

REVIEW OF MICROFINANCE INDUSTRY OF THE KYRGYZ REPUBLIC

Demand on microfinance services

The level of poverty in Kyrgyz Republic is very high (40,6% of total population, data as of 2003 year), and the living standards of the considerable part of population, and first of all of rural population which makes 60% of total population of the republic, are not satisfactory. The main reasons of poverty are a lack of work places, high unemployment, and unavailability of the financial resources to open own businesses. Many of poor citizens, due to many different reasons, such as lack of collateral, necessary documents and credit history, have no access to credit resources of traditional financial institutes, and experience huge need in financial resources.

Low level of living standards in regions leads to mass migration of rural community, and initiation of inhabited areas of internal migrants around large cities. Under the general quantity of constant community within the administrative border of Bishkek city is about 800 000 people, the number of inhabitants of “new areas” around the city is estimated to be around 200 000 people. The limited financial resources of the state, significant amount of internal migrants and their social status, who are mainly the most poor segment of community, caused a complex of social and economical problems. The absolute majority of internal migrants of Bishkek city are women, they appeared to be beyond the poverty level, live by accidental earnings, majority of them are involved with retail trade at the city markets. Their daily income very often cannot cover even small needs in food, cloth, housing, education of children and medical treatment of sick members of family.

In the all of 23 rayons of “new areas” of Bishkek city a large number of incomplete constructions, mainly very primitive, due to the lack of means for completing the construction, have a low market value and cannot serve as collateral.

Another category of community, which also has no access to the services of commercial banks, are the ethnic kyrgyz, the number of which according to the data of Department for Migration Service of Ministry of Internal Affairs made 18000 people, from which 6000 people will soon receive the status of refugees. Problem of receiving the KR citizenship, access to education, land, work, allowances, pensions and medical services are the main reasons of poverty and crises situation of refugees. The 90% of capable to work refugees are unemployed, they have mainly temporary works and are involved with retail trade.

State of the microfinance industry

To fill a gap left by conventional financial institutions and develop the rural financial institutes, resolve the social problems and provide financial services to all poor clients and companies of small business, Kyrgyzstan was adopted the Law “On credit unions” (1999) and Law of KR “On microfinance organizations in Kyrgyz Republic” (2002), which determines 3 types of microfinance institutions :

- 1) Microcredit agencies (MCA), established as non-commercial microfinance organizations;
- 2) Microcredit companies (MCC), established as non-dividend-paying commercial legal entities;
- 3) Microfinance companies (MFC), established as joint stock companies.

Only microfinance companies are allowed to take deposits after 2 years of functioning, although the Microcredit Agencies and Microcredit Companies may apply to central bank to become microfinance companies after 2 years and attract deposit as well. The minimum paid-in capital amounts as follow: US\$550,0 for deposit-taking MFCs; US\$200,0 for non-deposit-taking MFCs; and US\$2,000 for MCCs/MCAs.

To support and strengthen the development of strong and self-sustainable micro-finance sector in the republic in order to increase access of population to financial services, create jobs and improve living standards and quality of life for low-income people survey among leaders of commercial banks, microfinance agencies, microcredit companies and international organizations, supporting the microfinance in Kyrgyzstan was conducted in June-July of 2004 year.

As of July 1, 2004, there were registered the following organizations:

- 1) 66 microcredit agencies (MCA);
- 2) 20 microcredit companies (MCC);
- 3) 303 credit unions (CU), which are non-commercial organizations, created for the purposes of helping to their members by merging private savings of credit union participants, and mutual use of these funds for mutual crediting.
- 4) Kyrgyz Agricultural Financial Company (KAFC);
- 5) 17 commercial banks;
- 6) Fund for development of entrepreneurship.

The active microloan portfolio of all above mentioned financial institutions amounted to US\$75 mln, and loan per capita amounted to \$15. In total microfinance services were provided to 108,7 thousand people, which made 2.2 % of the total population of the republic (table 1). So, there is a great demand on loan from low income households and small enterprises, who do not receive the proper financial services.

