

IFC Advisory Services  
in Europe and Central Asia

Azerbaijan & Central Asia  
Microfinance Transformation  
Support Project



# Creating Opportunity for Micro Businesses in Central Asia

**MICROFINANCE IN CENTRAL ASIA: FINANCIAL INCLUSION**

In cooperation with  
The Ministry of Foreign Affairs of the Netherlands



Ministry of Foreign Affairs

# Creating Opportunity for Micro Businesses in Central Asia

## MICROFINANCE IN CENTRAL ASIA: FINANCIAL INCLUSION

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**Rolf Behrndt,**  
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**Financial Markets,**  
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**in Eastern Europe and Central Asia**

Reducing poverty is the greatest social challenge of our time. Yet over three billion people in developing countries have little or no access to financial services. IFC works to improve the livelihoods of people living in emerging markets by expanding financial inclusion and increasing access to finance for the poor. This is in keeping with IFC’s strategy to support private sector competitiveness in areas where social development impact can be achieved.

IFC helps microfinance institutions reach a greater number of people in a more cost-effective way, through Advisory Services and investments in the microfinance sector. To date IFC has effectively supported the financing and capacity building of more than 100 microfinance institutions in over 60 countries.

IFC’s Access to Finance business line helps increase the availability and affordability of financial services, focusing particularly on micro, small, and medium enterprises. It is estimated that IFC-supported microfinance advisory projects have facilitated access to finance for some five million micro entrepreneurs around the world, some of whom are in Central Asia.

In this region we are increasing our activities in sustainable alleviation of poverty, particularly by focusing on capacity building in areas such as savings mobilization and diversification. In this publication we highlight just a few examples of the impact of access to microfinance.

The stories featured here were collected through a contest initiated by the IFC Azerbaijan & Central Asia Microfinance Transformation Support Project involving four microfinance institutions in the region. Loan Officers and Marketing Specialists from ARVAND Microcredit Deposit-taking Organization (Tajikistan), Bai-Tushum & Partners Microfinance Company (Kyrgyz Republic), CREDAGRO Non Bank Credit Organization (Azerbaijan), and IMON INTERNATIONAL Microlending Organization (Tajikistan) submitted stories.

These are 11 best stories about real people in Central Asia for whom microfinance has created opportunities to improve their lives.

This publication is an initiative of the IFC Azerbaijan & Central Asia Microfinance Transformation Support Project. 2010

In this publication we highlight just a few examples of the impact of access to microfinance. These are stories of real people in Central Asia for whom microfinance has created opportunities to improve their lives.

For more information please visit [www.ifc.org/acamfi](http://www.ifc.org/acamfi).



## The Blessing of Bread

Every morning at 6am, a line of women make their way through the small lanes of Dushanbe's Makhalya District to the home of Khakifa Sobirova. Khakifa, her 17-year-old daughter and 19-year-old son are already up and waiting to sell freshly-baked kulcha, a flat round bread.

*"Every evening we knead dough that is ready for baking at 4am. By 6am, 1,000 kulchas are ready to go to the bazaars," says Khakifa.*

Khakifa's small business has been on the rise since she took a \$100 loan from IMON INTERNATIONAL Microlending Organization (IMON), which helped her buy flour. Her tenth and most recent loan of \$15,000 was used to buy a warehouse in which to store reserves of flour and coal in the early fall to hedge against the commodity price increases that typically happen in winter.

The 47-year-old mother of five is proud that her business has helped her family buy new furniture and modern appliances for their home. She was also able to buy two used cars which her husband and oldest son put to profitable use by starting a private taxi business.

*"It's not without reason that they say bread is everything - it even helps us to access cash," says Khakifa, who has never missed a loan repayment and values her 10-year relationship with IMON. "If not for IMON, I would struggle to find cash for my business and family needs."*

IMON grew out of the Micro Loans in Tajikistan program started in 1999 by the National Association of Business Women of Tajikistan in partnership with Mercy Corps. IMON is now the largest microfinance organization in Tajikistan with seven branches and 28 field offices covering 33 regions of the country.

In November 2007, the founders decided to transform IMON from a not-for-profit organization into a commercial institution. IFC provided a \$2.5 million loan to support IMON's lending operations and increase its outreach.

