Kazakhstan to participate in KCLF's development and expansion to a national level organization. An ACDI/VOCA Director, Ms. Elena Nelson, participated in the first Board meeting to provide the members with an introduction to their roles and responsibilities as well as the basics of financial analysis.

In March, KCLF hired an English-speaking Director of Finance. This is a key position for KCLF as they will take over many of the fund-raising functions from the ACDI/VOCA Long-Term Advisor. The new Director is currently undertaking training in all the branch locations and will soon be ready to take on her full role as Director of Finance.

In March, KCLF's annual external audit was completed with no major findings. This marks the fourth external audit for KCLF and the third using the same firm (Kazakh Consulting). Next year, KCLF must legally change its auditing firm and have already begun searching for a new firm; this new firm will commence a nine-month audit in November 2002.

In late March, KCLF sent its Director of Operations and Shimkent Branch Manager to the Polish Micro Finance Center's MICROFIN training in Georgia. At the conclusion of this training, KCLF has four senior staff trained in MICROFIN and will continue making its long-term financial projections with this software (in Russian).

FINANCIAL MANAGEMENT

Financial Statements

KCLF's Balance Sheet and Income Statement presented below reflects a healthy financial picture. KCLF maintains an equity base of over \$1.7 million while receiving no equity contributions during the last quarter.

One indicator that can be noted in this comparative balance sheet is the lowering of KCLF's loan loss reserve. This is a direct result of more strict lending procedures that were put in place last year when KCLF started having delinquency problems.² The result was a slowing and actual reduction in the Taldykorgan portfolio. However, the results of its re-tooled lending procedures are a healthier, albeit smaller, credit portfolio.

² This occurred only in the Taldykorgan Branch, which at one time had a portfolio at risk of over 5%.

This mini-crisis was an excellent exercise for KCLF staff to experience while the ACDI/VOCA long-term advisor was still present. As a team, the KCLF staff developed a strategy to address this delinquency problem and now has a stronger system of loan approval, oversight and follow-up, and delinquency management. The results are shown a portfolio at risk rate of less than 1 percent and a decreasing loan loss reserve.

Table 3
Consolidated Balance Sheet
First Quarter, as of March 2002
In Dollars

ASSETS	March 31, 2002	December 31, 2001
Cash and Deposits	315,765	370,787
Loans Outstanding	862,699	800,393
Loan Loss Reserve	(2,810)	(6,693)
Net Loans Outstanding	859,888	793,700
Net Fixed Assets	562,843	558,067
Inventories	4,826	5,180
Accruals	624	1,080
Accounts Receivable	41,602	50,100
TOTAL ASSETS	1,758,548	1,778,913
<i>Equity and Liabilities</i>		
Current Liabilities	19,475	10,467
Non-Current Liabilities	123,880	138,447
<i>Equity</i>	1,642,193	1,630,000
<i>Donated Equity</i>	0	505,720
<i>Current Year Profit (loss)</i>	36,809	26,300
<i>Prior year Retained Earnings (loss)</i>	1,605,384	1,097,980
TOTAL EQUITY AND LIABILITIES	1,785,548	1,778,913

KCLF's branch operations are supporting themselves financially and have the capacity to borrow money for expansion once that becomes a necessity. Both Shimkent and Taldykorgan branches use retained earnings for portfolio growth in addition to supporting the Almaty office disbursements and loan repayments (on the commercial bank loan).

KCLF's capital adequacy level is strong and it has the capacity to take on much more debt. As per local banking requirements, KCLF maintains a loan loss reserve and provisions its loans at rates set by the Central Bank.

Table 4
Comparative Income Statement:
First Quarter & Year End

	March 31, 2002	December 31, 2001
Financial Income	116,953	484,547
Financial Expenses	5,332	12,380
Administrative Expenses	135,739	392,873
<i>Total Operating Expenses</i>	141,070	405,253
Net Profit/(loss) from Operations	(24,117)	79,293
Non-Operating Income & Expenses		
Grants & Donations	55,410	505,720
Other Non-Operating Income (expenses)	5,529	(29,027)
Loans Written Off	4,741	37,440
TOTAL PROFIT/(LOSS)	32,081	518,547

FUTURE ACTIVITIES

The next six months will be a period of transition for KCLF. This will mark the closure of five years of ACDI/VOCA technical assistance to the Fund. During this time, the long-term advisor has taken great strides to empower the local managers with all decision-making powers and ownership of KCLF. As ACDI/VOCA begins to “officially” pull out, this will actually mark the end of a transition that has been occurring over many years.