Table 1. Microcredit services in Kyrgyz Republic
(data for July 1, 2004)

	Active clients	% of total number of clients	Loan portfolio, mln US\$	% from total loan portfolio	Average size of loan, US\$
Microcredit agencies	19703	18,1	7,9	10,5	401
Microcredit companies	21592	19,9	7,4	9,9	345
Credit Unions	21291	19,6	9,6	12,8	451
Kyrgyz Agricultural Financial Corporation	36188	33,3	35,1	47,0	971
Commercial Banks ¹	9973	9,2	14,8	19,7	1480
Fund for Development of Entrepreneurship	1586	1,5	3,2		2006
Total	108747	100,0	74,8	100,0	

1 –only loans up to US\$ 5000 were amounted

Kyrgyz Agricultural Financial Corporation (KAFC)

For today the largest financial institution is the Kyrgyz Agricultural Financial Corporation (KAFC), which has broad network of branches (11) and representative offices in all oblasts (47). KAFC provides loans in next areas:

- Agriculture (plant and livestock growing, poultry farming, beekeeping, fishery)
- Agrobusiness (food processing and packing)
- Service sector (tourism, catering, marketing, transport and other services for rural citizens)
- Trade and other income generating activity

There are 2 types of credit products: collateralized individual loan (property, transport, agricultural machinery, livestock, equipment and other assets and guarantee) and group loan for Self Help Group, which provided without collateral. The minimum size of individual loan is 20000 soms and maximum is US\$ 500000, as for group loan the minimum size is 10000 soms and maximum is 15000 soms. The interest rate on loan is 14-21 % per year in national currency. Outstanding loan (more than 30 days) amounted to 2,1%.

The total number of clients as of July 1, 2004, made 36 188 borrowers, out of them the 93% are rural inhabitants, and 7% are urban citizens. As of July 1, 2004, the active loan portfolio of KAFC made 1,5 billion som. The active loan portfolio on non-collateral credit line made 78,8 million som.

Microcredit Agencies and Companies

MCA and MCC achieved good results by servicing and covering the poorest and low income clients. By July 1, 2004 number of active clients amounted to 42 thousands people, and loan portfolio US\$ 15,3 mln. Despite the high interest rate, reaching 60 % per year in national currency, and explained by high monitoring cost of clients, the absence of loan history and collateral, illiteracy of clients and their remoteness, they achieved the high return of loans (98%). The average interest rate on loan of MFOs decreased by 2 % and amounted to 33 % (in compare to January 1, 2004). The loan portfolio of MCA made US\$ 7,9 million, and the number of active borrowers made about 19703 people. Average loan size is US\$ 401.

The number of MCA and MCC is growing rapidly (table 2). The number of MFO increased by 14 organizations, their loan portfolio increased by 50, 7 % and clients increased by 19,2 % in compare to beginning of 2004.

Table 2. Loan portfolio and clients of MFOs

Number of MFOs		Number of clients		Loan portfolio (thousand soms)	
July 1, 2004	January 1, 2004	July 1, 2004	January 1, 2004	July 1, 2004	January 1, 2004
72	86	41655	34955	654260	434124

Source : National Bank of the Kyrgyz Republic

MFOs drastically differ from each other not only in terms of gained experience, established clientele base, financial indicators but also of qualification of staff, sectors of interest, location, funding. It was discovered that it is rather difficult to make any grading of MFIs due to their various backgrounds and lack of financial data.

Microfinance agencies and companies provide individual and group loan, where average size of loan per group from 5-10 members amounted to US \$250-350. A proxy indicator is used by microfinance practitioners to measure the extent to which MFIs reach poor clients –that is, to measure what is referred to as their depth of outreach. This indicator is the average loan balance relative to GNP per capita, commonly known as the depth ratio ¹. The depth of outreach by microfinance agencies, providing group loan made 15%, which means that they issue small loans and cover the poorest clients .