The IFC Azerbaijan & Central Asia Microfinance Transformation Support Project supported IMON's transformation plans by mentoring senior management in strategic areas and developing targeted modules designed to build and strengthen institutional capacity. IFC's support to IMON has contributed to the sound development of an institution that has proven to be a high performer with a strong emphasis on gender empowerment in an extremely difficult environment.

Financing and supporting the growth of women's businesses has been a main objective of IMON since its inception. It also specializes in lending to micro and small businesses in rural areas of Tajikistan where there is significant unmet demand for financial services. Approximately 42 percent of IMON's 26,600 clients are women and 65 percent are from rural areas. Since July 2005, IMON has disbursed over 98,000 loans worth more than \$72 million.

## Rising from the Ashes

The fire at Dushanbe's Shokhmansur bazaar blazed for most of the night. Everything burned - floor boards, counters, and the rolls of fabric. In just a few hours the stock of fabric which represented the investment of five families went up in flames.

For the families who sold this fabric at the bazaar, the fire destroyed not only their monthly stock but their source of everyday income. Each morning the five women would go to the bazaar and sell fabric until the last customer was gone. In the evening they used their profits from the day to buy food and other essentials for their families.

After the fire, the women knew they would have to work hard to re-establish their businesses - and they were ready to start again. The only problem was finding the money to buy new stock.

*"I knew that there were banks that could give us loans," said Sairan Komilova, one of the traders. "But I felt so awkward even entering a bank. I also knew that banks demand collateral."*

Sairan's only collateral was the house in which she continued to live with her five children after her husband had died. She was reluctant to risk their home by pledging it to a bank. Then she started to hear about IMON International from traders at the bazaar. Rather than demanding collateral, this microfinance institution would give loans to groups of borrowers. If any member of the group failed to repay their loan, the group would jointly take responsibility for the debt.



Sairan and the four other women who lost stock in the fire formed an investment group and applied for loans. Each received a \$250 loan from IMON International which enabled them to buy new stock from the wholesale bazaar and re-start their businesses.

The fire happened five years ago but the women remember it well. Since then they have all re-established their businesses, and speak of their achievements with pride. One has used her earnings to send her daughter to university, another to buy a new television, while another to pay for her son's wedding.

*"I know for certain that you need to work hard to keep yourself from hardship and poverty," says Sairan. "But a lack of cash to start up your own business can often ruin your hopes for a better life."*

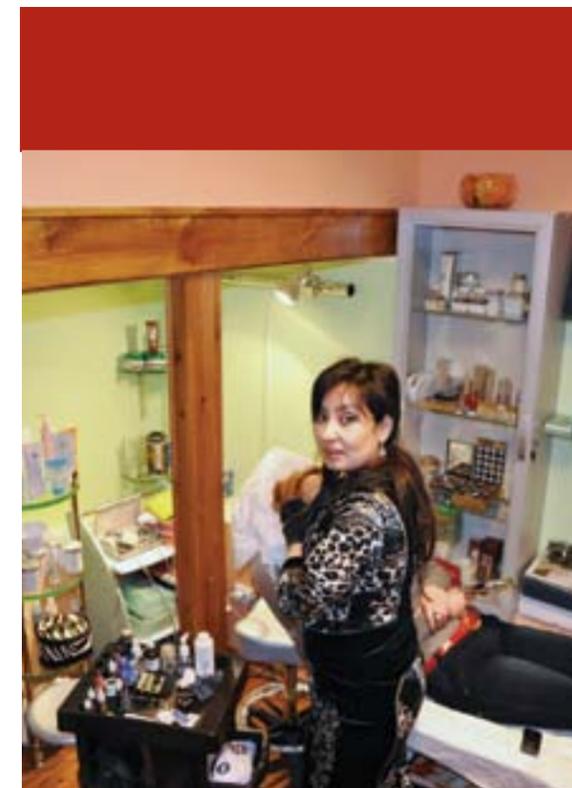
## The Gift of Beauty

Nazokat Khafizova is working when we enter her beauty salon in Dushanbe. It is a tiny space, but the few small rooms are prettily decorated and filled with new equipment.

