ADB

Technical Assistance Consultant's Report

Project Number: 29508
January 1997

Kazakhstan: Study on Rural Credit and Savings — Part II: Micro-Finance

Prepared by

Development Alternatives, Inc.

Asian Development Bank

Study on Rural Credit and Savings in Kazakstan

T.A. No. 2449-KAZ Final Report

Part II: Micro-Finance

Prepared for the Asian Development Bank under COCS contract number 96-235

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January 1997

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Currency Equivalents
(As of January 1997)

Currency Unit	-	Kazakstan Tenge (T)
Tenge 1.00	-	$0.01424
USD 1.00	-	70.2

Abbreviations and Special Terms

ADB	-	Asian Development Bank
AGRO	-	Kazakstan Farmers Association
APB	-	Kazagroprom Bank
ASF	-	Agricultural Support Fund
Akta	-	land title
DFI	-	Dutch Florin/Netherlands Guilder
EBRD	-	European Bank for Reconstruction and Development
FCF	-	Farmer Credit Fund
GDP	-	Gross Domestic Product
HIVOS	-	NGO based in Netherlands
JLGs	-	joint-liability groups
MCI	-	Mercy Corps International
MIS	-	management information systems
NGOs	-	non-governmental organizations
SBC	-	Small Business Centers
SME	-	Small and Medium Enterprise
TACIS	-	European Union Technical Assistance Program
UN	-	United Nations
UNDP	-	United Nations Development Program
UNV	-	United Nations Volunteers
USAID	-	United States Agency for International Development
USD	-	United States Dollar
USDA	-	United States Department of Agriculture
VOCA/ACDI	-	Volunteers in Overseas Cooperative Assistance/Agricultural Development International

I. Introduction

1. The UN General Assembly has observed that micro and small enterprise will be the main development agent for employment creation, income generation and social stabilization in the 1990s.

2. This perspective is less certain in practice. Western European governments support for small and micro-enterprise has been inconsistent and the sector regularly claims there is discrimination in favor of larger entities in legislation and banking practice. Kazakstan is less familiar with small and micro-enterprise and the concept of the sector being a major contributor to the economy is not widely held.

3. Nevertheless, it would be wrong to ascribe all constraints to the sectors well-being to a lack of interest or to low confidence in the sectors competence to make a significant contribution to the economy, just as it would be incorrect to assume that difficulties faced by small and micro business are principally a result of obstruction or venality on the part of local authorities, or incompetence and indifference on the part of banks. Problems exist, but exaggeration of the intensity of the problems foments resentment, compounds the difficulty of finding acceptable solutions and tends to obscure those facets of the past that are strengths to be reinforced.

4. The shortcomings of existing institutions notwithstanding, the need to be able to deliver credit nationwide makes use of existing networks for some elements of the operation inevitable. The creation of a new institution or new institutions at second tier banking level may eliminate some of the deficiencies of the system but not that of effective outreach to small and micro-enterprise in rural communities. Where possible, the proposals, made later in the report, for the provision of financial and other services to small and micro-enterprise use existing institutions. New institutions at the point of contact with the target groups are foreseen but as an outcome of growth in the small and micro- enterprise sector and the ability of intermediaries to assist local entrepreneurs and NGOs develop the character and skills appropriate to credit management.

5. Although the focus of this section of the report is micro-finance, the enterprise focus has been taken as small and micro-enterprise because small businesses may find access to micro-credit useful in establishing a credit history and building business skills with tutelage.

II. Definitions

A. Small Enterprise

6. The current Goskomstat definition of a small enterprise is one that employs not more than 200 persons. An amendment to this definition is to be published shortly and will define small business as one having:

- 100 or fewer employees;
- capital not in excess of T 5,000,000 (USD $70,000); and
- turnover not in excess of T 27,600,000 (USD $400,000).

7. A TACIS classification lowers further the maximum number of employees for small enterprise to 50 but does not establish the level of capital, turnover or other criteria by which the classification might be refined.

8. The small enterprise category covers two types of business: private businesses created since 1991 or in operation as co-operatives, both before and after 1991, and former state enterprises now privatized.

B. Micro-Enterprise

9. There is no Goskomstat or other official definition of micro-enterprise extant. TACIS has classified micro-enterprise in two categories:

- **a survivalist enterprise**: established, to earn money by whatever means, by those unable to find paid employment - such enterprise would include petty traders and hawkers and would predominantly, but not exclusively, be sole trader entities; and
- **an enterprise employing up to five persons** - principally family enterprises in trade or artisan activity (carpentry, car maintenance and repair, etc.).

10. In most cases these small and micro-enterprises would not be registered. These unregistered businesses probably comprise the larger part of the small and micro-enterprise sector.

III. The Small and Micro-Enterprise Operating Environment

A. Economic Contribution

11. Informal estimates are that private sector output accounts for 20 percent of Kazakstans GDP. Available statistics on the small and medium enterprise sector are few, not entirely reliable, and refer only to the formal sector; the centralized registration of businesses at the Ministry of Justice has been in effective operation for only twelve months and the database is incomplete - essential information lies in the oblasts and remains to be processed. The Central Registry of Legal Persons at the Ministry of Justice issues an update of the central register on a regular basis. The registry list, however, is just that and one would need to review each entry to

determine the number of small businesses registered because there is no statistical summary by enterprise category or size.

12. The importance of small and micro-enterprise in most sectors is not well recognized in Kazakstan. While the viability of larger enterprises is in some doubt as a result of the loss of markets arising from the dissolution of the Soviet Union, demand for many items remains, although on a lesser scale; small and micro-enterprise profits from the opportunity presented by the lower scale of output volume required. In some cases, consumer tolerance of lower standards during the transition makes small enterprise entrance possible since quality is less a concern than availability. The sectors biggest contribution lies in its perishable farm produce output, its market trading and small convenience stores and kiosks for everyday items, the small service units that provide plumbing, carpentry, electricians and minor repair services for shoes, watches, electrical appliances and for vehicle repair and maintenance.

B. The Environment

13. Commonly, small and micro-enterprises throughout the world face a wider range of constraints and difficulties than large businesses and are less able to counter these problems on their own, even in mature and well developed market economies. The typical constraints are the legal and regulatory environment, the tax burden, access to finance, markets, affordable premises and appropriate technology, acquisition of business skills and managerial expertise, and quality of the business infrastructure.

1. Government Policy

14. Several government institutions have an interest in business development. The Ministry of Economic Affairs has a department for business development, the Ministry of Industry monitors the industrial sector and the Ministry of Justice has responsibility for business registration. The Cabinet of Ministers has a department of economic policy that concerns itself with the formulation of policy and strategy and there is a State Committee for the Support and Development of Enterprise.

15. The restructuring of large enterprise is implicitly the priority. Small, private business attracts less attention and there is no comprehensive policy related to the sector. Resources allocated to the promotion and development of this sector have been few and appear to have been directed more to the creation of a support structure rather than to the development of the sector itself. Moreover, there being no comprehensive policy and strategy for private enterprise development, the support infrastructure development lacks clear objectives in relation to the small enterprise sector.

16. A new policy for small enterprise is expected to be adopted by parliament before the end of 1996. The policy is intended to clarify the strategy to be applied and to alleviate some of

the difficulties faced by the small enterprise sector. Until the adoption of the new policy, the level of future budgetary allocations to the development of the support infrastructure and to the sector itself remain undecided.

2. The Regulatory Environment

17. The private sector, and small enterprise in particular, faces serious constraints to its development as a contributor to economic life. To exist legally is costly. Legal, regulatory and administrative procedures tend to obstruct good business practice rather than create an enabling environment. Despite the Presidential Decree of 23 December 1995 on the mortgage of real estate, for example, the fact that land sale and purchase remain uncommon and that sale by auction of rural property has realized very low prices, illustrates that the use of land in rural areas as an asset for mortgage is unattractive to banks.

18. The registration of a business can be protracted and expensive. The procedural demands are often extended by the number of authorities involved. Local authority conditions on the profile of the business place restrictions upon expansion and diversification. The World Bank Small Scale Privatization Program noted that the privatization process allowed municipalities to retain substantial control over business operations through a myriad of restrictive conditions - a restriction to changes to the business profile, i.e. the products and services offered, was the most prevalent condition imposed.

19. Taxes are high. Corporate tax is charged at a flat rate of 30 percent, and personal income is taxed at levels between 5 and 40 percent. Value added tax (VAT) is applied at 20 percent. Employer social security contribution - a payroll tax - amounts to 32 percent. Other tax liabilities include land tax, property tax, municipal taxes, excise and import and export duties.

20. Official reporting requirements are extensive. Statutory requirements for reporting on business activity do not differentiate between large and small business in the type, sophistication or frequency of reports. Accounting requirements, audits, social security contribution, corporate tax and VAT burden small enterprise administratively and financially.

21. Small businesses in the formal sector believe that they bear a disproportionate weight of official zeal in applying the law and regulations. The response for many small enterprises is to remain unregistered to the detriment of government revenue, employment creation and enterprise efficiency. Official statistics cannot measure the full level of economic activity because of the unregistered businesses. Tax revenues decline while businesses prefer not to register and avoid the use of banks where they might be identified for tax purposes. The impact of government assistance to the development of small businesses and entrepreneurs is diminished because informal enterprise has no access to it. Informal sector business expansion is inhibited by lack of credit or, if funds are available, by the need to avoid attracting attention

through size. Moreover, employment opportunities are lost and those who secure employment in the informal sector do not have access to social security benefits and employment protection.

IV. SME Financial and Technical Support Environment

A. Credit at Banks

22. **The European Bank for Reconstruction and Development (EBRD)** has a USD $100 million credit facility for development of small and medium enterprise (SME). The focus of this facility is on the larger investments in the SME sector. EBRD does not have a micro-finance facility but has had discussions with Narodny Bank about making micro-finance available.

23. **The Central Asian-American Enterprise Fund** offers credit for SME investment but has no micro-credit facility. However, the Fund is examining how it might make credit available to the smaller enterprises in the private sector.

24. **Domestic banks** state that they are involved in small enterprise finance, although not the financing of micro-enterprise, but descriptions of client enterprises suggest that loan recipients would be more appropriately defined as upper-end medium enterprises rather than as small firms. **Pana Bank** in Jezkazgan states that its policy is to set aside a percentage of available funds for loans to very small businesses and that 1996 agricultural seasonal loans averaged USD $1,000 per client. These loans absorbed around 40 percent of Pana Banks available funds; the collection rate on these loans is not yet available.

25. Domestic banks question the viability of rural enterprise, and small rural enterprise in particular. Bank outreach into the rural areas is being reduced as branch networks contract. With limited mobility in very large areas, the cost of small loan delivery makes banks reluctant to offer a service to the small farms arising from farm privatization. APB and Pana Bank do offer loans and try to offset the costs by lending to medium sized enterprise with less volatile year-round cashflow profiles in the urban areas. Small and micro loans, even in the urban areas, are not attractive to the banks because:

- the markets are considered saturated with such enterprises;
- credit discipline is suspect;
- administration and management costs are high;
- assets are inadequate to meet security requirements; and
- applicants business skills and experience are unproven.

26. Economies of scale are available to the lender only to a limited extent and, therefore, the profitability for banks of lending to the small and micro sector is fragile.

27. The viability of non-farm rural businesses, particularly small and micro-enterprises, is recognized by the banks as being dependent upon farm prosperity. Since farm profitability is doubted, the banks are reluctant to accommodate non-farm credit requests except those for milling, edible oil extraction, cotton ginning, bakery and distilling operations and then, generally, at medium or large scale.

B. Credit from the Agricultural Support Fund

28. The Agricultural Support Fund (ASF) was established by the government for the restructuring of agricultural debt; details of the level of debt involved and progress towards achievement of this objective are given in Part I of the Draft Final Report. ASF provides financial assistance in the form of debt forgiveness, grants and loans, of which some are for as little as T 50,000 (USD $750). Presidential Decree No 1578 of February 1994 established a loan repayment term of five years.

29. The determination of the restructuring components and monetary amounts for each component for each enterprise is undertaken by personnel at the oblast level. Contracts are made for the repayment of the loan element. Interest is charged at 10 per cent a year; payment of interest is required annually but this is not enforced. Loan capital repayment is scheduled as a single payment at the end of the five year term. As none of the beneficiaries has reached the five year term, no payments have yet been made.

30. Loan agreements do not contain a repayment schedule based on an assessment of cashflow projections and the ability to meet debt service charges. Security for the loan element is unstated but by implication would be the farm and failure to repay ought to result in the loss of the right of use of the land.

31. ASF once deployed twenty staff who conducted sample reviews of the loan agreements and the supporting data but, because of a shortage of funds to meet this cost, such audits are now infrequent.

32. A manual of procedures has been published but, given the nature of the exercise and the term of the loan, it lacks the detail and technical guidelines for the appraisal of long term loans and for the determination of repayment capacity.

C. Credit from NGOs and International Non-Financial Agencies

1. Domestic NGOs

33. Many active domestic non-governmental organizations (NGOs) would like to make credit available to their target groups but are unable to do so for lack of funds. NGOs able to offer credit are those that have international partners or have acted as agents for the delivery of

funds made available by the government. Capital limitations have restricted most domestic NGOs to small client catchment areas. Some have tried to develop a national profile but the funds available have been exhausted in developing the administrative network.

34. Prominent among the active domestic NGOs are the Kazakstan Congress of Entrepreneurs and the Kazakstan Center for Support and Development of Entrepreneurship. However, discussions with both these organizations suggests that they cater more specifically for enterprise at the upper end of the SME spectrum and that the membership of the Congress is not representative of the small and micro sector. Smaller and micro-enterprises will benefit from some of the activities of these organizations through the creation of the small business centers, where advice and information can be obtained, and through the efforts of the Congress to ensure the interests of domestic entrepreneurs are better accommodated in future legislation and its application. However, the impression is that both organizations place priority upon the creation of a national administrative and service structure of a sophistication that may be questionable.

35. However, the small business centers have provided credit through funds made available by Mercy Corps International (MCI) and this lending has been assisted by the presence of Peace Corps volunteers attached to the centers under the U.S. Peace Corps Business Development Program. Not all centers have proved sound lenders and some are clearly more active in the search for viable business. Overall recovery has not been as high (at 60 percent) as wished but use of recovered funds is now subject to much tighter controls.

36. AGRO Farmer Association has pretensions to active participation nationwide in credit for rural enterprise and collaborates with MCI in a Farmer Credit Fund (FCF). FCF has a credit program at Kaskelin. Initial results were unsatisfactory but a revised policy, improved procedures and tighter control have resulted in the recovery of some of the funds extended in the earlier phase and a collection rate of over 90 percent on the more recent short-term credits.

2. International NGOs

37. International NGOs providing credit include MCI, VOCA/ACDI and HIVOS.

- **MCI** has the largest involvement in micro-credit operations. It has provided funds, obtained through the sale of surplus USDA liquid butter, for the FCF at Kaskelin, for the small business centers and supports the UNDP Aral Oblast program.

- **VOCA/ACDI** are in the process of setting up a lending operation in collaboration with a local NGO in Taldy-Korgan.

- **HIVOS** provides micro-credit for persons suffering radiation in Semipalatinsk and groups of very poor farmers in Naringol and Kegen oblasts. Credit

operations are small scale and are essentially a subsidiary part of the NGOs humanitarian work in rehabilitation. HIVOS has discussed provision of some financial support, the amount as yet undetermined, for the VOCA program in Taldy-Korgan; the purposes for which the funds might be offered has yet to be decided. HIVOS has also discussed a possibility of collaborating with the Citizens Network in Semipalatinsk Oblast. HIVOS intends to support two groups in radiation rehabilitation with micro-credit for small market garden operations (women), farming (men and women) and vegetable gardens for a hospital treating many of HIVOSs clients.

3. International Non-Financial Agencies

38. UNDP provides credit for the alleviation of poverty in Kzyl-Orda, Kazalinsk and Aralsk through the development of micro and small enterprises. For this purpose three Project Support Centers have been established. They are staffed by UN volunteers (UNV) and local experts. Funds to provide credit for SME have been provided by World Bank, the Netherlands, the Turkish Agency for International Development, Mercy Corps and HIVOS.

39. UNDP is preparing a program for the strengthening of the status of women and the economic advancement of highly disadvantaged rural women in Kazakstan. The project, proposed for Kyzylorda, Atyrau, Semei and South Kazakstan oblasts, will have a small credit component and will be undertaken in collaboration with government agencies, UNV, and local NGOs.

4. Trader Credit (Pre-Financing)

40. Trader credit is being provided to farms from the following companies:

- **ED&F Man Sugar Limited** of UK has extended some credit to sugarbeet growers but grower delivery discipline has been erratic in timing. ED&F Man intends making further in-kind loans against future crop delivery but will also carry out a rigorous orientation program to cover production methods and planning and compliance with delivery dates before further pre-financing is undertaken.