Their quick growth was facilitated by the strong donor support of the United States Agency for International Development, UNDP, World Bank, International Financial Corporation, International Mercy Corp, ACDI/VOCA, Ministry of International Development of Great Britain, Interchurch Organisation for Development Cooperation, Christian Aid, Raiffaisen Public Fund, Eurasia Foundation. The support from donors has led to growth of few financial sustainable microcredit agencies. Since 1994, Mercy Corps Kyrgyzstan has been managing two distinct lending programs- the Small and Medium Enterprise (SME) Credit Program and the Women’s Microcredit Program. In 1997, the Women’s Microcredit program was established to assist economically active rural women expand their business through access to credit using social collateral to guarantee loan repayment. The program operates through local NGOs that reached over 13000 clients in seven oblasts around the country. Loan’s size range between US\$ 40-400. Loan officer assist the women in writing business plans and determining which loan terms best meet their needs. The women are involving in a variety of business activities, including market based trade, production of shurdocks “ Kyrgyz felt carpet”, family-run flour mills, managing roadside cafes, village hair salon, and operating small sewing workshops. Repayment rate is 99.8 %. In addition to increasing their family income, the women gain greater self-confidence and esteem as they earn an in income and contribute to household finances. The Women’s Microcredit Program is funded by USDA, UNHCR, International Secretary for Water, Every Child, Eurasia Foundation and the UK Community Fund. The women Microcredit Program operates through local MCAs Ak-peil Talas, Ak-Maral Yug, Keremet-Kol and Umai-Ene.

1- “The State of Microfinance” , Publication of MFC for CEE and NIS

The Small and Medium Enterprise Credit Program began operating in 1998, filling a unique niche as the first organization offering loans to individual entrepreneurs in Kyrgyzstan. Headquarters are in Bishkek, with branches in Osh and Jalaa-Abad, enabling the program to reach potential clients in the southern and northern regions of the country. Loans are primarily disbursed to local businesses in the trade, services and production sectors for increasing working capital, purchasing equipment, and improving building premises. Number of clients of MCA "Ai- Ken", which manages Small and Medium Enterprises Credit Program reached 400 people by July 1, 2004.

Another large successful microcrediting agency is the Bai-Tushum Financial Fund, organized by American ACDI/VOCA NGO and CARITAS (Switzerland) with the loan portfolio of almost 140 million Som and 2246 clients as of July 1, 2004. In 2002 the Fund received an international rating "A", which gives an opportunity to attract additional sources of finances at the international capital markets. As a specialized non-for-profit lending agency BTFF is currently receiving long and short-term technical assistance in the areas of institutional development and management from ACDI/VOCA, which helped to develop policies and procedures for achievement of operational and financial sustainability by providing short and long-term technical cooperation and investing capital. BTFF maintains three large branches in Chui, Osh and Jalal-Abad and three smaller offices where short and medium-term working capital loans are made to eligible small and medium enterprises (SMEs) in crop production, livestock breeding, dairy, agro-processing, trade, tourism and hospitality. Loans range from US\$400-20,000, and are made at market interest rates secured by marketable collateral to cover both principal and interest.

To reduce poverty in rural areas and encourage development of the poorest population that do not have sufficient internal financial capital but are willing to work under principles of mutual assistance and market economy – MCAs mobilize the poorest groups of the local society and form self-help group. I would like to mention the 5 microcredit agencies "Mechr-Shavkat sakhovati", "Ak Shoola-Credit", "Self-Help Group Loan", "MCA "Arysh-Kench", "Economic Take Off", working under the concept of self-help groups, which is one of the key mechanisms for poverty reduction. By July 1, 2004 total loan portfolio of 5 above mentioned MCAs amounted to 6,2 millions soms (or US \$146,5 thousands) and number of borrowers 2004 people. Loan resources were provided to these MCAs by Interchurch Organizations for Development Cooperations (ICCO). MCAs lend resources under the relatively low interest rate 10-24 % per year in compare to other microfinance organizations. The principle underlying this concept is self-help and mutual assistance. The SHG concept is being spread by the Public Fund "Development and Cooperation in Central Asia" (DCCA). Prior to launching any kind of social mobilization activities in a certain area, the above mentioned MCAs carefully analyzes the situation, identifies the poorest districts, meets with village authorities, local religious leaders, activists, and ordinary villagers. Basic poverty study covers all aspects of village or community life – medical, cultural, social, agricultural, economic, religious, environmental and other issues. This kind of information draws a holistic picture of the situation. This basic study is carried out every year with participation of local people and volunteers. Micro credits are issued to self-help groups rather than to individuals. It usually takes about 2-4 months to actually receive a micro credit. During that period, the MCA performs social functions monitoring such parameters of SHG activities as the size of internal savings fund, regular payment of membership fees, portfolio, size of the group, frequency of group meetings, observance of SHG rules and charter, accounting skills and other skills necessary for financial reporting, interaction with local authorities and involvement in community life. Besides, MCAs rotate group leaders (heads of SHG, treasurers, and secretaries), organize workshops and training course. These workshops are primarily directed at teaching SHG members to manage internal savings and keep appropriate documentation. Regular payments of member fees to SHG Savings Fund are used for mutual financing at a reasonable interest rate. Internal savings fund increases every month. The SHG members commonly decide on the management of domestic savings fund. The group can be involved in any income-generating activity. The size of a monthly contribution and the interest rate for mutual financing are decided at the general SHG meeting.