*"I know it's not big, but the fact that my sister and I bought it ourselves makes me proud," says Nazokat.*

She has a cosmetologist's certificate and 15 years of experience in the beauty industry, but her path to entrepreneurship was not easy. For 12 years, she worked at someone else's salon, saving money, learning the business and building a client base. She went to China several times to learn the latest cosmetology techniques. Finally, Nazokat decided, with her family, to launch her own business. She took out a \$10,000 loan from IMON International, traveled to China to buy equipment, and then rented a shop space. Early success encouraged her to buy her own space. She was still short of money, however, and again applied to IMON International. With a \$20,000 loan and family savings, Nazokat bought an apartment on the first floor of an old residential building, moved in and continued her business.

Business grew steadily and Nazokat hired staff. Today Nazokat's salon provides a living for eight people.



## She "Baked" her Success

In 2006, Kamila Ismatova received some bad news. Her husband was seriously ill and she would have to provide for her two children. She decided to start her own flatbread business.

Using her rainy day savings, Kamila bought ten kilos of flour and baked 30 flatbreads, her first investment into household production.

*"We were saving on everything. My son and daughter used to get up with me very early in the morning to chop wood and fire the tandyr (oven)," recalls Kamila. "My son carried the flatbread by bicycle and sold it at a hospital."*

Her business started growing and needed additional financing. Kamila took \$500, her first microloan, from ARVAND Microcredit Deposit-taking Organization, to purchase flour and renovate a room in her house into a bakery.

The business raised output to 120 flatbreads per day and revenues rose. Kamila leased two hectares of land and together with her children she reaps a harvest from fruit trees and sells dried apricots.

During two years of work with ARVAND, Kamila has taken four loans and production has increased to 300-400 flatbreads per day. Her assets increased seven-fold and revenues quadrupled.

Thanks to microfinance, Kamila has managed to renovate her house, lease a plot of land for farming and buy a taxi. While taking care of her sick father, her daughter decided to enter medical college and become a nurse.

*"I have ambitious plans for 2010 to have an outlet in Panchshanbe central market to sell my products," says Kamila. "Now I am no longer scared of the future, and look far ahead by baking bread."*

ARVAND Organization was divested from MicroInvest Microloan Fund in October 2008 to provide credit services in Tajikistan. ARVAND is working to improve the standards of living and create new opportunities for social and economic development by providing financial services to entrepreneurs in Tajikistan.

Since 2008 ARVAND has disbursed 17,000 loans totaling \$9.8 million to more than 11,000 businesses and attracted more than 500 deposits worth \$15,000.

IFC is helping ARVAND become a robust and reliable microcredit and deposit-taking organization.



## Fish Farming in the Kyrgyz Republic

The Kyrgyz Republic's economy depends heavily on agriculture including the fishing industry. Issyk Kul, the second largest alpine lake in the world, is famous for its natural beauty and azure waters, but not its productivity. Years of overfishing have decimated Issyk Kul's fisheries and much of the smoked fish sold in the surrounding cities comes from other alpine lakes.

Following the collapse of the Soviet Union, many local fish farms and factories were closed down because of their outdated equipment and lack of financing. While some were privatized, few fish factories could adjust to the new market conditions.

Esen Alamanov, the founder of a fish farm in the city of Karakol at the Southern end of Issyk Kul, rented 75 hectares of lake area and reservoirs in which to install cages for the cultivation of fish. Since 2000, the farm has cultivated and reared whitefish, trout, pellets, Amur carp, and carp. But for truly sustainable development, Karakol Fish Farm needed additional equipment. At this point Bai-Tushum & Partners Microfinance Company (Bai-Tushum), a long term IFC investment client and partner of the IFC Microfinance Transformation Support Project got involved with the business. Through a \$3500 long-term leasing contract on favorable terms, Alamanov was able to buy 10 pools for young fish and five incubation units. The additional work at the farm created 16 jobs and helped increase profits considerably.

"Over time, the numbers turned positive," recalls Alamanov. "The two largest seafood retailers in the region found that the quality of our products satisfied all the environmental standards and one of them signed a contract to buy 2-3 tons of fish a year. I am very grateful to Bai-Tushum & Partners for supporting domestic fish producers."



Alamanov is just one of many promising small business owners in the Kyrgyz Republic benefiting from the work of the IFC Microfinance Transformation Support Program. In 2005 IFC provided Bai-Tushum a \$1.2 million loan and then provided another loan of \$4 million in 2009. The funds were used to finance micro and small entrepreneurs in urban and rural areas through individual and group lending products. The program also helped Bai-Tushum to transform from a limited liability microcredit company to a joint stock microfinance company with foreign equity participation.