- **Sucden Kerry (of Paris)** has operated in Kazakstan for three years. The company has a trading arm and a projects arm. The projects arm evolved out of the companys participation in a program of credits to growers of sugarbeet, wheat, maize and sunflowers funded principally by the French and Kazak Governments. The program supplied growers seed and chemical applications, backed up by technical support. Repayment was poor. The program was discontinued but Sucden has established partnerships with local processing

companies and continues to be active, on a reduced scale, in the field, working with the growers in an arc from Taldy-Korgan to South Kazakstan.

41. Both trading companies, for commercial reasons and because of the need to consult with their local partners, were unable to provide data on their pre-financing operations. Were they considered as a channel for the delivery of credit through an ADB program, they would need to be explicit in the terms and conditions they apply.

D. Technical Support for SME Development

42. Considerable funds have been allocated by international and bilateral organizations for advice on policy and legal issues related to SME development and for training, business advice and consulting services. Much of the effort is concentrated in a few major cities. Micro-enterprise, and more especially rural micro-enterprise, does not attract much attention.

43. Those involved in providing assistance include:

- **Renaissance Eastern European Fund (Canada)**: Canadian government support for Canadian companies to work with local companies in the identification and assessment of down-stream commercial opportunity.

- **TZ (Germany)** has supported the SME development center in Pavlodar and approval has been given for the establishment of a center in Chimkent for the servicing and rental of agricultural equipment and for training in agricultural skills.

- **The Know-How-Fund (UK)** provides assistance to two banks in the form of permanent advisers but not specifically for the promotion of SME. The Know-How-Fund is also financing a program of training, to begin in the last quarter of 1996, for flour millers and grain traders. The training will include pre-financing and the use of lien, pledge and warehouse receipt.

- **The British Council**, under the World Banks Social Protection loan, provides training in business skills for the unemployed who would like to establish small businesses.

- **TACIS (European Union)** provides assistance through a wide range of projects and programs:

    - **Business Communication Center**, in which TACIS works with the Kazakstan Congress of Entrepreneurs, offers various services including business consulting; the center includes a small Business Advisory

Department, that offers training in legal, management and financial aspects of starting and running a small business.

- **Strengthening Kazakstan Center for Support and Development of Entrepreneurship**, which includes the creation of a Business Plan Department - the purpose is to assist entrepreneurs prepare business plans and credit applications; however, the Center focuses on enterprise with investment projects of between USD $100,000 and USD $1 million.

- **SME Development Agency, Aktubinsk** - the provision of training, business advice, consulting and other business services for SME in Aktubinsk Oblast.

- **ILO** runs a Start Your Business/Improve Your Business program in Almaty, Chimkent and Taldy-Korgan. The program trains trainers to run similar programs throughout the country.

- **The U.S. Peace Corps,** by attachment of volunteers in the small business centers in the oblasts, provides advisory services to entrepreneurs and assistance in finding financing. The services include the preparation of business plans. Volunteers also assist the business centers in their training for entrepreneur programs.

- **Carana Corporation** is engaged on the USAID Post-Privatization Project aimed at completing the privatization of small enterprise and the training of local managers in enterprise management.

- **Counterpart Consortium**, sponsored by USAID, undertakes the promotion and training of domestic NGOs. The Consortium has funds for grants to assist NGOs establish themselves, to develop links with international NGOs and a small amount for support of private business.

- **Eurasia Foundation**, funded by private sponsors and USAID, is principally an organization that supports projects aimed at economic reform but is able to provide some financial support for training, consulting services, infrastructure development and the purchase of equipment such as computers. The Foundation may also assist in the financing of small business development.

- **Soros Foundation Kazakstan** programs are directed at the support and development of domestic NGOs and the training of the unemployed, in addition to work with children and retired people.

E. Market Environment

44. The market in which small and micro-enterprise work is best described as a pocket market, a market that is close to the producer/trader base and suited to the volume of product offered. Small and micro-entrepreneurs are not restrained by lack of initiative but by the low incremental benefits, if any, of moving farther afield - the cost in cash and time is inadequately compensated by the higher price; entrepreneurs with products that warrant the additional cost will travel beyond the immediate market. For most small and micro-entrepreneurs the constraints to wider market operation are the following:

- **consumer disposable income** - is small, consequently prices and demand are depressed - apart from the effect of unemployment upon household income, there is the effect of the overdue receivables chain, in which everyone is owed money and the circle is seldom closed. The results of the rural survey confirm that disposable income is very low. The average monthly per capita income in low income households is between Tenge 370 and 1,280.;

- **market and marketing information** - the scarcity of market and marketing information of the type and currency an entrepreneur requires to plan a move outside his/her local market and to formulate an appropriate marketing strategy;

- **marketing knowledge** - the entrepreneurs own lack of knowledge of how to formulate a marketing strategy;

- **wholesaling** - the privatization program encountered serious difficulty in promoting a wholesaling sector: the physical configuration of warehousing (clusters of warehouses in single compounds) was not entirely suitable to the requirements of a commercial wholesaling industry, shortages of working capital (vital to a wholesaling enterprise) and a weak understanding of wholesaling practice. Wholesalers are an essential component of an effective marketing system delivering quality and quantity at reasonable price in both directions - produce to the cities, inputs and general goods to the rural areas. The absence of wholesalers increases costs for the retailer and the consumer.

- Wholesaling has a significant benefit for the small producer, whether a farmer or a manufacturer, because it relieves the producer of the marketing requirement while extending the geographical distribution of his/her product and promoting it to a wider consumer population.

- **transport** - transport presents a problem for the small entrepreneur because privatization has not brought efficient and affordable transport to the rural areas: private transport operations are disadvantaged by lack of size, ready access to reliable repair and spare parts services and cartel agreements between unprivatized fleet operations. Costs remain high and prompt delivery cannot be assured.

- **pricing** - small and micro-entrepreneurs do not maintain complete records of income and expenditure nor do they perceive as cost the time they or family members put into the business. Pricing of goods and services is principally determined by competitor prices or administrative guidance. A move beyond familiar bounds requires understanding of the price structure in the new market in order to determine whether there is truly an incremental benefit of appropriate proportion.

- **promotion** - a major problem for any small business is the competition since many may be engaged in the same activity. To achieve a higher volume of turnover than consumer impulse purchases bring, the goods or services offered must be promoted to attract the end-user. Price, quality, packaging, timing of entry and exit (very important in marketing perishables such as fruit and vegetables) are key factors. Promotion is costly except when the trader can wait and allow word of mouth to carry the message. Were there a flourishing wholesale system, promotion would be less of a concern since wholesalers give access to a wider consumer pool and promote the products they carry/offer. Effective promotion requires knowledge to which the small entrepreneur has little access.

F. NGO Operating Methods in Credit Delivery

45. Credit reaching the lower end of the small business sector is delivered by domestic NGOs in association with international NGOs which provide the funds and act as catalyst for the development of the borrower constituencies. The same is true of the relationship between the UNDP and the NGOs that work with it in the operation of micro-enterprise projects.

46. The process for each international NGO follows a similar pattern although there are variations in duration and supplementary orientation programs that reflect the special interests of the donor - humanitarian concerns, rehabilitation of the disabled or environmental concerns, for example.

1. Identification, Preparation and Training of the Domestic NGO

47. **Identification** - the first step is to identify a domestic NGO already active with a clearly defined target group and goal and that has dedicated personnel and latent skills that will respond to training.

48. **Preparation** - the preparatory phase is designed to mould the aims of the two NGOs into a common purpose and to define the roles of each NGO in working to the common end. The outcome is an agreement that sets out the detail of the relationship and the policies and procedures to be applied.

49. The preparatory phase includes development of a solid working relationship with local authorities and ensuring compliance with legal and administrative requirements to permit the proposed program to operate.

50. **Training** - the training phase is intended to develop the necessary capability for the program to be operated, ensuring the policies and procedures are fully understood and that practical skills in credit operations and accounting are gained. Training also emphasizes that the relationship between the target group and the NGOs must be a working relationship in which the obligations have as much prominence as the benefits if sustainable progress is to be achieved.

2. Promotion of the Programs Purpose and Objectives

51. A campaign that introduces the program to those of the target group already working with the domestic NGO and to potential participants. The purpose is to establish the ground rules for participation and to encourage local initiatives for the formation of groups and associations with which to work. The emphasis is upon the mutual benefit to be derived from joint liability and equal rights and accountability within a democratically controlled organization.

3. Building of Local Associations

52. Availability of credit is the stimulus to association but the building process aims to underscore the longer term perspectives of self-reliance, improved business results and skills and sustainability. The need for sound management in which all members participate and for commonly agreed policies and procedures is stressed.

53. The building process includes the formulation of bylaws by which the association will function and the policies and procedures that will control the credit operation and ends with the election of office bearers.

4. Credit Operations

54. The common features of these credit programs are:

- **eligibility**: individuals must be registered citizens of Kazakstan and applicant firms would need to have at least 51 percent of equity to have been invested by citizen(s) of Kazakstan; however, lending to enterprise is infrequent. UNDP has a means test eligibility requirement; the elements of this test are shown in the UNDP form attached as an appendix[1]. For HIVOS the eligible are: radiation sufferers of both sexes, single mothers and the very poor.

- **denomination**: loans are denominated in US dollars (HIVOS, in Dutch Florins) but repayable in Tenge. MCI has a program that supports institutions such as hospitals through repayment of loans by delivery of produce to a specified institution in a pre-determined quantity.

- **loan form**: loans are predominantly made as credit in kind; although this is recognized as no guarantee against misuse, it does offer the preferred choice of delivering the required item(s) and is a lesser temptation against diversion of loan proceeds.

- **loan term**: loans are principally short-term credit for seasonal purposes, for trading inventory or for small equipment that can be paid off within a twelve month period; UNDP offers credit with a term of 18 months. An additional factor in restricting loans to short term is imperfect information on the borrower and his/her enterprise. Preference is for joint and several liability in which the group undertakes the selection of the members of the group; UNDP does not use the peer group as a basis for its credit. Joint liability groups do offer a means of limiting the level of security required through the pledging of assets but are considered unsuitable for the procurement of large items of machinery and equipment that would require medium-term loans for reasons of responsibility and accountability in relation to safekeeping, maintenance and use. The HIVOS contracts in force are for four years.

- **technical support component**: MCI prefers to have a technical support component that is able to assess the quality of technical skills of potential borrowers in the appraisal phase and to give technical advice and training to the associations involved in the credit program. MCI, therefore, tends to seek collaboration with agencies such as TACIS: the Kaskelin FCF program is linked

[1] Appendix 1

to the TACIS support for private farmer organization program and is associated with technical organizations in its support of UNDPs program in Aralsk Oblast. UNDP places its credit programs only where UNDP has programs that provide a level of technical expertise that can be used in supporting the enterprises that would have access to the credit.

- HIVOS currently provides technical expertise from Holland. The assistance covers preparation of business plans and improved agricultural practice that encourages organic farming methods.

- **interest**: MCI interest rates range between 10 and 18 percent, depending upon term and risk; the rates are fundamentally set by perceptions of affordability and of the borrowers capacity to repay. Although some work has been done on gross margin estimates for agricultural production, these tend to represent results of best practice and, therefore, cannot be used as the benchmark for judging the profitability of the majority of borrowers.

- VOCA will offer credit at market rates but will monitor the trading results of its clients to determine whether start up small and micro-enterprise can meet the debt service and create reserves for the expansion of business.

- UNDP charges interest at 12 percent per annum and HIVOS at 9 percent per annum.

- **liability**: the lenders, except for UNDP, encourage joint liability group (JLG) lending; this is not alien to the target constituencies as informal lending groups working with pooled funds are not uncommon. The size of JLGs is restricted to a maximum of 7-8 persons and this accords with local preference for groups of intimates among whom confidential information can be shared since each is aware of the others circumstances.

- The benefit of JLGs is wider than the joint and several guarantee involved: an additional benefit is that they vitiate problems associated with imperfect information about an applicant, his/her enterprise and his/her aptitude for the investment proposed. A further benefit is that they are an introduction to the principles that underlie the co-operative and credit union movement.

- **purpose**: most NGOs have broad sectoral perspectives but:

  - VOCAs major donor excludes agricultural inputs purchase/supply.

- MCI excludes livestock purchase, trading and working capital except permanent working capital, usually restricted to three months of initial operation, to support the start up of an operation in which the loan is made for the purchase of a machine.

- AGRO FCF - offers loans solely for agricultural enterprise.

- UNDP has no restrictions of loan purpose provided the enterprise confines its operations to the oblast in which it is located, i.e. an enterprise that imports goods for sale outside its home oblast would be excluded. The intention is to avoid financing those enterprises that would establish themselves in the area solely in order to benefit from access to credit but would not bring economic benefit to the area.

- HIVOS provides credit for seed potatoes, other inputs, storage and marketing.

- **loan security**: security may be several or all of the following:

  - land title (Akta) is taken;
  - (loan contracts stipulate) forfeiture of personal property at default;
  - equipment and machinery purchased with the loan; and
  - the product of the investment.

- The level of security cover varies: MCI require 150 percent of the loan value; VOCA/ACDI 100 percent under joint and several liability group loan cover and does not require clients to pledge any assets, existing or future although it does accept assets offered in addition to joint liability and the loan contract does stipulate that, in the event of default, the borrower will be liable to the loss of assets.

- UNDP does not require security. HIVOS takes land to a value of 100 percent of the loan; this was not a requirement from HIVOS but a stipulation by the borrowers.

- Regulations regarding the taking of savings and deposits, in order to protect the interests of the depositor, and general misgivings about bank reliability as holders of deposits have obliged NGOs to seek other means of creating reserves that represent additional security for loans and initiate the practice of thrift. MCI and VOCA/ACDI have introduced the buffer fund, created through JLGs setting aside 10 percent of each loan as a provision against future default.

- HIVOS does not have a buffer fund requirement but the Naringol and Kegen farmer groups indicated that they wish to introduce a savings program and the proposal is now under consideration.

- **documentation**: NGOs are concerned to keep pro-forma documentation to the minimum. The JLG methodology closes the information gap but the lender should compile profiles of the borrower and his/her enterprise and ensure that these profiles are regularly updated.

- **operational procedures manuals**: operational procedures are documented but are not always organized in manuals.

- **penalties**: the penalties for default are:

    - **for the borrower**: the seizure and disposal of pledged assets and exclusion from access to further credit - the seizure and disposal of assets has been tested by MCI in a number of cases and the local courts have found for MCI and its associates;

    - **for the JLG**: the calling of the liability guarantee and loss of access to future credit until the outstanding default has been cleared - failure to meet guarantee obligations removes credit access for each member of the JLG;

    - **for the association**: failure of a JLG to meet repayment obligations jeopardizes the associations access to future credit.

- **the incentives to repayment** are that the members have access to credit at attractive rates of interest, loan security is tailored to the assets of the borrower, technical assistance and training are at point of contact and readily given, prompt repayment (for VOCA clients) will provide access to further credit through steps that rise to a maximum loan value of USD $ 3,000 and consistently high collection rates build the capital needed for the longer term. HIVOS clients would have access to further loans.

- **longer term goals**: the longer term aim of NGOs is to build micro-credit institutions that are self-reliant and sustainable. In most cases, the larger part of recovered principal creates a revolving loan fund to maintain momentum, capitalizing the association; some NGOs wish to recover the initial capital injection in order that it may finance the start of another association.

55. Table 1 contains a summary of the terms and conditions for existing micro-finance programs.

G. Small and Micro-Enterprise Opportunity

56. The range of business opportunity for small and micro-enterprise is always wider than most expect. There is no extant publication of sub-sector studies identifying and valuing opportunities that exist in Kazakstan for small and micro-enterprise; it would be of value to donors and the business community for a series of sub-sector studies to be undertaken.

V. Key Issues for the Small and Micro-Enterprise Sector

57. Some of the issues identified below are not confined to small and micro enterprise but have a relevance to the business community as a whole. However, the issues are discussed from the perspective of rural enterprise; urban enterprise may have additional issues.

A. Off-Farm Enterprise Dependence Upon Farm Prosperity

58. This is a fundamental issue. The development of non-agricultural business relies upon the agricultural communitys ability to buy goods and services. Most farm households can be self-supporting in foodstuffs and could produce many.of the basic household goods - clothing, soap, candles, etc. The rural urban population depends upon the farming community which creates the wealth that underlies the towns existence and the demand for the goods and services that form much of the commercial life of the towns. The farming community is better able to fall back upon its own resources to sustain itself than the urban population and will forego the services of veterinarians, the seed and chemicals supplier, the machinery and equipment dealer and others and will survive; many of the suppliers of goods and services, however, cannot survive as business entities without farming community demand.

59. There are business opportunities in the rural areas that are not dependent upon the prosperity of the farms but these sub-sectors have a limited investment absorption capacity. In planning to promote rural enterprise, a principal consideration must be the capacity of the farming community to sustain it; this may require action to assist the farming community to operate viably.