KCLF’s local staff is well trained and prepared to take on the opportunities of the future. KCLF’s new Director of Finance speaks English fluently and will be able to hold high level donor meetings and easily interact with the international micro finance community. This new position will ensure that KCLF maintains a high profile within the world of international finance and serve as a spokesperson for the institution.

We at ACDI/VOCA are very confident that as KCLF moves into the future as an entirely independent, local entity it will continue its outreach to the poor entrepreneurs of Kazakhstan and become the leading micro finance organization in the country.

ATTACHMENT A:

MCRIL SUMMARY

ATTACHMENT B:
2002 STRATEGIC PLAN

ATTACHMENT B:
2002 BOARD OF DIRECTORS

2002 KCLF BOARD OF DIRECTORS

GLENN T. SARKA, JD

MR. SARKA IS EMPLOYED AS A LAWYER FOR THE AMERICAN BAR ASSOCIATION (ABA). FOR THE PAST TWO YEARS, MR. SARKA HAS LIVED AND WORKED IN KAZAKHSTAN SPEARHEADING ABA'S WORK ON GENDER ISSUES. DURING THIS TIME HE HAS DEVELOPED AND EXPANDED THE ABA'S TRAINING AND OUTREACH ON RELATED SERVICES. MR. SARKA HAS WORKED AS A LAWYER IN AMERICA FOR OVER SEVEN YEARS, DEVELOPING NEW PROTOCOLS GOVERNING FEDERALLY FUNDED CRIME PREVENTION PROGRAMS AS WELL AS DESIGNING SPECIALIZED TRAINING PROGRAMS.

INNESSA V. FRANTS

MS. FRANTS HAS OVER TEN YEARS OF EXPERIENCE WORKING TOWARDS THE DEVELOPMENT OF THE NGO COMMUNITY IN KAZAKHSTAN. AS DIRECTOR AND FOUNDER OF THE INSTITUTE OF DEVELOPMENT COOPERATION (IDC), SHE HAS MANAGED MULTIPLE GRANTS TO PROVIDE CONSULTATIVE SUPPORT AND ASSISTANCE TO NGOS THROUGHOUT KAZAKHSTAN. SINCE 1998, THE IDC HAS CONDUCTED OVER 80 TRAININGS ON NGO STRATEGIC PLANNING, MANAGEMENT, AND PARTNERSHIP DEVELOPMENT. MS. FRANTS IS A NATIVE RUSSIAN SPEAKER AND IS ALSO FLUENT IN ENGLISH.

RAUSHAN SARSEMBAYEVA

MS. SARSEMBAYEVA IS THE PRESIDENT AND FOUNDER OF THE BUSINESS WOMEN'S ASSOCIATION. THIS ASSOCIATION REPRESENTS FEMALE ENTREPRENEURS TO THE FEDERAL AND LOCAL GOVERNMENT REGARDING REGULATIONS AND LAWS RELEVANT TO SMALL-SCALE BUSINESSES. THE BUSINESS WOMEN'S ASSOCIATION HAS OFFICES ACROSS THE COUNTRY AND STRIVES TO MEET THE NEEDS OF THE KAZAKHSTAN'S GROWING POPULATION OF BUSINESS WOMEN.

MUNAVBAR PANTASHEVA

MS. PANTASHEVA IS THE PRESIDENT AND FOUNDER OF THE ENTREPRENEUR'S FORUM. THIS FORUM REPRESENTS SMALL AND MEDIUM BUSINESSES FROM ALL SECTORS OF KAZAKHSTAN'S ECONOMY. THE FORUM HOLDS WORKSHOPS AND CONFERENCES TO DISCUSS CRITICAL ISSUES FOR THE GROWTH AND DEVELOPMENT OF THE SMALL BUSINESS COMMUNITY AND LOBBIES THE FEDERAL GOVERNMENT FOR A MORE TRANSPARENT LEGAL AND TAX ENVIRONMENT.