The another group of microcredit agencies are 7 MCAs on microlending of unemployed, which were opened in the each oblast center (Chuy, Osh, Jalal-Abad, Talas, Naryn, Karakol and Bishkek city). These MCAs are financed from state budget and provide loan only to officially registered unemployed under the relatively low interest rate ranging from 10 to 24 % per year in compare to other microfinance organizations. Total loan portfolio amounted to 14,8 mln soms (or US \$348 thousands) and number of

borrowers 1962 (without data of microcredit agencies on microlending to unemployed in Osh and Batken).

The remaining microcredit agencies have insignificant loan portfolio, and depend very much on external financing, have weak institutional potential, untrained personnel, and very often work without the proper system of risk management.

The largest microcredit company is “Finca-Kyrgyzstan”, which was created under the financial support of American NGO «Foundation for International Community Assistance». Finca provides individual lending and group lending. The loan portfolio of MCC Finca-Kyrgyzstan made US\$7,1 million or 95.7 % of total loan portfolio of all MCC. Number of active borrowers served by MCC “Finca – Kyrgyzstan” amounted to 21509 people by July 1, 2004, which is more than number of clients served by all MCA (19703). The remaining MCC only now started to develop and look for the sources of financing and have an insignificant number of borrowers (300).

Tabl.3: Loan portfolio of biggest microfinance organizations

MFO	Loan portfolio (thous. soms)	Share
MCC «FINCA»	303804	47 %
MCA «Bay-Tushum»	139913	21 %
MCA «Ai-Ken»	44962	7%
Women credit program of Mercy Corps	106125	16%
Rest MFO	59456	9 %
Total	654260	100 %

Source : National Bank of the Kyrgyz Republic

Commercial Banks

A provision of loans to poor people who have no collateral is an expensive and risky business for commercial banks. For today on the territory of Kyrgyz Republic there are functioning 20 commercial banks. Despite the fact that the commercial banks of the republic have 159 branches in all regions of the republic, the main mass of clients of commercial banks are urban citizens (75-98%), and only the remaining 2-25% of clients are rural inhabitants. According to the conducted survey, microcredit services are provided by 17 commercial banks with interest rate from 18% to 40% per year in national currency under mandatory provision of collateral (movable and immovable property, guarantees). The volume of microloan provided by commercial banks as of July 1, 2004, made US\$ 14,8 million, and the number of borrowers received loan up to \$ 50000 made about 10000 people .

To promote the economic development of small and micro enterprises and provide the access to long-term bank resources the Program of Micro and Small Finance has been working since 2002. This Program is supported by European Bank Reconstruction and Development, International Financial Corporation, USAID, Switzerland State Secretariat of Economics and TACIS. The purpose of the Program is the distribution of loan resources by providing long term loan to selected commercial banks, as well as creation of Department on Micro and Small Financing, working on sustainable basis in commercial banks, the training loan officers. Four commercial banks “Ineximbank”, “Energobank”, “Kazcommerzbank” and “Kyrgyzbank” successfully operate. The loan portfolio of 4 above mentioned banks amounted to US\$ 6,6 mln , and number of borrowers amounted to 4527. The average loan size was equal to US\$ 2000.

Fund for Development of Entrepreneurship

The Fund operates 10 branches in all oblasts of the republic and in some remote rayons. Ration between urban and rural clients is 50/50.