Table 1 - Status and Terms and Conditions
(in effect with operating NGOs, UNDP and ASF)

	Mercy Corps (MCI)	VOCA/ACDI	UNDP (Aral Region)	HIVOS/Joly Jibek	ASF
value of loan portfolio	$3.5m loans and grants	program about to start	$24,908	DFl 123,035 (= USD $71,610)	small loan portfolio not distinguishable
(additional) funds available		$380,000 - additional funds expected	$45,000	DFl 516,000 (= USD $300,000)	
maximum loan value	$5,000 flexible	$3,000	none, flexible	on the basis of viable business plan	none
minimum loan value	none	$100	$500	flexible	
denomination	US dollar; repay in Tenge	US dollar; repay in Tenge	US dollar; repay in Tenge	Tenge	Tenge
interest rate	10-18%	market rates	1% per month	14% per annum	10 percent
maximum term (first loan)	12 months; flexible	4 months	1.5 years maximum; 1 year minimum	[1]	5 years
maximum term (repeat loan)	none	12 months at $3,000 [1]		[1]	
criteria for access	[1]	[2]	[1]	[2]	
purpose exclusions	livestock purchase, trading, wkg capital [2]	credit for crop inputs [3]	[2]	storage, seed and inputs, equipment	[1]
business plan required	yes	yes	yes	business plan required	
business plan form (yes/no)	guideline	guide	yes	yes	
security type acceptable	security general	[4]	no security required	land and other assets	implicitly the borrower's land
security level (%)	150% but flexible	joint liability for 100% of loan & interest	not applicable	160%	not identified
savings requirement	see buffer fund	none	none	none but group has proposed scheme	none
group lending (yes/no)	group and individual	yes	no	no	no
formal contract (yes/no)	yes	yes	yes	yes	yes
collection rate	[3]	target is 96%	collections not due yet	80 percent	collections not due yet
average loan size	$5,500	anticipated initially at $300	not available	USD $ 6,510	small loans not distinguishable
buffer fund	$30 per borrower	yes but voluntary	no	yes[3]	none

Mercy Corps (MCI):

[1] **eligibility criteria**
at least 1 year's experience
foreigner must have Kazakhstani partner
minimum 25% equity invested

[2] **working capital**
up to 3 months' permanent working capital permitted

[3] **crop loan fund**
60% average
[3] **restricted loan fund**
90% average

[4] **mortgages and liens**
because of mortgage notarization cost MCI use a letter of trust

VOCA/ACDI:

[1] repeat loans are stepped on the scale:
$100-300
$300-500
$500-1,000
$1,000-1,500
$1,500-2,000
$2,000-3,000

[2] **eligibility criteria**
citizen of Kazakstan
private business owner
less than 10 employees
priority: the very poor and disadvantaged

[3] **loan purpose exclusions**
inputs suppliers may gain entry if HIVOS funds can be dedicated to this end

[4] **loan security**
the principal security is the joint and several guarantee of the JLG but other assets are accepted, in addition to the guarantee, if offered

UNDP (Aral Region):

[1] **criteria for access**
the applicant must be a local resident
other criteria are shown in the attached annexure

[2] **exclusions**
business trading outside the project area

HIVOS/Joly Jibek:

[1] a Dutch expert develops an annual budget with the association members from each member's business plan. The plans are funded by a loan from Triodos Bank to Jibek Joly at 7%. Jibek Joly gives guarantee of repayment. Jibek Joly on-lends at 14%. Term ranges from 1 year to 5 years.

[2] **criteria for access** - private land owner, experience, trained (locally and Holland) adequate assets for collateral.

[3] **reserve fund**, at KZI Bank, of 5% of each member's annual net income

ASF:

[1] detail of permitted purposes is contained in the translated version of the Blue Book attached as an appendix to this Section of the report.

60. The question of farming viability remains clouded. Some work has been done on gross margins calculation but dissenters point out that the incremental gross margin arising from improved practices and inputs often represent the ideal and would not be common on the small peasant farms created through land reform.

B. Autonomy of the Private Sector

61. A further issue is that of the investors right and ability to make decisions on the business profile of his/her investment without imposition from the authorities, except where the intended, or practiced, operation is in contravention of the law and is an indictable offense.

62. Petty restriction and harassment on the grounds of public interest and welfare have short term benefits but the eventual outcome is of limited choice, low quality, high price and shortage and a stagnating community. Enterprise benefits the community and business initiatives derive from a comprehension of consumer needs. Local authorities can be instrumental, if so minded, in attracting investment to the area since favorable local administration policy and attitude are critical to the investment decision for many businesses.

C. Imperfect Information

63. A fundamental problem in providing credit is availability and quality of information; this is especially true of micro-lending to the informal sector. Entrepreneurs in the small and micro business sector are not in a position to provide the data on their businesses that are usually required by banks as the basis for lending decisions and yet, in every lending decision there must be adequate data to be able to make a reasonably sound choice. This is confirmed by the problems the survey enumerators encountered while trying to gather financial data from rural business and small enterprises.

64. The solution may lie in two actions:

- making the borrower community responsible and accountable, through joint and several liability, for the selection of the applicants; and
- in using business plan preparation and loan monitoring and supervision to train borrowers in the principles of sound business management and to demonstrate the relevance of good records to the success of the venture.

65. Access to accurate information depends upon borrowers conceding the value of maintaining records and on the professional regard in which the supervising officer is held.

D. Business Community Perception of the Banking System

66. The survey and anecdotal information suggests that public confidence in banks is extremely low. This is confirmed by the data collected in Tables 13, 23 and 29 of the survey which is located in Appendix 9 of Part I: Rural Finance. Banks are variously described as:

- **reliability**: banks are considered unreliable for depositors -- withdrawal may be restricted to a tenth part of the depositors balance for lack of cash;

- **risk aversion**: the public accepts that banks should apply greater care to the quality of the loan portfolio but believes that bank risk aversion now excludes assessment of a proposal on the basis of the investments capacity to generate cashflow adequate to meet debt repayment in preference to security based lending;

- **loan security**: banks are not seen as being innovative in finding new instruments of security for loans at a time when private assets such as land are surrounded by uncertainty;

- **bank capability**: clients question the capability of bank staff outside those at Head Office to appraise new business initiatives with innovative elements; and

- **links with the tax authorities**: the public views banks close ties with the tax authorities as a disincentive to use bank facilities.

E. Capital and Assets

67. Most farms and many small and micro-enterprises are undercapitalized and, as yet, no reliable market has evolved through which asset value can be determined. The outcome is that such enterprise is unable to meet the equity demands of lenders, since the valuation of assets employed is arbitrary, nor will such assets serve as adequate security for a loan since the lending institutions are faced with the problem of realizable value in a distress sale to liquidate outstanding balances.

F. Security for Loans

68. Since basic assets such as land and rural housing have little realizable value at present, the coverage of loans by assets becomes a major obstacle to lending. The level of cover required by banks can be as much as 2 - 2.5 times the value of the loan.

69. Pre-financing has a poor record with banks such as APB and does not find much favor. Warehouse receipt is not in operation to allow farmers to provide some loan security. Since the receivables chain includes payments for produce deposited at silos and mills, it might be worth exploring how these receivables might be exploited to the farmers benefit.

70. Pre-financing may be in disfavor but the underlying reason for its failure lies in the poor credit discipline associated with the lax control of the credits so disbursed. It might be possible to introduce lien operations that cover existing stocks of inputs and produce and future produce. These can be effective means of releasing credit when the monitoring and supervision of clients are coordinated and managed in relation to the performance grading of each loan, are impartially unbending and include prior arrangements with storage and processing facilities and with traders.

G. Markets and Marketing

71. One of the limiting factors in financing small and micro-enterprise is the borrowers market horizon. The horizon is nearer than it need be for a variety of reasons but the most easily remedied is the lack of information.

72. Banks should be more proactive in helping the client by ensuring the client has a good market. Banks with branch networks have access to information on markets within the operational areas of each branch; they also have clients who may benefit from an arrangement that puts trade through their enterprise. Branches that are active in lending will have, or should have, information on markets and marketing derived from the daily business of appraising and supervising loans and of identifying new opportunities. In many cases this information is not used to the banks maximum interest because there is no system that ensures the routine exchange of information. If effective, the client will not only repay the loan but will not begrudge the bank the charges it makes for its assistance.

73. NGOs and others are no less able to obtain information since the international NGOs have links with or access to institutions where such information can be obtained or mutually beneficial commercial arrangements can be explored and the domestic NGOs develop the contacts through association with their international partners.

H. Business Advice and Training

74. Most of the entrepreneurs who seek financing are unaccustomed to the demands of a market economy and need advice and training in the following spheres:

1. The Planning of the Business

75. All the banks and NGOs require the credit applicant to present a business plan and many institutions now offer assistance and advice in the preparation of business plans. However, the exercise is viewed by most lending institutions, the business advice institutions and the borrower as a means of accessing credit rather than as the basis for running the intended business. Moreover, the pamphlets, format outlines and guides now available are designed for medium and large enterprise whose management can be expected to understand a business plan.

2. The Marketing of the Product

76. Small and micro-entrepreneurs throughout the world understand the need for the promotion of a product or service but very few of them are familiar with the methods and techniques. However, the small and micro-enterprise sector is probably the most competitive because most businesses find the range of their manufacturing or trading operation limited by the amount of capital that can be raised and the sophistication of the markets they serve. Marketing is, therefore, a vital component of the business practice. The business plan makes this evident because it requests information on the market before that on the production process. Knowing the market, its tastes and the demand is essential to a sound business.

77. The training available tends to place marketing as a supplement to the production and accounting facets. If it cannot be sold, do not produce it is the correct priority, even for farmers.

3. The Management of the Business

78. The assumption is that the small and micro-entrepreneur will resist, in part from a sense of inadequacy, compliance with a monitoring requirement that demands basic management accounts. The assumption is that because he/she does not maintain records that it is beyond him/her. It is not. If the business benefit of making records is understood, small and micro-entrepreneurs will maintain simple records; this has been proven. In the case of Kazakstan, there is a distinct advantage in that the general standard of education and literacy is considerably higher than that in many other countries and the obstacle to maintenance of records is unawareness of the methods and the benefits.

4. Business Advice and Training

79. **Business Advice** - professional advice should be available to the small and micro-entrepreneur on the marketing of the goods and services of his/her business and on the preparation of business plans. The need is urgent because the credit is already being extended and the focus and quality of the advice available does not reflect the specific conditions of the small business sector. The Small Business Centers are a start but the staff of these centers should be given training specifically in advice for the small and micro- entrepreneur.

80. **Training** - it would be of value for the Small Business Centers staff to be trained as trainers in order to run a regular series of courses at beginner, intermediate and advanced level for small and micro-entrepreneurs.

VI. Observations

A. Definition of Micro-Enterprise

81. The new legislation on enterprise will define small enterprise more clearly. As micro-enterprise will not be identified specifically, the following criteria are proposed as the definition of a micro-enterprise:

$ ownership	100 per cent Kazakstan citizen ownership
$ employees	not more than 5 persons
$ capital invested	not exceeding T 1,000,000 (US$ 15,000)
$ annual turnover	not exceeding T 5,000,000 (US$ 75,000)

B. Lending Institutions

1. Staffing

82. Benefactors oblige NGOs to maintain overhead costs to a small percentage of the funds donated. NGOs, therefore, tend to have lean staff establishments. The impression gained of other institutions is that the professional skills mix and staffing levels is in imbalance, favoring the support element over the field personnel. Personnel engaged in income generating activity, the traders and lenders, should be in proportionately greater numbers than those who provide the back-up services - cashiers, accountants, records clerks, etc.; the ratio might be one support officer to three income-generating officers. Increments to staffing levels should be determined by the growth in business.

83. That there is an imbalance in banks may, in part, be ascribed to the shortage of funds which limits the extent to which a bank may promote business. Nevertheless, rationalization is required but need not lead to redundancy because retraining could prepare many for an income generation role.

84. Small business centers tend to be top-heavy in directing staff. Government budget allocations oblige these business centers to earn income. All staff should be income generating - directors and accounting staff should undertake consultancy training and business identification and promotion.

85. Sustainability of credit programs depends upon the ability of lenders to collect interest, to recover the loan capital and to meet direct and indirect costs of lending with interest income. While it may be necessary, initially, to cross-subsidize lending from other sources of income, such subsidization can rarely be sustained and may prejudice the institutions viability as a whole.

2. Staff Skills

86. Longer-term credit to reverse the undercapitalization of enterprise is now a pressing concern for many entrepreneurs. The lenders technical capacity for sound analysis is doubtful and the ability to supervise medium - and long term loans or to manage problem accounts is undeveloped. This is not the fault of the individual but of training - short-term lending does not demand the technical skills and experience required to judge longer-term viability of a business. A more detailed training needs assessment for those engaged in credit operations is given in Table 2. The basic fields to be covered would be:

- the business plan;
- financial analysis;
- appraisal;
- monitoring and supervision;
- variation and recovery; and
- portfolio management.

3. Zoning Compliance and Technical Feasibility

87. It is customary practice for loan applicants to be required to present a certificate of compliance with local zoning laws and enterprise priorities from local authorities and a certificate of technical feasibility from the appropriate technical department in the district where their businesses will operate.

88. The compliance requirement is a criterion of eligibility for a loan to be met before the lending institution proceeds to appraisal of the proposal. The relationship in this is between the applicant and the local and technical authorities. Current practice of referring loans to local and technical authorities for clearance after the credit committee has approved them may cause the lender unnecessary cost, incurred in creditworthiness checks and appraisal, and may be construed as a subordination of the lenders autonomy in making a loan decision.

Table 2 - Training Needs related to Credit Delivery

The Business of Banking	Law related to Banking	Credit Operations		The Business Plan	Enterprise Accounting	Information Systems	Management in Banking	Sub-Unit Supervision
Services that Banks offer	Banking Law	The Principles of Lending	Collection and Recovery	Structure of a Business Plan	Accounts for Business	Computer Literacy	Human Behavior	Lending Audit
Bank/Client Relationship	Law related to Loan Security	Project Identification	Lending for Agro-Industry	The Marketing Plan	Management Accounts	Information Security	Personnel Policies	
	NBRK Regulations	Inquiry Counseling	Lending for Small Business	Defining the Assumptions	Budgeting and Planning	MIS Development	HR Planning	
	Securities and Documentation	Appraising Proposals	Portfolio Management	Preparing the Cashflow	Performance Assessment	MIS for Portfolio Management	Performance Appraisal	
	Law related to Land Mortgage	Financial Analysis	Security Valuation	Defining Management Capability	Interpreting Financial Statements	Management Accounts	Remuneration and Incentives	
	Law related to Pledge and Lien	Marketing	Financing Requirements	Debt Service Coverage	Cost Analysis	MIS for HR Management	Manpower Development	
		Monitoring and Supervision	Provision and Write Off		Budget Control		Managing Training	
		Variation and Rescheduling	Technical Orientation		Stock/Inventory Management			
		Problem Account Management	Records Management		Debtor/Creditor Management			

4. Mobility of Lending Staff

89. Although loans are generally extended in kind, the lender should conduct sample checks of receipt and use. Furthermore, as loans to agriculture tend to be delivered in two tranches, three visits should be a minimum - at receipt of preparation inputs, at delivery of inputs for harvest and during the harvest to assess repayment capacity. The sampling method is discussed later.

90. For such visits to be possible, lending staff must have assured mobility; indications are that mobility is very limited and the checks are not made, thus increasing borrower temptation to divert part of the loan to other purposes.

91. Loans to non-agricultural business should be subject to a similar checking process: to confirm receipt in the quantity and quality stated in the contract, at start-up to ensure the good working condition of equipment and machinery and at intervals related to the repayment schedule.

5. Business Identification and Promotion

92. There is a paradox in the regular reference to competition in credit services and the passive approach to business opportunity (for clients) identification and promotion. In part this is due to the shortage of funds. The absence of regional sub-sector studies, tolerance of broad and indefinite marketing statements in client business plans and absence of sub-sectoral exposure limits suggest that institutions respond to client proposals rather than being active in the identification and promotion of opportunity.

93. Although banks and others recognize the viability of selected agri-business sub-sectors, the absence of studies and resource inventories allows lending in excess of investment capacity and jeopardizes the loans not only of one lending institution but those of all institutions that have previously financed investment.

94. The impression is that lending institutions are reluctant to adopt vertical integration as a means of creating client access to markets and of funneling business through other clients in order to create >trade-points at which the goods change hands or find the service needed to move them to a wider market. Such vertical integration, although maintaining the individual character of the enterprises involved, helps the client because the effect is mutually beneficial: the grower is assured of transport, silo space or milling, the transporter has goods to carry and the processor has the product to process. The lending institutions role is to coordinate the link-up and to ensure that the charges are mutually satisfactory. It also helps the lender because it simplifies credit collection since it identifies the points at which each link in the chain obtains payment.

C. Risk Management

95. Three types of risk exist: technical risk, financial risk and administrative risk. The impression is that many lending institutions lend on the strength of the security that the applicant can present, assuming that this is adequate insurance against risk but, in reality, is a poor premise upon which to lend: security (collateral) should only be a hedge against a viable investment failing. The basis upon which a loan should be made is its ability to generate income adequate to finance the operation, to meet its liabilities, to create a surplus that safeguards the value of its capital, to build reserves for expansion and to permit the payment of dividends to the shareholders.