BERTOLD HERTZFELT

MR. HERTZFELT IS THE COUNTRY DIRECTOR FOR IPC/GERMANY. IPC HAS A CONTRACT WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) TO PROVIDE TRAINING AND TECHNICAL ASSISTANCE TO COMMERCIAL BANKS PARTICIPATING IN THEIR SMALL BUSINESS DEVELOPMENT PROGRAM. MR. HERTZFELT HAS LIVED IN KAZAKHSTAN FOR OVER THREE YEARS PROVIDING HANDS-ON ASSISTANCE TO EBRD-PARTICIPATING BANKS. HE IS NOW THE IPC DIRECTOR IN ALMATY AND HAS OVERALL RESPONSIBILITY FOR THE ENTIRE IPC PROGRAM.

KCLF STRATEGIC PLAN: YEAR 2002

YEAR	2002
Where KCLF will operate	Taldykorgan (plus Keerosk, Karabalock, Tikale, Ushtobe) Shimkent (Siaran, Lenger, Turkestan) Almaty (Talgar, Kaskelen, Gres) New Branches: Taraz, Karaganda
Types of products or services	Group Lending (Almaty) Individual Lending (TK & Shimkent) NGO Training Sale of ISKRA Consumer Loans (TK & Shimkent) Sub-Sector Research
How KCLF will implement these objectives	Continue current operations; design new lending products; open one new branch
Activities that need to take place during the year	<ul style="list-style-type: none"> • Research markets in new regions and cities • Train new Credit Experts (including internships at banks) • Write chapters for individual lending and consumer loans as inserts into the Credit Manual (Shalkar) • Adjust the incentive system for group lending EAs • Develop new incentive system for individual lending Credit Experts • Conduct research on administrative staff bonus system • Email mailboxes for entire staff • Advertise and sale of ISKRA • Develop and finalize Website • Develop new internal trainings (on MICROFIN, Accounting best practices, individual lending, and small business development) • Finalize manuals for all internal training programs • Initiate new advertisements (especially for consumer loans) • Continue conducting Exit Interviews for all deserting clients • Harmonize all credit documentation (Shalkar) • Scan signatures of all clients into a database to allow easy use by accountants • Charity Activities • Evaluate the conditions of increasing the 1st loan step
Resources KCLF needs to implement its activities	<p><i>Financial:</i></p> <p>Secure necessary lending capital for Almaty Secure funds to open new branch HIVOS Grant IFC Loan Dexia Micro Credit Fund (investment) Eurasia Foundation (salaries for Almaty)</p> <p><i>Human Resource:</i></p> <p>Shimkent: - Hire 2 Credit Experts TK – Hire a Credit Expert and 2 new loan officers for consumer lending Almaty – Hire 4-5 New EAs; 1 accountant; 1 MIS person; Director of Finance (January); Internal Auditor; Lawyer</p>

<p>Targets</p>	<p><i>TALDYKORGAN (Group)</i></p> <ul style="list-style-type: none"> • 1,900 Active clients • Active Portfolio: \$463,000 • 270 Clients per EA • \$300 Average Loan Size • Female Clients, 81% • Portfolio at Risk, 2.8% <p><i>TALDYKORGAN (Individual)</i></p> <ul style="list-style-type: none"> • 95 Clients • \$2,200 Average Loan Size • \$100,000 Active Portfolio • 57% Female Clients • Portfolio at Risk, 0% <p><i>CONSUMER LOANS (Taldykorgan)</i></p> <ul style="list-style-type: none"> • 75 Clients • \$30,000 Active Portfolio • \$267 Average Loan Size • 10 Clients Per Loan Officer <p><i>SHIMKENT (Group)</i></p> <ul style="list-style-type: none"> • 1,720 Clients • Active Portfolio: \$640,645 • 172 Clients Per EA • \$315 Ave Loan Size • Portfolio at Risk 0.5% <p><i>SHIMKENT (Individual)</i></p> <ul style="list-style-type: none"> • 24 Active Clients • \$19,000 Active Portfolio • \$2,000 Average Loan Size • Portfolio at Risk, 0% <p><i>ALMATY (Group)</i></p> <ul style="list-style-type: none"> • 1,100 Active Clients • Active Portfolio \$200,000 • 85 Clients Per EA • Female Clients, 80% • \$182 Ave Loan Size • Portfolio at Risk 1 -1.5%
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SUMMARY FINDINGS OF KCLF RATING