The company is now one of the leaders in the country's microfinance market with an estimated 25 percent market share. It has 7 branches and 41 sub-branches nationwide providing financial products to micro-entrepreneurs just like Alamanov. Since 2000, Bai-Tushum has disbursed over 66,000 loans for more than \$120 million with 43 percent of loans supporting businesses related to agriculture.

## Opportunity for an Optimist

Kanybek Kachkynbaev was born into a family of 12 children in the Kyrgyz town of Talas. His father was a shepherd on a collective farm and from an early age, Kanybek helped him look after the cattle. From the money they earned, Kanybek decided to start a business selling sheep.

Kanybek bought several sheep, raised them in an unfinished room of his house and sold them at a profit. He decided to grow the business, but this required a larger investment.

Kanybek took an initial loan of \$7,500 from a commercial bank, but the bank refused another request for a larger amount. In June 2007 he applied for and received a \$9,000 microloan from the Bai-Tushum & Partners microfinance company.

After taking a third loan of \$18,000, Kanybek increased his number of sheep to 150. He earned a good profit not only from the sale of livestock, but also from sheep's wool and milk. Today he is one of Bai-Tushum & Partners' most successful clients.

In the summer Kanybek raises cattle on the picturesque pastures of the Suusamyр valley. In winter he keeps all the cattle on the farm and his wife and four children take turns caring for them: one person prepares concentrate, another gives water to the cattle, and a third cleans the premises.

Today Kanybek is proud to show off his farm: the house is finished, the rooms for holding the sheep are spacious and there are separate sheds for fattening cattle.

"I am confidently looking forward to the next family vacation, sending my children to a prestigious school, and a good prosperous life in general," says the optimistic Kanybek.





## A Healthier Generation

Baiysh Kurmanov is head of the AyKamDan cooperative in a village near Kant, in the Kyrgyz Republic. The cooperative was created in 2006 by nine entrepreneurs looking to cultivate agricultural products and breed cows.

Many farmers from the surrounding villages sold milk to the state dairy farm at extremely low prices. Baiysh noticed the lack of competition and decided to open a small dairy plant.

“Once I realized the demand for a dairy plant, I began to look for partners,” says Baiysh. “Raiffeisen Foundation helped me draw up a business plan and estimate costs and profitability. The Foundation advised me to apply to two lending institutions that offered leasing – one of which was Bai-Tushum & Partners. Approval came quickly from Bai-Tushum.”

In April 2007, the AyKamDan agricultural cooperative received financing from Bai-Tushum & Partners (Bai-Tushum) to purchase equipment and renovate their building into a small milk processing plant. Six months later the plant started full operations with a daily processing capacity of one ton of milk, 800 liters of which were purchased from regular suppliers.

Two years have passed since the launch. Today the plant buys its milk from a handful of surrounding villages; in high season, more than 100 people sell milk to AyKamDan.

The cooperative supplies its wide range of certified products – milk, kefir, sour cream, cottage cheese, butter and four kinds of yogurt – to seven kindergartens and a sanatorium.

“Our products are consumed by children and by those who come to improve their health in the sanatorium. We are glad to contribute to having a healthier generation,” says the leader of the cooperative.

The cooperative has managed to find its niche in the market and create nine new jobs. Baiysh’s wife, who has a medical background, helps him track the quality of the milk supplied, manage staff, and monitor product packaging. The plant has enabled Baiysh to educate his four children at schools and universities, no mean feat in a developing country.

Now he is planning to set up kiosks around the city of Bishkek, expanding their market. Down the line, Baiysh hopes to increase processing to two tons of milk per day, which will require additional equipment and further microfinancing.

## Noble Animals

The snowy Josholu mountains are home to the legendary Kyrgyz heroes Alymbek Datka and Alay empress Kurmanjan. Kanybek Myrzamatov was born and grew up in Josholu village, where people have lived off livestock and the land for centuries.