96. Risk management is not confined to a few phases in the lending process but is a continuous process throughout loan life. Some facets of risk management are more prominent but failure to apply prudent control in the less evident areas prejudices loan recovery equally. Loan documentation and files in various institutions suggests that most take precautions but that there are deficiencies that need to be eliminated. The observations that follow cover the full spectrum of risk management activity:

D. Policy

97. All lending should be governed by a policy statement or a set of regulations. The statement or regulations must be specific and should cover the topics shown in an appendix to this section of the report[1].

E. Procedures and Manuals

98. Risk is contained to some degree by a common set of procedures, published as a manual to be held in each branch and sub-branch or agency. Compliance with procedures should be a focus of internal and lending audit. Manualized procedures ensure uniformity of practice and reduce the level of subjectivity in the assessment of proposals and progress.

99. The purpose of a manual is to describe the methods and procedures for screening, processing and recovering loans and is intended to be used in everyday operations to:

- provide guidance for staff in the conduct of day-to-day business;
- ensure a systematic approach to credit at all stages in the loan cycle;
- ensure uniformity of methods and procedures; and
- minimize loan processing time and effort.

1.Appendix 4

100. A manual is complementary to the policy statement or regulations which govern overall credit operations. A manual is meant to be a working reference to which staff can turn for assistance with day-to-day practical tasks, hence the organization of a manual around the loan cycle.

101. A manual will be regularly updated with experience and a loose leaf style allows for the addition of new material. Changes would generally be introduced after periodic reviews. Changes would apply uniformly to all.

1. Eligibility and Creditworthiness

102. The policy statement should describe the eligibility criteria in detail, both for the applicant and for his/her business. Eligibility criteria will include the presentation of documents or certificates that the proposed business satisfies the zoning and other local requirements for the establishment of a business and a certificate of technical feasibility, if necessary. Before creditworthiness checks are undertaken, compliance with eligibility criteria should be checked.

103. Creditworthiness checks are not confined to checks with other financial institutions but include checks of trade reputation. Confidentiality regulations require that the applicant authorize access to information and a certificate to this effect should be signed by the applicant; refusal to authorize access should bring the processing of the loan to a halt.

104. A record of checks made must be kept and the results should be maintained in the loan working file. Results of checks should be submitted to the credit committee at the time of the committees considering the application.

2. Business Plans

105. A first step in running a business (and applying for credit) is to prepare a business plan that will provide enough information to decide if the investment is viable. The detail of the business plan will depend on the complexity of the proposal. At a minimum, the business plan will define objectives clearly and should demonstrate knowledge of procurement, processing, marketing, management and costs and returns. A thoroughly prepared plan helps ensure its smooth implementation as many potential difficulties will have been foreseen and plans made to overcome them.

106. The business plan should be designed to make the business a clear reality to the entrepreneur. This is especially true in the case of the small and micro-enterprise owner. For these entrepreneurs the business plan should be designed to lead them through the basics of the business, building a picture of the operation, its costs in detail, its income by source and its ability to meet the debt service charges punctually and in full. There must be a cashflow.

107. Since the small and micro-entrepreneur may not be familiar with all the concepts, it would be better that the business plan to be prepared on a form to be completed, thus ensuring the logical sequence and no oversight of a vital element. The format must lead the entrepreneur to conclusions that he/she will readily understand as correct because they have evolved in the preparation of the plan.

108. Business plans are for the enterprise and the bank. The applicant must have a copy of the plan that arises from the appraisal since it would be perverse to ask him/her to implement a business plan of which he/she does not have a copy.

3. Appraisal

109. Appraisal is the process of testing the assumptions and calculations contained in the business plan for accuracy and applying tests to determine capacity to absorb adverse change in the environment without loss of fundamental viability.

110. A feature of many business plans is the inadequacy of the marketing information - detail should include as a minimum access to the markets selected, quantification of demand, market trends, competition, market share targeted, prices and costs. This detail should subject to vigorous examination since it is the platform on which the proposal rests.

111. A further inadequacy lies in the assumptions used. Frequently output capacity is over-estimated, staffing levels are inappropriate to the investment and prices have no clear relationship to costs.

112. Any doubt in any aspect should be referred to the applicant and, if the explanation is inadequate, the loan should be declined.

4. Security

113. Assets taken as security for the loan are collateral insurance against the loan going bad; they are not a substitute for viability. Moreover, taking security is intended to ensure credit discipline, the possible loss of assets being a restraint to misuse of the loan; however, security is an effective restraint only if clients are convinced that the seizure and disposal of assets given in security of a loan will be pursued vigorously.

114. In Kazakstan the absence of a well established market for land and other rural assets makes security a singular concern. Nevertheless, each lending institution should formulate clear policy, that includes the formula for valuing assets and the margins to be applied to determine the safe realizable value of an asset (the value that the lending institution believes it will achieve in a distress sale in the event of default), and include this in the manual.

115. There is a need for lenders to be more innovative in adopting other instruments of security than the current reliance upon machinery and equipment and the seasons harvest. Pre-financing may have a poor reputation but lenders might have been more percipient - if known traders and processors do not pay cash for the harvest, and the receivables chain suggests that they do not, the harvest will go where cash or an immediate exchange can be obtained, to the lenders disadvantage. There is a case to be made for lenders to be more proactive on behalf of their clients. Other forms of security can be obtained through hypothecation of future assets and the acceptance of warehouse receipts; the proviso for client compliance would be the same as that for pre-finance - let the lender use his/her contacts and clientele to assist in finding acceptable markets.

5. Documentation

116. The quality of documentation - contracts, security documents, demand and seizure documents, etc. - and their safekeeping is vital to the lending institutions assurance of repayment. The requirement for each form of security document is that they be correct in all detail since any error or omission can render the instrument invalid. The perfection of contracts and security documents must be subject to the closest scrutiny before any loan funds are approved for disbursement.

117. Originals of such documents are held in a separate security packet and should be placed in a fireproof safe. Custodial responsibility must be assigned to a single person and access to these documents should be closely controlled.

118. Loan files reviewed show that the detail is correct but the documents are not held in safe custody - a wooden cupboard with a padlock is no defense against fire; a file lying upon a desk in a public section of the bank is not secure; guarantor written acceptance of variation of loan terms and conditions is not evident on loan files - failure to advise the guarantor of any and all change in the terms and conditions of the loan guarantee and to obtain the signed agreement of the guarantor to maintain the guarantee in the changed circumstances may void the guarantee.

6. Records

119. Imperfect information affects the management of a loan throughout the loan life. Loan files reviewed lack basic and essential reports that record the progress of the investment in relation to targets set out in the business plan. The main deficiencies are:

- originals of contracts and security documents are held in the working file;
- absence of manual records - loan cards, etc. - in case of computer failure;
- absence of a control sheet on which to record movements of loan funds;
- absence of disbursement authorizations and receipts for goods delivered;

- absence of supervision visit reports in the working file; and
- absence of loan term extension/rescheduling investigation reports.

7. Disbursement

120. No disbursement should be made without the clients authorization in writing. Such authorization should be made on a pro-forma document to ensure uniformity and clarity - such documents can be vital in the event of dispute over loan use and release.

121. No disbursement should be made without a check of receipt of the goods or services for which the funds have been released. A pro-forma document detailing the goods and services, the shortfalls (whether in quantity or quality) and the price paid should be completed during the delivery check, made by the client and supervising officer, and should be signed by the client and countersigned by the supervising officer.

122. Where the disbursement includes the purchase and installation of equipment and machinery, the checks of receipt will include an additional visit at the time of the trial run to ensure that the equipment meets the operating specifications - these are vital to the business achieving the output assumptions in the business plan.

8. Monitoring

123. Imperfect information continues to impede the lender once the loan has been made. Lenders seek to minimize this imperfection through monitoring loan account activity and results and through physical supervision.

124. Monitoring, even of micro-loans, is a basic component of portfolio management. There are two aspects to monitoring:

- **individual enterprise monitoring** - the standard and detail of record depends upon the size of the business operation and lenders should insist upon a growing sophistication of record both during the term of the current loan and in the life of subsequent loans. The aim must be not only to create the assets that will secure future loans commensurate with the growth of the business but also to develop the skills that will ensure management competence is equal to the task of a larger operation.

At a minimum, micro-credit clients should be required to maintain simple records that will permit submission of management accounts that cover six elements:

- income
- expenditure
- stocks
- creditors
- debtors
- cash

125. This information becomes the platform for developing stock, creditors, debtors and cash management policy - which is in the interest of the client. The management account submissions can be used by the supervising officer not only to judge the viability of the enterprise but also to guide the client in developing professional skills.

126. Monitoring of individual account performance and the classification of that performance is a NBRK stipulation for second tier banks; whether non-financial banking institutions are required to report this performance or not, prudence suggests that application of the classification categories is in the interests of the lender.

- **portfolio management** - balanced risk within the overall loan portfolio must be a predominant concern: over-exposure in any sector or sub-sector or to any single borrower or enterprise must be identified rapidly and redressed.

  Portfolio management is concerned with the quality of the loans extended, the potential for loss and the areas most susceptible to adverse change. It also measures the lenders performance in relation to performance targets such as:

  - due interest collection rate;
  - due loan capital collection rate;
  - arrears collection rate;
  - arrears as a percentage of outstanding loans;
  - loan balances affected by arrears; and
  - rescheduling and extension as a percentage of arrears.

127. The tool for monitoring portfolio performance is a management information system (MIS). The sum of the manual and computerized systems constitute the MIS. MIS reports in general should be drawn from a (computerized, if possible) database on applicants and borrowers and the loan ledgers. The reports should be designed to be:

- loan specific, giving detailed loan parameters on a loan-by-loan basis for better tracking of loan performance and comprehensive loan management;
- position-specific, so that individual credit officers and their managers receive detailed reports only for the loans under their supervision, making reports more useful for monitoring performance, establishing priorities and determining specific necessary action;
- sector-specifc, so that sectoral performance can be more easily monitored and strategic decisions on portfolio priorities taken by senior management; and
- comparative, so that each management level can compare the performance of the loans or area under their or their subordinates' control with other loans or areas, in order to enhance appreciation of sectoral or regional differences in the portfolio, assist with strategic portfolio management and monitor performance at all levels.

128. The reporting requirements should generally be monthly and should be:

- a loan report for management and work planning purposes; and
- a summary MIS report for senior management and others authorized to receive the information.

129. The loan MIS report provides a complete listing of loans, classified and subtotaled by loan class. The percentage recovery (and the movements from month to month) provide a guide to the long term performance of the portfolio; these percentages provide some guide to the provisions for bad debt which will be required. The aging of the overdue balances provides an indication of the collectibility of the overdues. Generally, the older the overdues, the less the chance of collecting the debt. The information concerning the collection rate provides a continuous measure of performance in meeting the annual collection target.

130. This information can also be subtotaled by credit officer and loan status category. This provides a guide to the performance of the portfolios of each credit officer and should be used by the individual credit officer to schedule supervision visits. It also allows the credit officer to see readily where effort is required to improve recovery, both by status category overall and by individual loan. It also allows the credit officer to identify whether a small number of loans are responsible for depressing the recovery performance or whether the problems in the portfolio are widespread.

131. The MIS summary provides an overview of portfolio performance in sufficient detail for senior management and other recipients to enquire into different aspects of each lenders loan portfolio. Summary subtotaling by loan class, credit officer, subsector, loan size and region are examples of how the presentation can be used to provide management with different perspectives on the portfolio.

9. Supervision

132. Supervision is the physical review of progress. It is a comparative exercise that uses the business plan, whether the original or any amended/updated version, as the basis for the assessment of progress. It is not a policing action and, indeed, should be the vehicle for enhancing the business and technical skills of the clients

133. Supervision should be comparative to assess the shortfall or improvement over the projected performance targets in the business plan. The management accounts that the borrower should supply at a frequency stipulated in the loan contract act as the basis for the supervision visit since, if accurate, they give a clear indication of loan progress. A supervision visit should determine whether the management accounts are accurate or not and the cause of inaccuracy, should this be discovered. The management accounts, placed in relation to the business plan cashflow projections, assist the entrepreneur to understand and control his/her business.

134. Frequency, and content, of supervision visits should be related to loan classification - satisfactory accounts need less frequent visits than those that have arrears. Visits should have two outcomes:

- a plan for work between the current visit and the next visit; for problem loan accounts all remedial action must have the borrowers written affirmation in order to avoid later recrimination that the business failed because remedies were imposed by the lender against the judgment of the borrower; and
- a report, to be placed on the working file, that details succinctly progress, shortfalls related to the projected targets, the causes and the remedies and work schedule agreed.

10. Variation and Rescheduling

135. Variation and rescheduling should be exceptional. All variation and rescheduling requests should be investigated at the same depth as the original appraisal. The investigation ought to be less time-consuming because the justification should have been identified during normal supervision and fully reported. Variation and rescheduling should be investigated by an officer other than the supervising officer in order to minimize subjective assessment. Where there is the slightest doubt about the safety of the lenders funds, variation or rescheduling must be denied.

136. Reviews of loan accounts with term extensions did not hold any document that would indicate the reasons for the extension nor the remedial action required to ensure further extension would not be needed.

11. Arrears and Default

137. The pursuit of arrears and default should be vigorous and immediate. Policy and procedures should be precise about the timing and form of the lenders reaction to arrears and default and no latitude should be permitted. Leniency, for whatever reason, without investigation sends signals to other clients and weakens credit discipline. Investigation of arrears, once arrears persist, should be impartially applied and, where the fault merits, variation or rescheduling can be considered.

138. Default is the lenders loss - not all defaulters default for lack of funds.

12. Technical and Financial Risk

139. Observance of the fundamentals will reduce risk but no lender should be unwilling to consult with specialists when technical or financial aspects prove exceptional in their complexity. Mercy Corps collaboration with technical specialists helps reduce the risk associated with technical practicalities; UNDPs **credit behind existing programs** approach is intended to limit the technical risk.

13. Delivery Systems

140. There is risk associated with the delivery system. Viability and integrity of institutions acting as channels for funds need to be investigated as carefully as the borrower. Eligibility to act as an intermediary should be based on clearly defined criteria and should be subject to regular review. In part, the review is maintained by the MIS reports of loan portfolio status but regular reviews of the institutions solvency ought to be carried out. Compliance with policy, cost of delivery, and the quality and impartiality of service should also be a focus of regular review - weak cost control may be offset by a diminution of quality of service.

F. Savings Mobilization

141. Savings mobilization in Kazakstan faces the problem of public distrust of the banks as safe for the deposit of money; public wariness is not unwarranted and the recent failure of Kramds Bank has hardened public distrust. This is confirmed by the data from the rural survey which showed that 38 percent of surveyed population consider banks to be unsafe. If micro-credit access were tied to a savings requirement, savings could be mobilized but, by so doing, there would be a moral and practical obligation to guarantee full and immediate access to those savings by the depositors, except where the savings were pledged against a loan. This might be achieved by the placing of all credit tied savings in the Narodny Bank.

142. Credit unions might be a suitable form of institution for credit delivery and for the mobilization of savings. The capital of a credit union being derived from the regular purchase of shares by members, not from members savings deposits, would permit the establishment of credit unions under the terms of the draft decree for credit unions (appendix to Part I of the Draft Final Report).

143. Credit unions operate through peer group lending and mobilize local resources for local investment. However, there is a critical mass factor involved in sustainability that is not easy to achieve in dispersed communities with low income expectation. Historically, the winding up of credit unions has most often occurred when discipline evaporates as inflated (by the promotional activity at the time of the establishment) hopes for credit cannot be met from available funds.

144. It would be prudent to move slowly on the creation of credit unions and first foster small associations where the disciplines of management and business can be learned and practiced in an environment more tolerant of error and in which thrift can be encouraged and could, when the time is ripe, create the charter capital for credit unions. Credit unions will be a natural step for associations to take when activities of members outgrow small associations and the merging of associations will provide critical mass of charter funds and members accustomed to saving, repaying debt, managing their own affairs impartially and transparently - all qualities essential to sustainable operation of credit unions. Hot-housing credit union development will overheat expectations; hot-house plants bloom fast and wither early.

G. Incentives to Repay

145. The incentives to repay are found in several associations supported by international NGOs:

- access to credit otherwise unavailable and on favorable terms;
- access to technical assistance from local and expatriate specialists;
- further access to larger credit amounts on repayment of current loan;
- possible loss of savings, if a secure means of savings can be introduced;
- possible loss of buffer fund contribution and assets when in default;
- loss of future access to credit after default; and
- peer displeasure if JLG or association must cover the default.

146. There are other possible forms of incentive, marketing assistance, for example, in which the lender assists the group or association through introductions, contacts and marketing information - a better return to the producer makes him/her more conscious of the value of repayment and not damaging his/her chances of future access to the assistance, even if further credit is not sought.

H. Penalties for Default

147. The penalties for default should be well publicized and made clear to each borrower verbally at the initial interview, in the loan contract and verbally at the time of signing of the contract and in writing immediately when arrears arise.

148. Penalties for default should include:

- loss of savings;
- loss of buffer fund contribution;
- loss of assets pledged as security;
- loss of future access to credit;
- loss of access to technical assistance; and
- loss of access to any marketing or other beneficial commercial arrangement.