The minimum loan size is 10 thousand soms, and maximum – 500 thousand soms. By July 1, 2004 the loan portfolio amounted to 135,7 mln soms (or US \$3,2 mln). Fund provides two types of loans:

- Long-term loan up to 500 thousands soms, duration 3 years;

- Microcredit up to 30 thousand soms, duration up to 1 year, interest rate 16-18 %.

The main sources of finance are allocations from state property privatization at the rate 5 % and resources received from state budget.

External Assistance to the microfinance sector

International Financial Corporation

IFC's strategic goals in the Kyrgyz Republic are development the financial sector, including provision of credit lines for local commercial banks, institution-building in the area of capital markets including development of a leasing and micro-finance companies; and, provision of technical assistance, encouraging the development of private sector mainly through financial intermediaries.

IFC will promote to institution-building for financial intermediaries that can become effective conduits of IFC funding to microenterprises and SMEs; creating sustainable micro-finance facilities such as FINCA, and supporting the development of new microfinance intermediaries;

Technical assistance and investment for existing institutions, as well as for new institutions that are capable of providing financial intermediation, based on international best practice standards. Past IFC support has been provided through investment in Demir Kyrgyz International Bank and in Kyrgyz Investment and Credit Bank (KICB), a joint-venture with the Aga Khan Fund, two international financial institutions and a small shareholding from the Government. Support for two smaller domestic banks is currently being reviewed.

A regional Central Asia Micro and small Enterprise Facility to be intermediated through local commercial banks. This joint project with EBRD was approved by IFC in May 2002. The total facility is a US \$153 million credit line for micro/SMEs in Central Asia, with IFC providing \$ 45 million and the Swiss Government (SECO) providing US \$3 millions (the latter to be used only in the Kyrgyz Republic). In addition, there will be US \$ 18 million technical assistance for training, capacity building and supervision, the majority of which is funded by USAID. This facilities finances primarily small loans in the range of \$200-50,000; however, there is flexibility to extend loans up to \$ 250,000. IPC GMBH Consulting company (Germany) will implement technical assistance for the participating banks. Credit lines will be provided in varying amounts, depending on the financial capacity of each institutions. The small loan may be extended by local banks either in US \$ or Kyrgyz soms. Approximately US\$ 13 millions out of joint IFC/EBRD funds is expected to be distributed in the Kyrgyz Republic.

IFC trust funds provided an initial US\$50,000 grant to assist FINCA develop a plan for conversion of its Kyrgyz NGO microfinance operations into a licensed microfinance institutions and a further US \$ 50,000 to assist in drafting a law and regulations to permit the development of regulated microfinance banks. The Microfinance Law developed by FINCA and IFC with assistance by IFC's Private Enterprise Partnership was approved by Legislative Assembly of the parliament on June 11, 2002, and was introduced into law by the President's decree in July 2002. Recently, the Private Enterprise Partnership was awarded a USAID grant to develop a training program for National Bank staff on the supervision and regulation of microfinance activities.

Asian Development Bank

ADB provided a US \$ 36 mln privileged loan to the Kyrgyz Republic in 1998 for the development of agriculture in Chui Oblast. It is concessional loan for 32 years with 8 years of grace period and 1 % interest rate of service charge. The loan has a US\$10 mln component for a credit line channeled through KAFC, which provides credits on its own terms to farmers and agribusinesses in Chui Oblast.

For development of credit union system and building sustainable financial system in rural area ADB provided a concessional loan in 1998 to Kyrgyz government for 40 years with 10 years of grace period amounted to US\$12,5 mln.

First stage in development of credit unions was successful and credit unions proved themselves as successful financial institutions, providing financial services to members of credit unions.

The credit line of ADB is a good incentive in development of credit unions. The second stage in development of credit unions, aimed for strengthening the institutional capacity, reaching financial sustainability and increasing independence from external financial resources, started in 2000 year through the development of new products, such as saving services. By July 1, 2004, the 303 credit unions with 27159 members already worked in the republic. Total loan portfolio of credit unions amounted to 409.9 mln. soms.

On June 11, 2004 the Steering Committee of project «Rural Financial Institutions» was held, where the following issues were discussed: future development of credit unions, creation of apex organization, progress made by Financial Company on Support and Development of Credit Union in achieving efficiency and possibility of its privatization, strengthening of supervision and development of new products in credit unions.