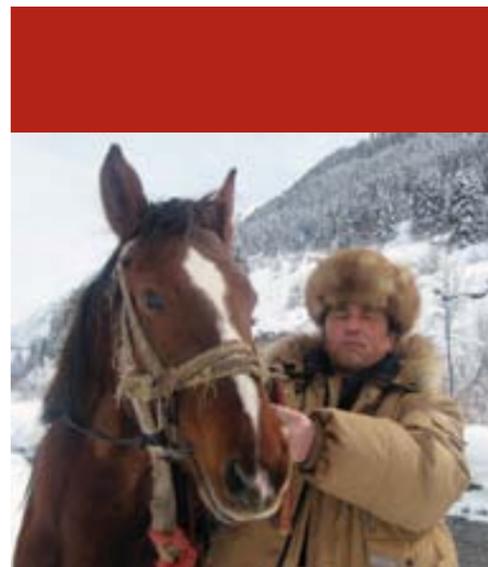
In 2008, Kanybek's horse breeding business required additional funds, and he used his first loan from Bai-Tushum & Partners Microfinance Company to purchase two pedigree mares. He started selling mares' milk (kumys), which is healthy for adults and children alike.

"I always tell my wife that the horses belong to Bai-Tushum & Partners, because they give a lot of milk, and the word Bai-Tushum means 'rich harvest'," says Kanybek.

Kanybek took a second loan to purchase a New Kyrgyz breed pedigree stallion. And if a pedigreed horse shows good qualities, such as extraordinary speed or strength, it fetches a much higher price.

"I myself train and take care of them every day," recalls Kanybek proudly. "In some cases I sold a horse for a very good price, and I used the money I received to expand my house. Such is life - nothing comes easily."

In the future, Kanybek wants to breed a whole farm of noble animals of which the Kyrgyz Republic can be proud.



## From Livestock to Livelihood

Animal husbandry is one of the main agricultural industries in the Kyrgyz Republic, and comprises nearly half of the country's total agricultural output. The development of animal husbandry, increase in livestock numbers, and improvements in the productivity of all types of livestock are very important for the industry. The climatic conditions of the country, where 83 percent of agricultural land is mountain pasture, have contributed to the successful development of animal husbandry. Most people living in remote regions of the country work in animal husbandry, but often struggle to build a stable business.

Two entrepreneurs, Alisher Nuritdinhodjaev and Marat Galiev, started a business raising and selling bulls in the fields surrounding Issyk-Kul Lake, the fertile heartland of Central Asia.

In 2000, they applied for a loan from the Bai-Tushum & Partners Microfinance Company to buy livestock and renovate buildings. The funds enabled them to increase capacity from 30 to 100 cattle and acquire a farm. Thanks to another loan in 2003, Alisher bought a second farm and increased capacity to 200 cattle.

In 2007 they opened a shop called The Golden Calf to sell meat products at the central market. It is now one of the largest butcher's shops in the area, with a huge number of both wholesale and retail customers as well as a grocery department.

"The business is now profitable and sustainable," says Alisher.

"At the moment we have 200 cattle, two horses, and two grain storage facilities with a capacity of up to 500 tons. I am proud to say that we have created jobs for 14 people."

Due to the financing, Alisher has vastly increased his livestock, opened a successful grocery, purchased property and renovated his house. The partners have improved their living standards and the well-being of their family and created opportunities for their employees.

They plan to enter new markets and build on their success.



## A Retired Policeman's New Business

After retiring from years of service with the police, where he rose from junior lieutenant to captain, Abdimalip Jeenbekov founded the Ernis Bektur farm in 2001.

Following the example of his ancestors, he started cattle breeding and field husbandry on a farm that contains a shepherd's house, 30 hectares of non-irrigated land and hayfields that are leased for the cultivation of wheat and fodder.

Abdimalip received his first loan from the Bai-Tushum & Partners Microfinance Company in 2002 to finance water irrigation from the mountain gorge to his farm. He bought more cattle and used the profits to repair the shepherds' houses. In 2003, he increased livestock to 720 goats and 76 sheep. They in turn bred, enabling the Ernis Bektur farm to grow each year.

Abdimalip's second loan was used to cultivate cotton on the five irrigated hectares, which contributed to a good harvest of 270 hundreds kilograms per hectare. The Ernis Bektur farm also operates a churn and a wheat processing mini-mill. In addition, the farm's DT-75 tractor provides plowing services to the local population.

With his third loan in 2004, Abdimalip planted corn, sunflower, and cotton on the irrigated land. An eight year collaboration with Bai-Tushum without any default or delays, has helped build up his assets. As a result, he has completed the construction of a second house, opened a mill, and expanded the farm.