149. Lenders should consider the wider implications for the lending institution and for the other clients when wavering in intent to apply the penalties - the longer the delay, the more difficult to recover and the losses threaten not only the other clients but also the lenders continued existence.

I. Service of Disadvantaged Groups

150. Bank enthusiasm for micro-credit is thin, even more so for disadvantaged groups. On the other hand, most NGOs were created specifically with the disadvantaged in mind and with specific objectives related to the betterment of the disadvantaged. Banks are unlikely to evince much enthusiasm until it has been demonstrated that the disadvantaged have skills, initiative and discipline. There is little to be gained from obliging unwilling or unconvinced institutions to lend where their intuition tells them not to lend since an unwilling participant lacks the dedication needed for success. In the initial phases of any financing program that includes credit for the disadvantaged it would be preferable to enlist the assistance of NGOs since they are committed.

151. All the NGOs active in credit in Kazakstan make a special effort to attend to the needs of the disadvantaged and to do so in a manner that ensures participation without alienating the remainder of the community. UNDP tends to be more active in specific programs for women but Mercy Corps and VOCA would describe their approach as being conscious of the needs without highlighting any group as being in greater need. Both actively encourage women and the very poor to participate. HIVOS does not discriminate by sex, although it has programs for that offer single mothers and very poor women a more specialized assistance. HIVOS philosophy is more concerned with giving their clients self-respect, self-reliance and a standing in the community based upon recognition of an ability rather than a disability or the stigma of an ailment.

152. There are reasons for avoiding a form of commercial segregation for women and the very poor in the creation of associations or other institutions:

- those that set themselves apart, particularly in an environment such as exists in Kazakstan, may find that the market does not respond - circumstances in matured market economies may offer the opportunity for a distinct trading focus based on gender or poverty but it would be unwise to presume that similar consumer patterns or concerns prevail in rural Kazakstan;
- most women do not seek to be separate but do seek equitable access to opportunity and impartiality in such areas as management and credit decisions; these are the principles of credit unionism and should be enforced in the associations and, later, in the credit unions;
- the very poor seek to escape the segregation that their poverty imposes and credit programs should not emphasize that segregation; credit unions are flexible in many aspects of their functioning in order to accommodate differing economic circumstances and take care to ensure that the least advantaged has an equal voice in their management and equal access to the services and programs provided;
- if the aim is sustainability, then numbers and variety are essential. The communities in rural areas are not large and supporting two special interest groups associations as well as a general association may condemn all to failure for lack of fund raising capacity. NGOs, local and international, have a better record than most in ensuring the disadvantaged are not ignored and at ensuring their rights in associations and the community are respected; and
- the specter that the wealthy and influential will seize the initiative and the credit can be countered by making the loan size unattractive to these people - that this condition may not prevail once altruistic outside agencies have withdrawn is likely to be as true in a single gender organization or one comprising only the very poor.

VII. Strategies for Micro-Finance

A. Business Opportunity

153. Supporters of the small and micro-enterprise sector would elicit a more favorable reaction from the unconvinced, were they able to demonstrate more specifically the areas in which such enterprise can contribute significantly to the economy. Intuition and experience gained from other countries is insufficient. Concrete evidence of opportunity and benefit is lacking.

154. The strategy would be:

- to prepare sub-sector studies (and further work on the gross margins for agriculture) in order to identify the sub-sectors in which small and micro-enterprise might flourish;
- to quantify opportunity and benefit. It would be possible to determine sub-sector investment absorptive capacity and to derive indicative figures for lending and employment opportunity; and
- to promote the most promising opportunities with clients with appropriate skills and experience;

155. The sub-sector absorptive capacity estimates would allow exposure limits to be set with some accuracy and, as a consequence, risk would be reduced. The studies would also assist government in the formulation of policy.

B. Delivery

1. The Intermediary

156. Delivery systems cannot be divorced from donor concern for the disadvantaged. Until second tier banks are convinced of the commercial benefit of supporting the small and micro-enterprise sector, the strategy must be:

- to use qualified NGOs as intermediaries between the donors and the target groups, particularly in reaching the disadvantaged;
- to foster the development of qualified local NGOs in order that outreach growth can be sustained;
- to encourage a close working relationship between NGOs and commercial banks; and
- to encourage commercial banks to develop small and micro-finance capability, even if the extent of their direct lending is concentrated in the urban areas, and to adopt innovative lending practices that encourage integrated product and finance flows.

2. Long Term Perspectives

157. There are two facets: the professional development of local NGOs and extension of outreach.

Professional Development of Local NGOs

The sustainability of support for the small and micro-enterprise sector depends upon the commercial success of enterprise financed and upon the professional capability of local NGOs; international NGO participation should not be assumed as permanent nor is it desirable that a dependence on the international NGOs develops. Professional enhancement of local NGO skills should be a prominent target for support activities;

Extension of Outreach

It should be expected that two things will happen when micro-finance is successful:

- entrepreneurs will have growth targets that cannot be served by micro- loans and are more suitable to bank lending; and
- banks will find these entrepreneurs attractive customers since they will have experience and skills, a credit history and an established business operation.

Some clients will graduate to bank borrowing. However, there will be those who prefer to remain at a smaller size and there will be other communities that remain unserved. Continued extension of services to these communities will depend upon local NGO quality.

A strategy of development by steps is the better assurance of viability. The steps would be:

- community association and local NGO preparation;
- initiation of credit services; and
- consolidation - the association assumes responsibility for operations.

Outreach extension would be phased, in concentric expansion around the original association. The purpose is to ensure that the link with the original association is not broken, that the original association becomes the model for communities next drawn into the credit ambit and the original association becomes the nucleus for the establishment of the credit union, most likely when merger with the newer associations is appropriate.

C. Risk Management

1. Technical Risk

158. A concern is the absence of extension services designed for the growth of private enterprise, whether in agriculture, industry or general trade. Both UNDP and MCI prefer to support a technical program with credit to alleviate the risk of technical unsuitability. While existence of a technical program might be a preferred option, lack of such a program should not, however, be the determining factor.

159. Development and professional upgrading of local technical services in support of private enterprise should be seen as a concomitant to enterprise development. The strategy, therefore, would be:

- to support existing technical programs where appropriate;
- to encourage other donors to support the credit with technical programs where possible;
- to make professional upgrading of existing local technical services, such as the small business centers (in collaboration with TACIS, USAID, Peace Corps and others, for example), the agricultural extension services and the Agricultural Support Fund, a primary target; and
- to realign ASF, over time, from an insolvency and debt resolution agency to a service agency offering agriculture and agri-business advice and assistance in business planning and management (including consultancy for those with business problems), credit access and marketing (market and marketing research, marketing information, etc.).

2. Financial Risk

160. The financial risks involved are as follows:

Professional Skills

Financial risk management would cover quality of appraisal, supervision and problem account management, i.e. the professional quality of NGO personnel and credit officers in the bank branches in the district in which the micro-finance program operates. It would include the capacity of borrowers to plan and manage their enterprise.

Loan Security

Risk management includes the quality and enforcement of loan security and introduction of additional security instruments to offset difficulties associated limited assets and with land and property markets.

161. The strategy would be:

- to tap into existing training programs for bankers and entrepreneurs, wherever possible;
- to encourage donors to adapt existing professional training programs - taking bankers training courses to the oblasts and rayons, for example, might extract more practical benefit for the donor and the recipient;
- to provide training for local NGO personnel as administrators of credit and local association development and as trainers in business management;
- Centers (SBC), to broaden the curriculum offered and to train SBC staff as trainers in business topics;
- to design legislation for and to introduce new security instruments that would create enforceable lien over future assets and would alleviate the receivables cycle; and
- to introduce lending audit as a means of ensuring comprehension of and compliance with policy and procedures and the regular improvement of lending quality.

3. Administrative Risk

162. The strategy to contain administrative risk would be:

- formulation and manualization[1] of detailed regulations and procedures for credit operations - the manual would contain pro-forma documentation for each loan cycle phase and most specifically for business plan preparation, loan contract and loan security documentation, disbursement, supervision, variation, recovery and for MIS;
- formulation, manualization and implementation of lending audit policy and procedures - to reinforce uniform compliance and quality; and
- training for credit personnel related to the policy, procedures and practices for loan operations.

[1] Appendix 4 draft manual for micro-finance operations

Appendices to Part II of the Draft Final Report
Micro-Finance

Appendix 1 - UNDP Micro-Credit Applicant Means Test

Major Indicators Determining the Terms of Financing

Indicators related to the Applicant:

1. property: availability of:
    - accommodation
    - personal plot
    - personal vehicles
    - livestock
    - special machinery
2. number of children (below the age of 17 years)
3. number of economically active persons in the household
4. number of unemployed and dependent persons in the household
5. main occupation of the applicant
6. age of the applicant
7. sex of the applicant

Indicators related to the Proposed Project:

1. project purpose
2. type of project:
    - commercial
    - non-commercial
3. project sector:
    - agriculture
    - artesian
    - manufacture
    - services
    - ecology
    - social sphere
    - other
4. profitability
5. period required for repayment
6. number of full-time participants
7. effective dates for the project
8. projected life of the project
9. terms of financing

Appendix 2 - Policy Statement Contents

Policy Statement Contents

Objectives
Operating Conduct
General Topics

- viability as sole criterion of loan approval
- capacity of enterprise to generate income
- priorities
- assistance to applicants
- borrower contribution levels
- disbursement management
- supervision
- repayment - loan term and grace period
- joint financing
- security and priority on mortgages

Financial Topics

- interest rate setting
- foreign exchange risk
- (lender) equity investment
- (lender) interest in enterprise financed
- financing limits
- portfolio management

Accounting

- provisions and reserves
- maintenance of records
- audit
- confidentiality and access to client information

Methods of Financing and Scope of Operations

- **Methods of Financing, e.g.:**
    - loans
    - leasing
    - overdraft facilities
- **Scope of Operations - limitations, e.g.:**
    - to a single borrower
    - to a single enterprise

Terms and Conditions
Discretionary Authorities
Policy Revision

Appendix 3 - Terms of Reference for Micro-Finance Specialist

Terms of Reference - Microfinance Specialist

1. Examine the prospects of establishing micro-finance institutions (MFIs), e.g., rural shareholding banks, rural credit co-operatives, farmers credit unions and women's credit unions, to engage in retail banking operations in rural areas; identify the constraints to the emergence of sustainable financial intermediation by these MFIs; and recommend institutional policy and legal measures to create an enabling environment for the growth of MFIs.

2. Assess the effectiveness of financial policies of NBRK, APB and other banks relating to savings mobilization and lending to poor rural households; assess the impact of existing collateral policies of the NBRK and the MFIs on micro-credit to the poor.

3. Recommend appropriate savings and loans policies and strategies to be implemented by APB and other banks operating in the rural sector to improve the poors access to credit, while providing prudential safeguards, including institutional arrangements such as joint liability group lending, for effective management of their loan portfolios.

4. Consult with actual and potential clients of MFIs to ensure their effective participation in the formulation of the policies stated above.

5. Based on a comprehensive review of the rural financial sector, recommend appropriate institutional mechanisms for establishing rural credit and savings related extension services to support farmers in general, and poor farmers in particular.

Appendix 4- Draft Micro-Finance Operations Manual

0. INTRODUCTION

0 INTRODUCTION

0.1 Purpose of the Operations Manual

The purpose of this Operations Manual is to describe the methods and procedures for screening, processing and recovering small and micro loans and is intended to be used in everyday operations to:

- provide guidance for Credit Officers and other staff in the conduct of day-to-day business;

- ensure a systematic approach to small and micro loan credit at all stages in the loan cycle;

- ensure uniformity of methods and procedures; and

- minimise loan processing time and effort.

The manual is complementary to the Regulations which govern overall operations.

In order to understand the structure of the manual it is first necessary to understand the business planning cycle and its relationship with the loan cycle.

0.2 The Business Planning Cycle

There is a sequence in the way business plans are formulated and carried out. This sequence is called the business planning cycle, divided into identification, planning, appraisal, implementation, and evaluation.

0.2.1 Identification

The first stage in the cycle is to find potential business opportunities. There are many sources from which suggestions may come. These may be well-informed technical specialists and local businessmen. While performing their professional duties, technical specialists may identify many areas where they feel new investment might be profitable. Local leaders may also have suggestions about where investment might be carried out. Ideas for new investments also come from proposals to extend existing business operations.

0.2.2 Planning

Once a business opportunity has been identified, there is a process of detailed planning. This process includes all the work necessary to bring the plan to the point at which a careful review or appraisal can be undertaken; and, if it is determined to be a viable plan, financing for implementation can then be sought.

Usually the first step is to prepare a business plan that will provide enough information to decide if the investment is viable. The detail of the business plan will depend on the complexity of the proposal and on how much is already known about it. At a minimum,

the business plan will define objectives clearly, and will display knowledge on procurement, processing, marketing, management and costs and returns. For micro-investments, business plans are not always written down, but the same knowledge needs to be demonstrated.

A thoroughly prepared plan helps ensure its smooth implementation as many potential difficulties will have been foreseen and plans made to overcome them. Hastily prepared, superficial analyses are likely to yield plans that cannot be implemented on schedule, have lower returns, run into difficulties, and waste scarce resources. Even worse are investments which are made without any analysis or plans at all. Frequently such businesses run into loan repayment problems, either being unable to pay or requiring loan rescheduling.

0.2.3 Appraisal

After a plan has been prepared, an appraisal is conducted. This provides an opportunity to re-examine every aspect of the plan to assess whether the proposal is appropriate and sound before finance is committed. The appraisal process builds on the business plan, but it may involve new information if the specialist appraiser feels that some of the data are questionable or some of the assumptions faulty. If the appraiser concludes that the plan is sound, the investment may proceed. If the appraiser finds serious flaws, it may be necessary to alter the plan or to develop a new plan altogether. Appraisals are normally written down, but some micro-credit programmes which are based on joint liability groups use group assessments to appraise a business proposal.

0.2.4 Implementation

Implementation is the most important part of the business plan cycle. Certain aspects of implementation are particularly important at the planning stage. Firstly, implementation should be realistic, so that it can be executed as planned and the expected returns realised. It must always be remembered that projections are only approximate predictions of what might occur; it is the implementation which determines what will occur. Secondly, the implementation schedule should be flexible because there may well be a need to adjust, even while implementation is under way, to take account of unforeseen problems or delays.

0.2.5 Evaluation

The final phase of the business plan cycle is evaluation. Evaluation aims to establish the degree to which a plan has achieved its objectives. Evaluation may be carried out at the end of the plan period or at an earlier point if particular objectives have been achieved or if problems are encountered. In the former case, lessons will be learned to improve future project design or operation. In the latter case, plans for project implementation may need to be revised, alternative strategies investigated and financing requirements reviewed in order to improve the performance of the business.

0.3 The Loan Cycle

The loan cycle is closely linked to the business plan cycle. It starts with a process of screening enquiries, followed by application appraisal and approval, disbursement, supervision, and loan recovery. Each of these processes is linked to a stage in the business plan cycle, and deals with the specific concerns and activities of the financing institution which needs to protect its investment in the business.

0.3.1 Screening Enquiries

One of the functions of the Credit Officer is to assist entrepreneurs and investors in the preparation of their business plans. The Credit Officer will not necessarily identify specific business opportunities and will not prepare business plans for loan applicants, but may provide advice to potential borrowers on the opportunities available, the policies for the development of a particular subsector, sources of information about potential investment opportunities and the requirements of a good business plan.

The purpose of screening enquiries is to review the prospective borrower and the enterprise for their eligibility for support and to assess the prospective borrower's creditworthiness. The Credit Officer should only allow the prospective borrower to make a formal application for a loan and commit resources to appraising the loan after a thorough screening of the enquiry.

0.3.2 Application Appraisal and Approval

Thorough screening of enquiries makes the application appraisal and approval process efficient. After a review of the application documentation for completeness, the applicant's business plan is appraised. The appraisal aims to verify all aspects of the plan including procurement, processing, marketing, management, costs and returns. As a result of the appraisal, a recommendation is made to approve or decline a loan. If the recommendation is positive the amount of financing required and the loan terms and conditions are specified.

Loan approval is the formal procedure by which a loan, recommended at appraisal, is approved. The approving authority will always be different persons from the one carrying out the appraisal. The identity of the Approving Officers is determined by the total exposure of the bank to the borrower if the loan is approved.

0.3.3 Disbursement

Once a loan is approved, but before it can be disbursed, the loan must be documented. In particular, legal documents to secure the loan must be executed by the borrower and/or his guarantors. When documentation is complete, loan disbursement may begin.

Loan disbursement takes place during the investment period of implementation and may continue during the start-up period if an increasing amount of capital (for example, working capital) is needed to reach the operations period. Whenever possible, the lender will make disbursement directly to suppliers against evidence of purchase of the items to be financed.

0.3.4 Supervision

Loan supervision starts at the beginning of the investment period and continues through implementation of the business plan until the loan is repaid in full. The process of monitoring is regular checking of the physical and financial progress of the business against the targets in the plan and checking that the loan is correctly utilised. Supervision includes intervention, where appropriate, to provide businesses with guidance to avoid or correct departures from the plan or to assist management with re-planning.