United State Agency of International Development

USAID makes accent on improving the institutional potential of microfinance institutions for their further development, increasing the outreach and development new loan products. Since the beginning of 2004, USAID provide assistance directly to microfinance organizations. The grant was provided to «FINCA», which is the biggest microfinance company in the republic.

At present USAID finances trainings on supervision of microfinance institutions of NBKR's economists, trainings of loan officers of commercial banks and provides technical equipment for commercial banks working under the Micro and Small Enterprise Finance Facility Kyrgyzstan Program of EBRR, as well technical assistance to Microcredit agency «Bay-Tushum».

USAID finances the Central Asian Microfinance Alliance (CAMFA), which designed to provide technical and consulting services to microfinance institutions of Central Asia, strengthening the microfinance organization of Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan. CAMFA provides grant to MFIs for extending loan activity, internal system and human resources. Under the project CAMFA the Microcredit Company «Frontiers» was established in the Kyrgyzstan, which has to provide loan resources to MFIs of Central Asian countries.

World Bank

The loan was provided to Kyrgyz Republic Government for the project «*Support of private enterprises*» for the amount of US\$ 13,5 with interest rate 0,75 % per year, for the period 35 years and grace period 10 years.

Kyrgyz Government, which is borrower of the World Bank, delivered the right to manage credit line for 32 years to NBKR. The NBKR recredits resources to commercial banks. 4 commercial banks participated in credit line, which selected investment projects for financing and accepted credit risks:

- Joint-Stock Commercial Bank «Kyrgystan»
- Joint-Stock Commercial Bank «Dos Credo Bank»
- Joint-Stock Commercial Bank «Ineximbank»
- Joint-Stock Commercial Bank «EnergoBank»

In total 24 long term investment projects, amounting to US \$2,449 mln were financed under this project, And 320 microloan amounted to US\$1,38mln. In total the projected amounted to \$3,830 were financed.

One of the components of Agricultural Services Support Project is component «Farmers Fund», which is directed for providing loan for rural citizens (US \$2,250 mln). UNDP volunteers together with specialist of Rural Consulting Services form Self Help Groups and Kyrgyz Agricultural Financial Corporation provide loan to group without requiring any collateral.

For the projects “Rural Finance -1” and “Rural Finance -2” World Bank has provided credit line amounted to US \$31 mln for microloan to rural citizens and rural entrepreneurs. Two financial institutions were chosen by WB for implementation of this project, these are Ineximbank and KAFC, providing loan under the next terms:

KAFC: interest rates depend on client: 14-21 % in national currency.

Ineximbank: interest rate is approved by Loan Committee and ranges from 15-22 % in national currency;

Terms of loan:

KAFC:

- Short-term loan up to 1 year
- Loan 1-3 years
- Long-term loan 3-7 years

Ineximbank:

- Short-term loan up to 1 year
- Loan 1-3 years
- Long-term loan 3-7 years

KAFC:

- Collateral (property, securities, values, livestock)
- Loan without collateral for the poorest population (group solidarity)

Ineximbank:

- Collateral (property, securities, values, livestock)

Micro and Small Enterprises Program of European Bank of Reconstruction and Development

This program started to operate in April, 2002 for the purpose of promotion to economic development of micro and small businesses through providing reliable and long-term access to bank loans. EBRD works with 4 commercial banks: “Kyrgyzstan”, “Ineximbank”, “Kazcomerzbank“, and “Energobank”. At present the program works in Chuy, Issyk-Kul, Jalal-Abad and Osh oblasts. Total number of outstanding loans made 4527 , which amounted to US \$6,6 mln. Under the technical assistance 211 loan officers were trained, 26 Credit Departments were opened in 9 branches of commercial banks, and 15,5 thousand working places were created.

UNDP

The Poverty Reduction Project consists of 4 components:

- Policy Advice
- Social Mobilization
- Micro-Finance Development
- Small-scaled Business Development

Micro Finance Development component: one of the main directions of the Poverty Reduction program is to provide access of the poor, mobilized in self-help groups, to micro credits disbursed by Kyrgyz Agricultural Finance Corporation (as result of good partnership with IFAD and World Bank). Micro finance services (micro credits and micro savings) are also an important part of Self-Help Groups Associations activities. Although micro finance services are highly demanded by rural poor to initiate viable income generating activities there are no financial institutions in the Republic, which are dealing with small long-term non-collateral loans at village level.