In summer 2009 he opened a recreational area and clinic to treat patients with various ailments, including diabetes, gastritis, and bronchial asthma. Medical research has shown that mares' milk strengthens the human immune system. People who visit this area are grateful to Abdimalip and often promise to return with their families. In the future, he is planning to build cottages.

Abdimalip's wife, who worked for 20 years as a midwife, has now retired and farms with her husband. Their four children have university degrees and their own families, yet still work in the fields.

*"Since my retirement from service in 1997, I have worked in various areas of agriculture," says Abdimalip. "I am thankful to Bai-Tushum & Partners Microfinance Company for helping me develop my own business. I am proud of what I am doing."*



## Graduating to a New Life

Gulkaiyr Baicherikova, a farmer from a village near the Kyrgyz city of Naryn, believes her children make her strong.

The collapse of the Soviet Union kicked off a crisis in Kyrgyzstan - currency depreciation, the rise of the coupon system, and huge deficits. Needing to feed her children, Gulkaiyr began growing potatoes in her garden. Her husband, Kochkunbek Jumabekov, provided services to locals on his tractor during sowing and harvesting. Saving some money, they purchased three horses, 10 sheep, and two cows.

But the family needed additional financing to increase their livestock. After consulting with her husband, Gulkaiyr analyzed all the lending institutions and opted for Bai-Tushum & Partners Microfinance Company. The main reasons were the affordable and low interest rates, flexible repayment schedule, and suitable loan size.

In February 2008, Gulkaiyr received her first loan of \$3,400, enabling them to increase their livestock to 100 sheep, 10 cows, and eight horses.

Having seen how the proper use of the loan led to an increase in their income, in January 2010 Gulkaiyr's family obtained a \$6,800 loan for animal husbandry. Today they no longer live in a tiny hut, but have built and furnished a large house.

*"Our children have grown up, and it's time for them to start higher education," says Gulkaiyr. "Thanks to microloans I will continue to work hard and help my children become educated. This will open an opportunity for a new life for them."*





## Microfinance Institutions: IFC Clients in Central Asia

**Arvand Microcredit  
Deposit-taking Organization  
(Khujand, Tajikistan)**

ARVAND Organization was divested from MicroInvest Microloan Fund in October 2008 to provide credit services in Tajikistan. ARVAND is working to improve standards of living and create new opportunities for social and economic development by providing financial services to entrepreneurs in Tajikistan.

Since 2008 ARVAND has disbursed about 17,000 loans totaling \$9,8 million to more than 11,000 businesses and attracted over 500 deposits worth \$15,000.

IFC is assisting ARVAND in its microlending and deposit-taking business.

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**Bai-Tushum & Partners  
Microfinance Company  
(Bishkek, Kyrgyz Republic)**

Bai-Tushum & Partners has operated in the microfinance market since 2000. Over ten years of work and development, the company has transformed from a Limited Liability Microcredit Company into a Joint Stock Microfinance Company.

Bai-Tushum and its subsidiary Bai-Tushum & Partners became an IFC investment client after signing a \$1.2 million loan in 2005 and a subsequent \$4 million deal in 2009 to finance micro and small entrepreneurs through individual and group lending products.

Now one of the leaders in the country's microfinance market, Bai-Tushum holds an estimated 25 percent market share. There are 7 branches and 41 sub-branches nationwide that provide financial products to micro-entrepreneurs in various sectors. Since 2000, Bai-Tushum and its subsidiary have disbursed more than \$120 million and 66,000 loans, 43 percent of which have been for agriculture and agriculture-related businesses.

IFC has helped the institution transform from a Limited Liability Microcredit company to a Joint Stock Microfinance Company with foreign equity participation.

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**CREADAGRO  
Non-Bank Credit Organization  
(Baku, Azerbaijan)**

CREADAGRO is an IFC investment client in Azerbaijan, having signed a \$6 million senior loan and a \$4 million subordinated convertible loan in 2008 to finance micro, small, and medium enterprises throughout the country.

CREADAGRO is in the process of transforming from a Non-bank credit organization to a joint stock company. IFC has worked with the company on strengthening several of its key areas, including risk management.

As of June 2010, CREADAGRO has disbursed over 50,000 loans totaling \$180 million, and served 21,550 clients.