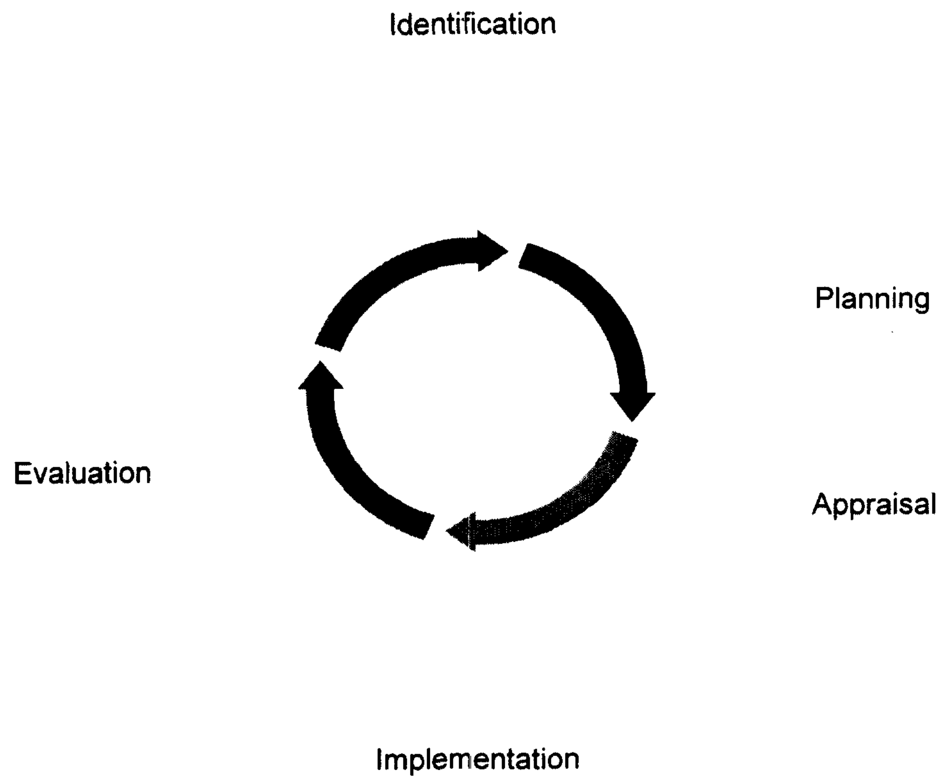
0.3.5 Recovery

Recovery is the process of collecting the repayments (principal, interest and other charges). This process normally occurs in the operations period of the business plan implementation, when the business is generating sufficient income to repay. Loan recovery also covers the procedures followed when a business is unable to repay its loan on schedule: the management of default, rescheduling and collection action.

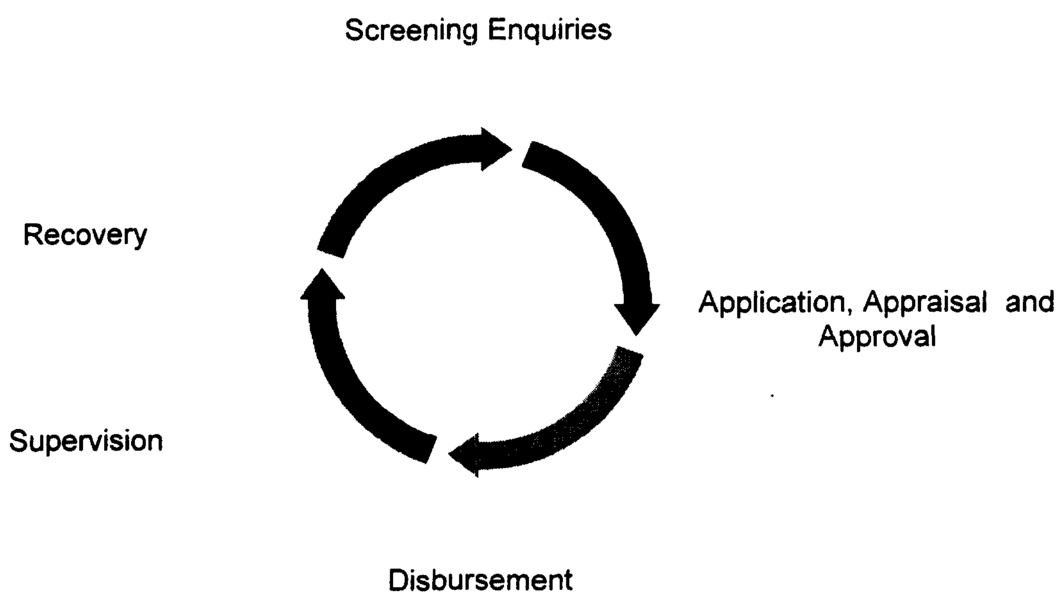
The relationship between the two cycles is illustrated in Figure 1.

Figure 1 Business Planning and Loan Cycles

The Business Planning Cycle



The Loan Cycle



0.4 Structure of the Manual

The Manual is structured to follow the loan cycle. The sections describing the loan cycle are followed by a section about management information systems (MIS) which bring together information to be collected throughout the cycle to facilitate prudent management of the loan portfolio and the Regulations. The sections are:

1 **Screening Enquiries**

2 **Application, Appraisal and Approval**

3 **Disbursement**

4 **Supervision**

5 **Recovery**

6 **Management Information Systems**

7 **Credit Regulations**

Sections 1 to 5 which deal with the loan cycle are prefaced by step-by-step activity charts which show the major activities, who is responsible for each activity, when it needs to be carried out, what supporting documentation is necessary and the decision to which the activity leads. The structure of each of these sections follows the steps shown in the activity chart. All five sections are supported by appendices containing appropriate proforma for recording and analysing information needed to operate the project.

0.5 How to Use the Manual

It is not intended that the manual should be read from beginning to end, although this may be a useful exercise for new staff assigned to lending. The manual is meant to be a working reference to which staff can turn for assistance with their day to day practical tasks, hence the organisation of the manual around the loan cycle.

The manual contains information about the two types of loan available under: small loans and micro loans. In general the operational procedures for each type of loan are the same. Where there are differences, information relating to micro loans only appears in italics.

0.6 Updating the Manual

It is envisaged the manual will be regularly updated with experience, and the loose leaf style allows for the addition of new material. Changes will generally be made after periodic reviews in consultation with participating institutions. Changes will apply uniformly to all.

Where a participant institution wishes to instigate changes outside the regular process of review:

- the institution may make a written submission of the proposed changes to the Trust, the submission should include exact copies of proposed additions, deletions and amendments to the Operations Manual;
- the Trust will review the proposed changes to ensure:
    - that they conform with the Regulations,
    - that they do not compromise the spirit of the Trust,
    - that they are in accordance with prudent lending practices.
- the Trust will obtain the views of other participating institutions on proposed changes and will take these views in to consideration when determining if such changes shall be made;
- if the proposed changes are acceptable, the Trust will endorse the proposed changes;

  within 30 days of receipt of a proposal the Trust will advise all participating institutions in writing of approved changes; approved changes shall become effective:

    - at not less than 90 days notice for changes to the Regulations, and
    - at not less than 30 days notice for changes to the appendices of the Regulations.

Changes to the manual will not be implemented without the approval of the Trust.

1. SCREENING ENQUIRIES

Activity Chart for Screening Enquiries

Step	Main Activities	Responsibility	Timing	Documentation	Outcome		Next Step
1.1	Promoting the Trust Scheme and advising applicants about loan terms and conditions	Credit Officer	on demand	**IA - Information on the Trust Credit Scheme**	Does the potential borrower wish to apply for a loan?	Y	1.2
						N	END
1.2	Recording and screening a loan enquiry	Credit Officer	Within seven days of request	**IB - Enquiry Form**	Are the eligibility criteria satisfied?	Y	1.4
						N	1.3
1.3	Advising about satisfying loan eligibility criteria	Credit Officer	on demand	**IA - Information on the Trust Credit Scheme**	Are the eligibility criteria satisfied?	Y	1.4
						N	End
1.4	Preparing the business plan	Borrower assisted by Credit Officer	Within seven days	**IC - Business Plan**	Is business plan submitted?	Y	1.5
						N	End
1.5	Reviewing the business plan completeness	Credit Officer	Within seven days of receipt	**IC - Business Plan** **SLIB**	Is business plan complete?	Y	2.1
						N	1.4

1 SCREENING ENQUIRIES

1.0 Introduction

The purpose of screening enquiries, before time and resources are invested in appraising a loan, is to ensure that only the applications of eligible borrowers and enterprises are considered. This is most important because target group is a very specific group of enterprises and individuals, and the screening process must ensure that those outside the target group do not benefit from the funds.

1.1 Promotion and Advice about Loan Terms and Conditions

Participating institutions publicise small and micro loans and identify potential clients. *Some will have a special responsibility of identifying potential borrowers in more remote areas through their outreach network at village level, particularly borrowers who have limited physical and financial collateral but who are otherwise eligible.*

Promotion can take place through meetings with potential borrowers, through distribution of written material outlining the financial facilities available under the scheme and through linkages with other projects and organisations including non government organisations, training centres, chambers of commerce and the private sector.

When a potential borrower makes an initial enquiry about the possibility of obtaining credit funding, the assigned Credit Officer shall provide the prospective borrower with information about loan terms and conditions. This can be done verbally in the first instance, but it is advisable to provide written information as well so that there is no misunderstanding about the eligibility criteria for both borrowers and enterprises. This is done by issuing **Form 1A - Information on Credit** which summarizes:

- the objectives,
- details of eligibility criteria, and
- loan terms and conditions.

The Credit Officer should explain and discuss the conditions with the prospective borrowers. He should also explain the procedure for checking eligibility. **It is important that the Credit Officer ensure that potential borrowers understand that checking for eligibility does not in any way commit the institution to making the loan.**

If, on reading and understanding the loan terms and conditions, the prospective borrower wishes to proceed, the Credit Officer shall provide guidance on satisfying the eligibility criteria.

1.2 Recording and Screening a Loan Enquiry

If a prospective borrower or group intends to proceed with a loan application, they shall be interviewed by the Credit Officer to establish if the enterprise is eligible. The Credit Officer shall complete **Form 1B - Enquiry Form.** The purpose of this form is to record:

- details of the enquirer and the enterprise,
- the enterprise sector and subsector,
- enterprise performance if a previously beneficiary of financial support,
- the performance of the business, if it is already established, and
- the extent to which the enterprise eligibility criteria are satisfied.

1.3 Advising about Satisfying Loan Eligibility Criteria

Where it is not possible to verify that eligibility criteria are satisfied, the Credit Officer shall advise the prospective borrower what action is necessary to satisfy the criteria.

If the prospective borrower does not satisfy the eligibility criteria, the Credit Officer shall advise the enquirer using Standard Letter **SL1A**.

1.4 Preparing the Business Plan

The Credit Manager shall explain that a viable business plan is required in order to make a formal application for a loan. He should advise the prospective borrower about the content of a business plan covering:

- a general introduction to the business, its history and intentions;

- description of the business: its products and services, key personnel and other business interests of owners, partners, directors and shareholders;

- the business development plan: describing the market, customers, competition, development of the business in this market and the main risks; and

- cash flow calculations.

It is necessary to recognise that borrowers will have significantly different capacities in terms of the understanding of business planning concepts and ability to prepare a business plan. It is also necessary to recognise that for some potential borrowers, the preparation of even a simple a business plan is such a daunting task that it will cause them to lose interest in the loan, while others may regard it as unnecessary paperwork and prefer to borrow on the informal market, even at higher cost.

Given the need for business planning and the above constraints, it is necessary for the Credit Officer to be able to assist the borrower to prepare a business plan. To facilitate this, the business plan is designed in the form of a questionnaire. The same

questionnaire applies to all types of loans, *but for some loans, particularly micro loans, it is not necessary to complete all sections of the questionnaire.*

The Credit Officer should assist the borrower to complete **Form 1C - Business Plan**. This can be done on site. More capable borrowers can be asked to complete the plan themselves and deliver it to the institution's office or hold it for review at a later visit by the Credit Officer.

Interviewing the prospective borrower(s) on site is the most important stage of the screening process. The purpose of the interview is to establish the prospective borrower's capabilities and creditworthiness. While it is important for the Credit Officer to control the interview, the prospective borrower should do most of the talking. It is important to listen carefully to what the prospective borrower says and to ask supplementary questions whenever an answer is unclear, incomplete or raises other questions. Every question asked builds towards establishing:

- the prospective borrower's capabilities (technical, financial, managerial),
- his/her integrity and honesty,
- his/her ability to provide any equity required, and
- his/her commitment to succeed and his capacity for hard work.

Most questions should be open questions that demand more than 'yes' or 'no' as answers: what? which? why? when? where? who? how?

1.5 Reviewing the Business Plan for Completeness

Where information is not immediately available, the Credit Officer should advise the prospective borrower of the additional information required to complete the plan. This can be done using Standard Letter **SL1B** which can be issued on site or through the post if the plan is submitted to the institution's office.

1. DOCUMENTATION FOR SCREENING ENQUIRIES

1A Information on Trust Credit

1A.1 Objectives of the Scheme

The Trust Credit aims to increase the access of Small and Micro Enterprise (SME) to investment and working capital finance on fully commercial terms from the formal financial sector and from NGOs in order to stimulate growth and create employment in the sector.

With Trust funds, participating insititutions lend to finance innovation, new ventures, enterprise expansion, modernisation and technical upgrading in order to improve factor productivity and product quality. All enterprise financed shall be required to give adequate attention to environmental safety and pollution control. Recipients of loans shall be either members of joint liability groups with group guarantees as collateral or individuals and enterprises which can offer satisfactory collateral.

Loans shall be for small-scale capital investment and/or working capital. Loan purposes excluded shall be refinancing of existing obligations to the Participating Banks or other fnancial institution. Only those enterprises which are able and willing to bear a fully commercial interest rate shall be financed.

Potential enterprises which may be financed include, but shall not be limited to, farms, small-scale industries and handicrafts, agro-processing industries, transport, construction, services and general trade.

1A.2 Loan Terms and Conditions

Loans will be denominated in US dollars and repayable in US dollars or Tenge (at the rate of exchange current at the date of repayment). Only borrowers and enterprises which strictly satisfy the eligibility criteria shall qualify to apply for loans. Satisfaction of the eligibility criteria by a loan applicant shall not place participating institutions under any obligation to make a loan. Loans shall be of two types: micro and small loans.

Micro Loans

Micro loan borrowers shall enter into individual loan contracts with the relevant participating institution and, in the case of Joint Liability Groups, into joint contracting with the other group members. The guarantees shall be in favour of the lending institution. Micro loans shall only be made to individual persons, even though a member of a joint liability group.

Joint liability groups shall have a minimum of five and a maximum of ten members. Members of a group may not be closely related to each other by marriage or consanguinity. Only one member of a household shall be able to join a joint liability group at any one time.

Each micro loan borrower shall be required to save for a minimum period of two months prior to the first loan disbursement. The participating institution shall open a

savings account for each individual borrower or for each individual member of each group, depositng the money in a central savings account with the nearest branch of the Narodny Bank and take a charge over the accounts as partial security for the Micro Loan; a savings account record card will be maintained by the lender for each person making savings through the institution. No savings withdrawals shall be allowed, except there be a verifiable urgent need, and subsequently borrowers shall be required to maintain a total minimum balance. In the case of joint liability groups, provided the savings requirement has been fulfilled, all members of a joint liability group shall be entitled to a loan.

Micro loan applicants shall be required to satisfy standard eligibility criteria and loans shall be made on standard terms and conditions, regardless of the sector. Micro Loans shall be of two types:

- the first Micro Loan to any borrower and each individual within a joint liability group shall not exceed Tenge 35,000 (US$ 500 equivalent); and

- subject to no default by the borrower or by any individual member within a particular joint liability group, and as an incentive for good repayment performance, subsequent Micro Loans not exceeding Tenge 70,000 (US$ 1,000 equivalent) shall be available.

Eligibility criteria for Micro Loans shall include, but not necessarily be limited to the criteria listed below. Borrowers must satisfy the following criteria. They must:

- be permanent residents of Kazakhstan
- be of legal age,
- be of sound mind,
- have sufficient experience to carry out their enterprise,
- have lived in their present location for at least one year,
- be of good reputation and have no criminal record,
- not be bankrupt
- have no existing debt to a bank,
- if they have previously borrowed from a bank, have a good credit history,
- be able to join willingly with between five and ten other persons who also satisfy these criteria to form a joint liability group, and
- have satisfactorily participated in the Savings Scheme for a minimum of two months.

A borrower's enterprises must satisfy the following criteria. It must:

- employ less than five people,
- be free of potentially negative environmental impact,
- be able to cover the shortfall between the net (before debt service) cash flow capacity to cover interest payments and loan principal repayments and the total cost of the project,
- have a sound estimated monthly operating margin after all costs including the borrower's drawings of at least 1.5 times the monthly payments of principal and interest due to the bank.