Poverty Reduction Project is being successfully implemented in 32 rayons. Project operates at the grassroots level, and is currently active in 140 villages. The villages were selected on the basis of remoteness, high poverty level, with little or no access to basic services. Selection of these villages was undertaken in consultation with KAFC, local government and other partners, giving priority to the most vulnerable and poorest villages. 1644 Self Help Group (SHG) were formed, involving 8927 residents by

July 1, 2004, who received loans amounted to 203 mln soms (or US\$ 4, 75 mln). SHG have developed informal credit and savings mechanism that motivates and support their members.

GTZ

Project «Rural Financial System of Kyrgyzstan» has been working since February 1999 together with ADB project «Rural Financial Institutions». The goal of project is to provide access to financial services of credit unions for small, middle enterprises, as well as rural citizens. The project helps to build system on three levels, consisting from:

- governing organization of credit unions- Financial Company on Support and Development of Credit Unions (FCSDCU);
- regional associations;
- credit unions.

The main objectives of project are providing consulting services to Financial Company on Support and Development of Credit Unions, building the regional offices, as well as providing trainings and seminars for employees of FCSDCU and management of credit unions.

Assistance to FCSDCU was provided for development of supervision functions, the recommendations on restructuring of FCSDCU and improving the financial transparency and efficiency of credit unions

About 100 seminars were delivered for 3000 members of credit unions on next courses:

- Basic information seminars for CU in regions;
- Methodic support and development of credit unions;
- The nature and structure of credit unions, the rights and responsibilities of members;
- Loan operations and control of solvency;
- Regulations and normatives for regulation of credit unions;
- System of financial indicators;
- Risk management and creation of reserves;
- Using of «Microsoft Office»;
- Internal control and audit in credit unions.

The textbook “Manual on loan operations” was developed. The information system management (HARDI) in the FCSDCU and system of early warning of risks in 18 credit unions were implemented (PEARLS), based on which the rating of credit unions was developed as well as computer program «Microbankir». The textbook “Manual on deposit operations” has been written. 10 pilot CUs received the license on deposit taking and since November 2003 have been taking deposits from members of credit unions, which amounted to 1,6 mln soms by July 1, 2004.

The credit unions have been founded by rural citizens having different professions, among them teachers, doctors, accountants, engineers, who do not possess the bases of accounting and financial reporting. The distance education was introduced in two professional lyceums № 99 in Bishkek and № 16 in Osh for members of credit unions, who can study and receive the specialization «Junior banking manager» and diploma about professional education. Payment for distance education amounts to 7,5 thousands soms per year, and 50 % of payment is financed by ADB. 197 persons were taught on specialization “Junior banking manager”.

Modern German credit unions are cooperatives and successfully compete with commercial banks. They represent strong financial group.

Soros Foundation - Kyrgyzstan

Soros Foundation-Kyrgyzstan supported the development of credit unions through the trainings of the following courses:

- loan operations;
- deposit operations;
- basic accounting;
- internal audit and controls;
- anti-crisis management ;

- legal issues of credit union's activity;
- financial management.

15 practical books were published and distributed among credit unions in Russian and Kyrgyz languages. 25 credit unions received grant for office equipment, books and subscription to newspapers and magazines, which won the competition.

The foundation has an intention to provide US \$ 50 thousands to MFIs for increasing their loan portfolio.

Department for International Development (DFID)

Sustainable Livelihood for Livestock Producing Project, financed by UK Department for International Development, was launched in December 2001. The goal of the project is to promote sustainable livelihoods for rural citizens that will contribute to reduction of rural poverty and slow down outflow of population from rural areas. The primary purpose of the project is to develop the income-generating activities in rural communities. Total project cost is 2 mln pound sterling.

At present the rural citizens from remote areas already received loan from KAFC for the amount of more than 2 mln soms for livestock and farming. The joint activity has been implemented together with UNDP on poverty reduction, trainings and registering of microcredit agencies in pilot villages. Under Sustainable Livelihood for Livestock Producing Project, DFID provided loans through KAFC and rural work groups commencing in 2002 up to present. Interest rate on loan 15 %.

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