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**IMON INTERNATIONAL  
Microlending Organization  
(Khujand, Tajikistan)**

IMON grew out of the Tajikistan Micro Loan Program, launched in 1999 by the National Association of Business Women of Tajikistan in partnership with Mercy Corps. IMON is now the largest microfinance organization in Tajikistan, with seven branches and 28 field offices covering 33 regions of the country.

In November 2007, the founders decided to transform IMON from a not-for-profit microfinance organization into a commercial institution. IFC provided a \$2.5 million loan to support IMON's lending operations and increase its outreach.

The IFC Azerbaijan & Central Asia Microfinance Transformation Support Project supported IMON's transformation plans by mentoring senior management in strategic areas and developing targeted modules designed to build and strengthen institutional capacity. IFC's continued support to IMON has contributed to the development of the institution, which has proven to be a strong performer with an emphasis on gender empowerment in an extremely difficult environment.

Financing and supporting the growth of women's businesses has been a key objective of IMON since its inception. It also specializes in lending to micro and small entrepreneurs in rural areas, where there is significant unmet demand for financial services. Approximately 42 percent of IMON's 26,600 clients are women, and 65 percent are from rural areas. Since July 2005, IMON has disbursed over 98,000 loans totaling more than \$72 million.

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IFC has achieved industry leadership in microfinance since its first investment in 1995. It has effectively supported the financing and capacity building of several dozen microfinance institutions (MFIs), including small business banks, non-bank financial institutions, and non-governmental organizations.

IFC has also played a catalytic role in developing specialized microfinance banks, fostering the creation of international microfinance network banks and developing collective investment vehicles, leading to the effective mobilization of private capital in the domestic and international capital markets.

IFC is a leading global investor in microfinance working with more than 100 institutions in over 60 countries. As of June 30, 2010 IFC has committed more than \$1.2 billion with an outstanding portfolio of \$750 million. In addition, IFC Microfinance Advisory Services comprise \$61 million in grant-funding representing 72 microfinance projects (of which about 50 are MFI investee clients.) As of December 31, 2009 IFC's investee clients had an outstanding portfolio of nearly 8.5 million micro loans, worth nearly \$11 billion.

Through the Advisory Services IFC provides management, training, and technical support to microfinance institutions, and supports the implementation of innovative solutions that expand access to finance for underserved communities, for example, mobile banking and small deposit mobilization. IFC is also partnering with organizations such as CGAP and the World Bank to develop policy and financial infrastructure.

IFC Advisory Services initiatives for microfinance for the next year aim to: significantly expand deposit mobilization in the microfinance industry; enhance risk management frameworks for portfolio clients; support technological innovations in microfinance; and develop microfinance credit reporting.

## IFC Azerbaijan & Central Asia Microfinance Transformation Support Project

IFC, a member of the World Bank Group, launched its Azerbaijan & Central Asia Microfinance Transformation Support Project in 2008. The Project is being implemented over three years with financial support from IFC and the Ministry of Foreign Affairs of the Netherlands.

### Project Objective

The goal of the project is to support microfinance institutions in Azerbaijan, Tajikistan, the Kyrgyz Republic, and Kazakhstan in their corporate transformation processes and to improve the regulatory framework for microfinance in the region. The project helps to develop a broader range of financial services and increase access to finance for micro entrepreneurs and general population across the region.

### Why Microfinance Institutions in Azerbaijan & Central Asia Are Transforming?

Micro enterprises comprise a large share of businesses in Azerbaijan & Central Asia. Improving credit flows from microfinance institutions to their clients will therefore help sustain economic development in these countries.

- Despite the downturn in economic activity, microfinance institutions have grown rapidly over the past few years. In many cases they are competing with banks for clients.
- To grow further and in a sustainable manner microfinance institutions in Azerbaijan & Central Asia need to expand their reach to attract more clients with a diverse product and service range supported by a stronger funding base.
- To build a stronger funding base, microfinance institutions can transform into deposit-taking institutions.

In line with IFC's strategy in Central Asia to support competitiveness of the private sector in areas with social development, IFC brings additionality through the project by aiming to combine advisory services with investment funds. This leverages the effectiveness of both components in enabling MFIs to expand their outreach and services and thereby help their clients to raise their standards of living and improve their livelihoods.