Loan terms and conditions shall be as follows:

maximum duration of first loan	9 months
maximum duration of repeat loans	12 months
maximum interest grace period	90 days
payment schedule for interest	monthly payments
repayment schedule for principal (fist loans)	single payment at maturity
repayment schedule for principal (repeat loans)	quarterly instalments
maximum permissible loan amounts (first loans)	Tenge 35,000
interest rate	Libor + 12 per cent
drawdown period	30 days
borrower equity contribution	see above
security	150 per cent of loan value

Small Loans

Small Loan borrowers (either individuals, companies, joint liability groups or other legal persons) enter into loan and security contracts with the lending institutions.

Small loan applicants shall be required to satisfy standard eligibility criteria and loans shall be made on standard terms and conditions, regardless of the sector.

First small loans shall be a maximum of Tenge175,000 (US$ 2,500 equivalent) and repeat small loans a maximum value of Tenge 245,000 (US$ 3,500 equivalent). Eligibility criteria for Small Loans shall include, but not necessarily be limited to those listeed below. Borrowers, or the managers of borrowers if the borrower is not an individual[1], must satisfy the following criteria:

- be permanent residents of Kazakhstan,
- be of legal age,
- be of sound mind,
- have sufficient individual or collective experience to carry out their enterprise,
- have lived in their present location for at least one year,
- be of good reputation and have no criminal record,
- not be bankrupt or have any existing overdue debt to a bank, and
- if they have previously borrowed from a bank, have a good credit history.

The Borrower's enterprise must satisfy the following criteria. It must:

- at least 51 per cent ownership by permanent residents of Kazakhstan
- employ less than fifty people,
- have been in business for at least one year,
- be able to demonstrate it has adequate management, technical, marketing and financial management skills available,
- be able to demonstrate that it can procure raw materials,

1 Defined as individuals taking a loan on an individual basis, all directors of a company if the loan is taken on a company basis, and all other persons with management decision-making authority if the loan is taken by some other legal person.

- be able to demonstrate that it has a market for its production or services,
- be free of potentially negative environmental impact,
- be able to keep simple financial records of income and expenditure,
- not be bankrupt or have any existing overdue debt to a bank,
- if it has previously borrowed from a bank, have a good credit history,
- be able to cover the shortfall between the net (before debt service) cash flow capacity to cover interest payments and loan principal repayments and the total cost of the project,
- have a sound estimated monthly operating margin after all costs, including borrower's drawings, of at least 1.5 times the monthly payments of principal and interest due to the bank.

Loan terms and conditions shall be as follows:

maximum duration of first loans	12 months
maximum duration of repeat loans	24 months
maximum grace period for interest (first loans)	90 days
payment schedule for interest	monthly
principal repayment schedule	quarterly instalments
maximum permissible loan amounts (first loans)	Tenge 175,000
maximum permissible loan amounts (repeat loans)	Tenge 245,000
interest rate	Libor + 12 per cent
borrower equity contribution	see above
drawdown period	30 days
security	150 per cent of loan value

1B Enquiry Form

This form should be completed by the Credit Officer for all loans. If column B is ticked against any of the criteria, further loan processing should not extend beyond the production of the business plan until all the criteria have been satisfied and the dates of compliance entered on this form. The preparation of the business plan should only proceed if the Credit Officer believes that there is a substantive possibility that all of the criteria will be fulfilled.

Date:	

Credit Officer:	
Financial Institution:	
Branch:	

Part 1 - Borrower's Details

Enquirer's Name:	
Enterprise Name:	
Enterprise Address:	

Telephone Number:								

Fax Number:								

Type of business requiring finance	
Purpose of proposed loan	
Amount of financing sought	

Part 2 - Satisfaction of Borrower Eligibility Preconditions

Eligibility Criteria	Satisfaction of eligibility criteria				Date on which criteria is later satisfied
	Column A		Column B		
Enqirer is Kyrgyz national?	Yes		No		
Enqirer is of legal age ?	Yes		No		
Enquirer has sufficient experience ?	Yes		No		
Enquirer has lived at location for 1 year or more?	Yes		No		
Enquirer has honest reputation and no criminal record?	Yes		No		
Enquirer is of sound mind and not infirm?	Yes		No		
Enquirer is not bankrupt?	Yes		No		
Enquirer has no existing debts to a bank?	Yes		No		
Enquirer has good credit history?	Yes		No		
Enquirer can join joint liability group with others who are also eligible?	*Yes*		*No*		
Enquirer has participated in savings scheme for 2 months?	*Yes*		*No*		

Part 3 - Satisfaction of Enterprise Eligibility Preconditions for Small Loans

Eligibility Criteria	Satisfaction of eligibility criteria				Date on which criteria is later satisfied
	Column A		Column B		
Complies with business registration requirements?	Yes		No		
Employs less than 200 people?	Yes		No		
Has been in business for at least one year?	Yes		No		
Has adequate management, technical, marketing and financial skills?	Yes		No		
Is able to procure raw materials?	Yes		No		
Is able to demonstrate a market for products or services?	Yes		No		
Has no negative environmental impact?	Yes		No		
Is able to keep simple financial records of income and expenditure?	Yes		No		
Is not bankrupt and does not have any existing overdue debt to a bank?	Yes		No		
Has a good credit history?	Yes		No		
Has 30 percent of the required capital available?	Yes		No		
Has realistic operating margin of 1.5 times potential debt payments?	Yes		No		

Part 4 - Satisfaction of Enterprise Eligibility Preconditions for Micro Loans

Eligibility Criteria	*Satisfaction of eligibility criteria*				*Date on which criteria is later satisfied*
	Column A		*Column B*		
Proposed borrowing is unanimously endorsed by the joint liability group members?	*Yes*		*No*		
Employs less than 25 people?	*Yes*		*No*		
Has no negative environmental impact?	*Yes*		*No*		
Has 30 percent of the capital required?	*Yes*		*No*		
Has realistic operating margin of 1.5 times debt service costs?	*Yes*		*No*		

Part 5 - Comments on Existing Business Performance

Credit Officer's initial assessment of previous business performance. Any available accounts should be attached.

I consider that the above Enquirer satisfies (will be able to satisfy) the eligibility criteria for a small (*micro*) loan and accordingly recommend that the business plan is prepared.

Signature:		Date:	

1C Business Plan

Part 1 - Introduction

Applicants for support from the Trust Scheme shall submit a business plan that provides all the information necessary to check the viability of the business. Our experience shows that the business enterprises spending sufficient time and effort on business planning, review of the market and the competitors, as well as analysing the financial implications of their business ideas prove to be more successful than those who do not.

We are not familiar with the history of your business or your plans and ideas to start up a new business. If you provide a full range of information about your business we can avoid having to ask more details that would delay processing of your application.

You should prepare your business plan using the attached forms. Before you complete them, please read them through thoroughly. You may provide any other or more information that you feel necessary or appropriate to help us in processing your application.

If any question is not relevant for your business, please indicate "not relevant". Please, use additional pages if necessary.

Your Credit Officer will help you to complete the plan if you need such assistance.

Receipt of this form does not imply any obligation on our part to provide a loan.

Date:	

Issuing Officer:	
Financial Institution:	
Address:	

Part 2 - Personal Data

Family name:	
Given names:	
Date of birth:	
Place of birth:	
Ethnic Origin:	
Gender (male/female)	
ID Card Number	
Years at present residence:	
Home Address:	
Home Telephone number:	

Educational Qualifications	Institution	Faculty	Year of graduation

Employment
List of jobs (with the latest first).

From	To	Position	Name and address of employer
Reasons for changing jobs:			

Part 3 - Household Data

Number in household:			
Total household revenues last year:	Tenge	Total household assets:	Tenge
Total household savings:	Tenge	Total household debt:	Tenge

Part 4 - Data about the Business

Name of business:	
Date of start of operation of business:	
Business address:	
Telephone Number of Business:	
Fax Number of Business:	

Legal form of business			
Self-employed entrepreneur	Ordinary or limited partnership	Limited liability company	Other:

Total assets:	Tenge	Total revenues last year:	Tenge
Registered capital:	Tenge	Capital paid in:	Tenge
Net equity:	Tenge	Number of employees:	

Part 5 - Business History and Products

Please, describe the history of your business as well as your own professional background. Please, describe your current status and intentions.

Please describe the products you manufacture or distribute, or the services you provide. If you sell more than one product or service, please indicate the ratio of each within your total sales revenues.

Part 6 - Development Plans for the Business

Who will be your customers? What is your target market? Is your market growing, static or decreasing?

What competitors in your products and services are already established in the market and what competitors do you expect to appear in the market? Where are your main competitors located? What advantages are involved in your products or services compared to those of your competitors? What are the sizes of your competitors compared to your business?

In your opinion, how will your business develop in the next year? Are there expected changes in the market of your products or services? How are these changes going to influence your sales turnover?

What are the major risks involved in your business?

Explanation of the planned investment in the business:

Part 7 - List of Partners, Executives and Main Shareholders

Please list the following details of your partners, executives and main shareholders:

Name	Occupation	Date of birth	Relevant experience, Business interest

Part 8 - Financial Status of the Business

Properties and other assets of the business.

Description of properties or other assets	Mort-gaged (Yes/No)	Purchase price (Tenge)	Current value (Tenge)	Name and address of the mortgage beneficiary

Loans, credits or current account overdrafts of the enterprise or entrepreneur provided by financial institutions, companies or private individuals:

Name and address of creditor	Year of provision	Period (year)	Amount (Tenge)		
			Total amount taken out	Debt	Loan out-standing
	Purpose:				

Name and address of creditor	Year of provision	Period (year)	Amount (Tenge)		
			Total amount taken out	Debt	Loan out-standing
	Purpose:				

If you had any case of arrears with the above loans, please describe the reasons why:

Data relating to the bank accounts of the business:

Name and address of bank	Name of account holder	Type of account	Year of account opening

Trading partners

Name of trading partner	Address and phone number	Form of relations (buyer/ supplier)

Part 9 - Funding

If this is the first time you are applying for financial support and you want to start your enterprise now, you will have to prepare your cash-flow projections for the whole period of the loan. This should be done on the form that follows.

Part 10 - Acknowledgement

I hereby acknowledge that, according to my knowledge, the factual information included in the business plan is true and fair, and also that the projections, forecasts and funding requirements specified are based on the best possible estimates of the expected business performance.

Name:	Position:
Signature:	Date:

Business Plan - Loan Items

Items to be Funded	Units	Unit Price (Tenge)	Quantity	% to be Financed by the Loan	Total Cost (Tenge)	Total Amount of the Loan (Tenge)

Capital Investment (Tenge)

				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
Total Capital Investment (A)				0	0	0

Working Capital (Tenge)

				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
Total Working Capital (B)				0	0	0

Capital Investment and Working Capital (Tenge)

Total Loan (A) + (B)	0	0	0

Proposed Loan Terms (to be completed by the lender)

Term of Loan (months)	3
Grace Period (months)	0
Monthly Repayment of Principal (Tenge)	0
Interest rate (percent per year)	25.00

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Business Plan - Monthly Outputs and Inputs

Item	Units	Unit Price (Tenge)	Quantities												Total
			1	2	3	4	5	6	7	8	9	10	11	12	

Income Items

															0
															0
															0
															0
															0
															0
															0
															0
															0
															0

Operating Cost Items

															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0
															0

Business Plan - Sales Income and Operating Costs

Month	1	2	3	4	5	6	7	8	9	10	11	12	Total

Sales Income (Tenge)

	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Income (A)	0	0	0	0	0	0	0	0	0	0	0	0	0

Operating Costs (Tenge)

	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Costs (B)	0	0	0	0	0	0	0	0	0	0	0	0	0

Gross Profit (Loss) Tenge (A-B)	0	0	0	0	0	0	0	0	0	0	0	0	0

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Business Plan - Cashflow and Debt Service

Month	1	2	3	4	5	6	7	8	9	10	11	12	Total

Receipts (Tenge)

Equity	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Sales Income	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Family Income	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Receipts (A)	0	0	0	0	0	0	0	0	0	0	0	0	0

Payments Excluding Debt Service Costs (Tenge)

Capital and Working Capital Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Family Expenditure													0
													0
													0
													0
Total Payments (B)	0	0	0	0	0	0	0	0	0	0	0	0	0

Cash Surplus (Deficit) Before Debt Service Costs (Tenge)

Opening Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Surplus (Deficit) for Period(C)	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing Balance	0	0	0	0	0	0	0	0	0	0	0	0	0

Loan Principal Movements (to be completed by the lender)

Opening Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan Principal Repayment in Month	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing Balance	0	0	0	0	0	0	0	0	0	0	0	0	0

Debt Service Costs (Tenge) (to be completed by the lender)

Loan Principal Repayment	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Payment	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Debt Service (D)	0	0	0	0	0	0	0	0	0	0	0	0	0
Cumulative Debt Service (E)	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing Balance (F=C-E)	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt Service Cover (C/D)	-	-	-	-	-	-	-	-	-	-	-	-	-

SL1 Text of Standard Letters for Screening Enquiries

SL1A Eligibility for Loans

Date:	

Issuing Officer:	
Institution:	
Address:	

Name:	
Address:	

Dear Sir/Madam

Thank you for enquiring about the possibility of your obtaining a Rural Development Trust Fund loan.

I regret to advise you that you are not eligible under the Trust's terms and conditions and we will not be able to assist you on this occasion.

Yours faithfully

Signature of Issuing Officer:	

SL1B Business Plan Information

Date:	

Issuing Officer:	
Institution:	
Address:	

Name:	
Address:	

Dear Sir/Madam

Thank you for returning the completed Business Plan to us.

We would appreciate it if you could provide further information with regard to the following: ....

Yours faithfully

Signature of Issuing Officer:	

2. APPLICATION, APPRAISAL AND APPROVAL

Activity Chart for Application, Appraisal and Approval

Step	Main Activities	Responsibility	Timing	Documentation	Outcome		Next Step
2.1	Receiving the application	Credit Officer	on demand	**2A - Loan Application** **1C - Business Plan**	Is the application correctly completed?	Y	2.2
						N	2.1
2.2	Checking creditworthiness	Credit Officer	Within seven days of receipt of application	**1B - Enquiry Form** **1C - Business Plan** **2B - Collateral and References Report, SL2A**	Is the applicant judged creditworthy and is all information in order?	Y	2.4
						N	2.3
2.3	Advising the applicant about additional information	Credit Officer	On completion of credit checks	**SL2B**	Is all of the documentation complete and in order?	Y	2.4
						N	2.2
2.4	Appraising the Business Plan	Credit Officer	Within ten days of completion of credit checks	**1C - Business Plan** **2C - Appraisal Report** **2D - Credit Approval Form**	Is loan recommended?	Y	2.5
						N	End
2.5	Reviewing the recommendation	Credit Manager Credit Committee	Weekly	**2B - Credit review Form**	Is loan approved ?	Y	3.1
						N	End

2 APPLICATION, APPRAISAL AND APPROVAL

2.0 Introduction

The process involves:

- a review of the application and supporting information gathered during the enquiry screening process;

- appraisal of the applicant's business plan to verify its viability and correctness; and

- a recommendation to provide or not to provide financial support.

The recommendation is then considered by the authorised officer or committee and approved or declined.

2.1 Making the Application

If the business plan is completed satisfactorily and all the eligibility criteria are satisfied, then the application process should be a formality. The Borrower should be asked to complete the summary of the application on **Form 2A - Loan Application**.

2.2 Checking Creditworthiness

Using the information provided on **Form 1C - Business Plan** the Credit Officer shall check all trade, bank and other references. Ownership of land and property shall also be verified if it is being offered as security or is claimed as part of the assets of the business.

For all bank references, the following questions must be asked:

- does the enterprise/individual have a bank account with you?
- do you consider the enterprise/individual creditworthy?
- has the enterprise/individual ever defaulted on repayment of a loan to you?

For all trade references, the following questions must be asked:

- does the enterprise have a trade account with you?
- do you supply goods/services to the enterprise regularly and frequently?
- does the enterprise settle its debts to you on time?

Telephone enquiries are acceptable for trade reference checking. Bank references and land enquiries should be in writing.

The results of the creditworthiness and reference checks should be recorded by the Credit Officer on **Form 2B - Collateral and References Report. The Credit Officer**

should use his/her discretion in carrying out creditworthiness and reference checks and make additional checks if judged necessary.

If the applicant is considered uncreditworthy, a Standard Letter **SL2A** shall be sent, declining to proceed with the application. If the Credit Officer concludes that the applicant is eligible and creditworthy, a full evaluation of the loan shall be made.

The Credit Officer shall review all the documentation to date for its completeness. Specifically he/she must double-check that **Form1B - Enquiry Form, Form 1C - Business Plan** (or its equivalent if the form is not used), and **Form 2B - Collateral and References Report** are complete in every detail. A Credit Officer's involvement in preparing the business plan ought to ensure that there are minimum changes.

If the documentation is complete and the review does not indicate any previously unnoticed ineligibility, the Credit Officer should proceed with the appraisal of the business plan.