Rating Grade	α alpha	Assessment: Highly recommended High safety, good systems
Visit dates: 20-26 January, 2002		Operational head: Mr Shalkar Zhusupov
Maximum validity of rating*: till 26 January, 2003		

Rating

KCLF shows consistently good performance on governance, management and financial parameters. It has well laid-out systems, good portfolio quality and a reasonable return on operations. Some areas that would need to be addressed over the next year include establishing an effective governance structure, increasing its depth of concentration in existing markets, upgrading its accounting system and most importantly, putting in place a formal internal audit mechanism. Over a longer term of 1-2 years, it would also need to achieve cost efficiency in order to handle competition from the formal banking sector and to realise the projected growth rate.

In M-CRIL's view, on account of KCLF's excellent systems, good portfolio quality, emphasis on strong groups and high demand for loans from its members, it can absorb – from all sources – loan fund of Tenge 30 million (around US\$200,000) for the next one year for on-lending to its clients. However, any loan assistance should be conditional to the mobilization of equity (donor grants) to the extent of Tenge 100 million (around US\$650,000) by the institution.

Loan inflow is suggested in the second half of 2002, after the above level of donor equity (grants) has been mobilised.

A rating update of the organisation after one year is suggested to reassess the absorptive potential and risk profile of this fast growing organisation. This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here and to no other significant changes in the organisational structure and external operating environment.

- for Micro-Credit Ratings and Guarantees India Ltd

Sanjay Sinha, Managing Director

Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
<p>1 Clear focus and strategy on micro finance</p>	<p>1 Strong computerised management systems</p> <p>2 Qualified management and staff, with good understanding of micro finance</p> <p>3 Rigorous systems for staff induction and training; strong emphasis on discipline</p>	<p>1 Good portfolio quality and credit performance</p> <p>2 High capital adequacy</p> <p>3 Good performance on sustainability</p>

GOVERNANCE

KCLF exhibits a clear, focused approach to provision of micro finance in Kazakhstan. In this regard, its strategy for expansion and creation of new products is well thoughtout.

MANAGEMENT

KCLF exhibits strong performance on managerial factors... with a well-qualified young managerial cadre led by the General Director. Both the management and field staff are qualified and possess good understanding of operations and management.

FINANCIAL PLANNING AND CONTROL

The overall financial planning systems are comprehensive. Need to establish an internal audit department although internal control functions are taking place at the branch and HQ levels. As the institution expands, it will need a more formal system of controls.

Costs – KCLF operating cost ratio is high and the institution needs to undertake a detailed review of its cost structure and identify areas for cost control.

FINANCIAL PERFORMANCE

The financial performance of KCLF is very good. The performance, especially on the critical portfolio quality and sustainability parameters are *very good*.

M-CRIL's Microfinance Rating Symbols

M-CRIL Grade	Description
$\alpha+++$ alpha triple plus	Highest safety, excellent systems ➤ most highly recommended
$\alpha++$ alpha double plus	Highest safety, very good systems ➤ most highly recommended
$\alpha+$ alpha single plus	Very high safety, good systems ➤ highly recommended
α alpha	High safety, good systems ➤ highly recommended
$\alpha-$ alpha minus	Reasonable safety, good systems ➤ recommended
$\beta+$ beta plus	Reasonable safety, reasonable systems ➤ recommended, needs monitoring
β beta	Moderate safety, moderate systems ➤ acceptable, needs improvement to handle large volumes
$\beta-$ beta minus	Significant risk, poor to moderate systems ➤ acceptable only after improvement
$\gamma+$ gamma plus	Substantial risk, poor systems ➤ needs considerable improvement
γ gamma	Highest risk, poor systems ➤ not worth considering