- Transformation is a complex and time-consuming process that requires expertise and skills in numerous areas, including organizational and financial management, risk management, human resources, and internal auditing. In addition, as deposit-taking institutions are subject to strict supervision and monitoring from banking regulatory authorities, preparing a license application becomes a major challenge requiring professional consultants.
- As change involves risks around undertaking activities that an institution has not previously experienced, IFC's support and guidance during such projects is particular, valuable.

### The IFC Approach

IFC helps microfinance institutions based in Azerbaijan, Kazakhstan, the Kyrgyz Republic and Tajikistan:

- To develop from credit-based institutions to providing their customers with a broader range of financial services. Normally these services would include taking deposits and could also require the profiling of institutions before they are able to obtain a full banking license.
- To introduce new financial products such as microsavings, microinsurance, microleasing, mobile banking, and currency transfer by microfinance institutions.
- To improve the regulatory framework for the microfinance sector, helping to provide a range of financial services and increase access to finance for micro entrepreneurs and general population across the region.
- To increase awareness about the microfinance sector in Azerbaijan and Central Asia in the local and international communities, convince policy makers of the benefits of microfinance by highlighting the development impact and social performance, and promote new financial products.

### IFC provides solution by developing a modular package covering two broad areas:

- The first is in line with institution of capacity building (e.g. financial management, assets and liabilities management, development of new products and deposits, risk management, internal audit and control, and HR).
- The second is more focused on corporate strategy and mentoring (e.g. advice on structuring equity transactions, corporate planning, investor presentations, investor relations, and funding strategies).

This process is not appropriate for every MFI, but it is aimed at those that have reached a point in their development where such a transformation makes strategic sense.

### Donor Partner:

The Project is supported with funds from the Ministry of Foreign Affairs of the Netherlands. For more information please visit [www.minbuza.nl](http://www.minbuza.nl)

### Impact to Date

As of February 1, 2010

- Four microfinance institutions in Azerbaijan and Central Asia have launched microfinance transformation processes.
- IFC has provided advisory services to clients in various areas:
  - (1) Financial Crisis Response by helping CREDAGRO in Azerbaijan build up its risk management capabilities.
  - (2) Assisted IMON International in Tajikistan in improving its credit process and upgrade credit procedures, launch new credit products and strengthen work with non-performing loans.
  - (3) Supported Bai-Tushum & Partners in the Kyrgyz Republic in raising equity and improving investor relations and negotiations.
- In 2009, the Project's clients disbursed over 91,000 loans, totaling \$243.3 million. As of December 31, 2009 the cumulative number of outstanding clients was 82,300, while outstanding loans reached \$116 million.
- The joint IFC/WB/CGAP efforts in supporting a legislative framework for the microfinance sector in the Kyrgyz Republic led to a constructive discussion and successful collaboration with the National Bank of the Kyrgyz Republic and resulted in the abolition of interest rate caps previously imposed by the government.

For more information on microfinance transformation processes and IFC investment services,

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## Credits

Creating Opportunity for Micro Businesses in Central Asia  
Microfinance in Central Asia: Financial Inclusion

Assel Choibekova, IFC

Lotte Pang, IFC

Cholpon Kokumova, IFC (p.4-7)

Aziza Ohunova, ARVAND, Tajikistan (p.8-9)

Ermeke Djeembaev, Bai-Tushum & Partners, Kyrgyz Republic (p.10)

Tamabaeva Aksamai, Bai-Tushum & Partners, Kyrgyz Republic (p.11)

Ekaterina Shmodina, Bai-Tushum & Partners, Kyrgyz Republic (p.12-13)

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Rano Yuldasheva, Bai-Tushum & Partners, Kyrgyz Republic (p.15)

Aigul Tilekeeva, Bai-Tushum & Partners, Kyrgyz Republic (p.16)

Manas Sagynov, Bai-Tushum & Partners, Kyrgyz Republic (p.17)

## About IFC

IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in developing countries. We create opportunity for people to escape poverty and improve their lives. We do so by providing financing to help businesses employ more people and supply essential services, by mobilizing capital from others, and by delivering advisory services to ensure sustainable development. In a time of global economic uncertainty, our new investments climbed to a record \$18 billion in fiscal 2010. For more information, visit [www.ifc.org](http://www.ifc.org).

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