2.3 Advising the Applicant about Additional Information

If the documentation is incomplete, the Credit Officer shall advise the applicant of additional information required within seven days of receipt of the application. Standard Letter **SL2B** should be used for this purpose, if a visit is not possible.

Appraisal of a business plan should not proceed until all requested information has been provided.

2.4 Appraising the Business Plan

The process of appraisal provides an opportunity to re-examine every aspect of the business plan to assess if the proposals are sound before finance is committed. The Credit Officer will verify, and if necessary modify, the information, assumptions and projections given in the business plan. The review must specifically cover:

- the adequacy of the management of the enterprise;
- the proposed arrangements for implementing the business plan;
- the marketing strategy and marketing plan;
- the costs, cash flow and financing plan; and
- technical aspects of the proposals.

Particular attention must be given to the cash flow and its underlying assumptions. The required debt service coverage of one and half times the debt obligation must be evident.

If it is concluded that the business is viable and practicable, a loan may be recommended. If the business is not considered viable, decline of the application must be recommended.

On completion of the appraisal, the Credit Officer should complete **Form 2C - Appraisal Report** and the first two parts of **Form 2D - Credit Approval Form**.

For loans requiring Credit Committee approval, the recommendations should be circulated to members of the Credit Committee at least 3 days in advance of the meeting.

2.5 Reviewing the Recommendation

*Approval of micro loans shall be recorded on **Form 2D - Credit Approval Form**.*

All small loan recommendations must be endorsed by the Credit Manager to the Credit Committee. The Credit Committee will meet weekly (or less frequently if so decided by the Credit Manager). Its agenda will include loan approvals and the approval of any variations in loan contracts. The Credit Committee is responsible for approving or rejecting each loan application or variation. Approvals may be subject to special conditions.

The Credit Officer concerned with each recommendation will attend the meeting and will be expected to answer the committee's questions about any application. The Credit Manager should bring each and every recommendation to the attention of the committee so that there is the opportunity for such questions to be raised.

The Credit Manager will serve as the Secretary to the Credit Committee, and is responsible for recording the approval or decline of applications on **Form 2D - Credit Review Form**.

2. DOCUMENTATION FOR APPLICATION, APPRAISAL AND APPROVAL

2A Loan Application

Please complete this form and give it to your Credit Officer. Your Business Plan must be attached to the form. Receipt of this application by the bank does not imply any commitment on the part of the bank to make a loan. All Applicants must complete Part 1 of the form. Joint liability group applicants must complete Part 2.

Date:	

To Credit Manager:	
Institution:	
Branch:	

Part 1 - Loan Application

Name:	
Enterprise Name:	
Enterprise Address:	

I hereby apply for a small/micro loan for the amounts and purposes set out below and detailed in the attached business plan. I confirm that if I am granted a loan by the bank all of the amounts requested will be utilised solely for the purposes set out in the business plan. I confirm that I am able and willing to provide the security required by the bank.

Loan Purpose	Amount (Som)
Capital Investment	
Working Capital	
Total	

Signature of Applicant:		Date:	

Part 2 - Details of Joint Liability Group

I hereby confirm the persons named below are prepared to form a joint liability group with me and will enter into a Joint Liability Contract with the your institution if we are granted a loan.

Name of Joint Liability Group Member	Address of Joint Liability Group Member

Signature of Applicant:		Date:	

2B Collateral and References Report

Parts 1 of this form is to be completed by the Credit Officer for small loans only. Parts 2 and 3 of the form are to be completed for all loans.

Date:	

Issuing Officer:	
Institution:	
Address:	

Applicant's Name:	
Enterprise Name	
Enterprise Address:	

Part 1 - Collateral

Existing Assets Offered as Security

Description of Existing Assets	Value when New (Tenge)	Current Book Value (Tenge)	Asset Value for Security Purposes (Tenge)
Total			

New Assets to be Offered as Security

Description of Assets Created out of the Loan and the Borrower's own Resources	Asset Value when New (Tenge)	Asset Value for Security Purposes (Tenge)
Total		

Part 2 - References

Results of Checks with Banks

Financing Institution (from preliminary application)	Credit-worthiness checked		Credit-worthiness satisfactory		If creditworthiness has not been checked with a lender or banker listed in the Business Plan or if it is reported that creditworthiness is not satisfactory, give reasons
	Yes	No	Yes	No	

Results of Checks with Trade References

Trade reference (from preliminary application)	Credit-worthiness and character checked		Credit-worthiness and character satisfactory		If creditworthiness and character have not been checked with the references listed in the Business Plan or a reference reports creditworthiness or character as not satisfactory, give reasons
	Yes	No	Yes	No	

Results of Other Checks Undertaken

Person or organisation with which check made	Credit-worthiness satisfactory		If a report from a person or organization reports creditworthiness as not satisfactory give reasons
	Yes	No	

Part 3 - Conclusions and Recommendations

Remarks

Recommendation

In my opinion, the applicant has satisfactory security for the proposed loan and I consider him/her to be creditworthy.

Signature:		Date:	

2C Appraisal Report

All parts of this form are to be completed by the Credit Officer for all loans.

Date:	

Credit Officer:	
Institution:	
Address:	

Applicant's Name:	
Enterprise Name	
Enterprise Address:	

Part 1 - Comments on the Business Plan

Comments on the adequacy of management and implementation arrangements

Comments on marketing arrangements

Comments on technical matters

Comments on proposed costs and cashflow

Part 2 - Recommendation

I have appraised the loan application set out on the attached **Forms 1C - Business Plan** and **2A - Loan Application** from the above borrower and I have reviewed the applicant's creditworthiness on the attached **Form 2B - Collateral and References Report**.

I consider/do not consider that the proposed borrower and the proposed enterprise are eligible for a small loan/*micro loan*.

I consider/do not consider that the business plan as set out in the attached **Form 1C** is viable and realistic.

I consider/do not consider that the applicant is creditworthy and reliable.

Accordingly, I recommend that:

the application is declined/

the application is approved as set out in the attached Form 2D - Credit Approval Form.

Signature:		Date:	

2D Credit Approval Form

Part 1 of this form is to be completed by the Credit Officer making the recommendation. Part 2 by the Credit Officer and the Credit Manager. Part 3 for small loans only is to be completed by the Secretary to the Credit Committee/Board of Directors (in a Credit Union) and Part 4 by the Credit Manager/credit Director (in a Credit Union).

Date:	

Credit Officer making Recommendation:	
Institution:	
Branch:	

Part 1 - Summary Loan Details

Applicant's Name:	
Enterprise Name:	
Enterprise Address:	

Loan Purpose	Amount (Tenge)
Capital Investment	
Permanent Working Capital	
Total	

Duration of loan (years)	
Grace period (days)	
Repayments to be made (frequency)	
Interest rate (per month)	

Security to be taken	Realisable Value (Tenge)
Total	

Part 2 - Loan recommended by Credit Officer and, where necessary, supported by Credit Director

I recommend the above small/*micro* loan is made under the above terms and conditions of the Trust Scheme for the above amounts against the above security.

Signature:		**Date:**	

I have reviewed and support/approve the above recommendation

Signature:		Date:	

Part 3 - Credit Committee /Board Decision (for small loans)

• The Credit Committee/Board approved the loan in accordance with the details submitted on the Loan Appraisal and Recommendation Form and the appendices thereto subject to the Special Conditions, if any, set out below and hereby authorises the Credit Officer to advise the borrower of its decision.

* The Credit Committee/Board did not approve the loan proposed and authorises the Credit Officer to advise the borrower of its decision.

Part 4 - Special Conditions

The loan is subject to the following special conditions:

Credit Manager/Director:		Date:	

SL2 Text of Standard Letters for Application, Appraisal and Approval

SL2A Loan Application

Date:	

Issuing Officer:	
Institution:	
Address:	

Name:	
Address:	

Dear Sir/Madam

Thank you for your application for an Rural Development Trust Scheme loan.

We have reviewed your application carefully and I regret to advise you that we will not be able to assist you on this occasion.

Yours faithfully

Signature of Issuing Officer:	

SL2B Additional Information Request

Date:	

Issuing Officer:	
Institution:	
Address:	

Name:	
Address:	

Dear Sir/Madam

We are in the process of reviewing your loan application under the Trust Scheme.

We would appreciate it if you would provide further information with regard to the following: ....

Yours faithfully

Signature of Issuing Officer:	

3. DISBURSEMENT

Activity Chart for Disbursement

Step	Main Activities	Responsibility	Timing	Documentation	Outcome		Next Step
3.1	Verifying loan disbursement preconditions are met and allocating account reference	Credit Officer Lender's Securities Department	Within seven days of request	**3A - Authority to Disburse** Loan and Security Contracts	Are disbursement preconditions satisfied?	Y	3.3
						N	3.2
3.2	Advising borrower about action needed to satisfy disbursement conditions	Credit Officer	Within seven days of request	**SL3B**	Borrower proceeds to satisfy preconditions?	Y	3.3
						N	End
3.3	Reviewing requests for disbursement	Credit Officer	on demand	**3B - Withdrawal Application,** evidence of purchase, proforma invoices, other justification as required	Documentation in order?	Y	3.5
						N	3.4
3.4	Advising borrower about action needed to approve disbursement	Credit Officer	Within seven days of request	**SL3C**	Borrower proceeds to satisfy conditions?	Y	3.5
						N	End
3.5	Making disbursement	Credit Officer	on demand	Authorised **3B - Withdrawal Application**	Disbursement made?	Y	3.6
						N	3.5
3.6	Ensuring disbursement is posted to borrower's loan account	Lender's Accounting Department	monthly	all relevant documents	Further loan disbursement due?	Y	3.3
						N	End

3 DISBURSEMENT

3.0 Introduction

The process of loan disbursement involves verifying that all the preconditions for disbursement have been met by the borrower, the scrutiny of each request for withdrawal of funds to ensure that the loan is being properly utilised, and the timely entry of disbursements onto the borrower's loan account.

3.1 Verifying Loan Disbursement Preconditions are Met and Allocating Account Reference

Prior to any disbursement, lenders shall ensure that all disbursement preconditions have been satisfied. The minimum preconditions are:

- the Loan Contract is signed and witnessed,
- the securities are in place, *including the Joint Liability Guarantee Contract for micro loans,*
- *a joint savings account has been opened and has the prescribed amount of deposits in it for micro loan joint liability groups and the two months savings period has been completed,*
- an account at the lending institution has been opened by the borrower,
- any required insurance is in place, and
- Special Conditions imposed by the Credit Committee have been satisfied.

The Borrower shall be given a copy of the Loan and security contracts signed by the lending institution and the borrower should be advised that authorisation has been given for disbursement and notified of the Loan Account Reference which must be used as a reference for all future transactions and correspondence. This should be done using Standard Letter **SL3A**. *For micro loans copies of the Joint Liability Guarantee Contract need to be issued to all members of the group.*

In addition to the Borrower's bank or savings account number, a unique Loan Account Reference must be allocated to the loan. The full Loan Account Reference comprises:

- a Sector and Enterprise Type Reference in the range 000 - 999
- an index number, in the range 000 - 999, assigned to the borrower
- a Credit Officer Reference in the range 00 - 99
- a Branch Reference in the range 00 - 99
- a Raion Reference in the range 00 - 99

so that a typical full Loan Account Reference might be:

5	2	4	3	0	5	1	4	0	3	0	7

3.2 Advising the Borrower about Action Needed to Satisfy Preconditions

If the borrower does not comply with all of the preconditions for disbursement or if the documentation submitted is incomplete, the lender shall write to the borrower using Standard Letter **SL3B** inform the borrower of the additional requirements. The letter reminds the borrower of the deadline for loan utilisation.

3.3 Reviewing Requests for Disbursement

Disbursement shall only be made against a withdrawal application from the borrower, which will generally be against evidence of purchase or through payments made directly to a supplier. Where there is provision in the Loan Contract for the disbursement of cash to cover wages or other cash working capital costs, disbursement may be made in cash. All disbursements must be made against completed **Form 3B - Withdrawal Application**. It is the responsibility of the Credit Officer to ensure that the withdrawal application is in order and to authorise the withdrawal.

3.4 Advising the Borrower about Action Needed to Approve Disbursement

If documentation is incomplete, the lender shall inform the borrower of additional requirements using Standard Letter **SL3C**.

3.5 Making Disbursement

Payments not made directly to suppliers will generally be made into the Borrower's bank account. *However, particularly with micro loans and loans in remote areas, disbursements may be made in cash to the borrower against proper substantiation.* Cash disbursements can also be made if permitted under the Loan Contract. Where transactions take place away from the lender's offices, the lender will ensure that all transactions are properly recorded and that the lender and the borrower have a record of all such transactions.

3.6 Ensuring Disbursement is Posted to the Borrower's Loan Account

Maintenance of the borrower's Loan Account, the record of all disbursements to the borrower, payments of interest and repayments of loan principal by the borrower, is the responsibility of the lender's Accounting Department. The Loan Account must be maintained in accordance with sound lending and accounting principals.

3. DOCUMENTATION FOR DISBURSEMENT

3A Authority to Disburse

This form should be completed by the Credit Manager for all loans. If column B is ticked against any of the preconditions, no disbursement should take place until the condition has been satsified.

Date:	

Credit Manager:	
Institution:	
Branch:	

Part 1 - Account Details

Borrower Name:	
Enterprise Name:	

Bank Account Number:								

Loan Account Reference:											

Loan Contract Number:								

Part 2 - Satisfaction of Disbursement Preconditions

Loan Disbursement Precondition	Results of precondition verification on submission of loan documentation					Date on which pre-condition is later satisfied
	Column A		Column B		Not Applic-able	
Loan Contract signed and witnessed correctly?	Yes		No			
Mortgage Contract signed and witnessed correctly?	Yes		No			
Lien Contract signed and witnessed correctly?	Yes		No			
Board Resolution Certified correctly?	Yes		No			
Insurance Cover effective?	Yes		No			
Joint Liability Contract signed and witnessed correctly?	Yes		No			
Joint Liability Account has sufficient deposit?	Yes		No			
Special conditions satisfied?	Yes		No			

Part 3 - Recommendation

I confirm that all the required preconditions for disbursement of this loan have been satsified and that disbursement can be made on presentation of valid withdrawal requests *subject to the maintenance of adequate deposits in related Joint Liability Savings accounts.*

Credit Officer:		Date:	

3B Withdrawal Application

Part 1 and 2 of this form must be completed by the Borrower. Part 3 must be completed by the Credit Officer before disbursement can take place.

Date:	

To Credit Manager:	
Institution:	
Branch:	

Part 1 - Account Details

Borrower Name:	
Enterprise Name:	
Enterprise Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Part 2 - Withdrawal Request

I hereby apply for withdrawal of the following amounts for the purposes shown below. Please pay the amounts to my suppliers, to my bank account or disburse to me in cash as requested below. I confirm that all of the amounts requested have been or will be utilised soley for the purposes set out in the Loan Contract.

Item	Supplier	Disbursement amount requested (Tenge)			
		to supplier	to bank account	in cash	Total for this item
Total					

Signature of Borrower:		Date:	

Part 3 - Authorisation

I certify that the above amounts requested by the borrower may be disbursed under the loan and are for the uses prescribed in the Loan Contract

Credit Officer:		Date:	

SL3 Text of Standard Letters for Disbursement

SL3A Loan Contract Signature

Date:	

Issuing Officer:	
Institution	
Address:	

Borrower's Name:	
Borrower's Address:	

Account Number:								

Loan Account Reference:											

Loan Contract Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

Thank you for returning the completed Loan Contract and other security documents needed to us. Your copies of the Contracts have been signed by us and are enclosed.

As the documentation is in order, we will now be able to disburse your loan to you provided all of the conditions of the Contracts are kept. You must make withdrawal requests on the proscribed **Form 3B - Withdrawal Application**. I enclose copies of the form for your use. If you need more forms please let me know.

You have been allocated a Loan Account Reference and contract numbers quoted at the top of this letter. Please use this reference in all correspondence.

Yours faithfully

Signature of Issuing Officer:	

SL3B Preconditions for Disbursement

Date:	

Issuing Officer:	
Insitution:	
Address:	

Borrower's Name:	
Borrower's Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

Thank you for returning the completed Loan Contract and other security documents needed to us.

The documents are not complete in the following respects: ....

In order to begin disbursement, the documentation must be fully completed.

We remind you that the loan must be taken up within one month of approval and therefore we encourage you to return the completed documents as soon as possible.

You have been allocated a Loan Account Reference and contract numbers quoted at the top of this letter. Please use this reference in all correspondence.

Yours faithfully

Signature of Issuing Officer:	

SL3C Incomplete Withdrawal Request

Date:	

Issuing Officer:	
Institution:	
Address:	

Borrower's Name:	
Borrower's Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

Thank you for your withdrawal application dated ______________ 199 _.

The withdrwal request is incomplete in the following respects: ....

We are returning it to you for completion. Please return it as soon as it is convenient so that we can arrange for your loan to be disbursed.

Yours faithfully

Signature of Issuing Officer:	

4. SUPERVISION

Activity Chart for Supervision

Step	Main Activities	Responsibility	Timing	Documentation	Outcome		Next Step
4.1	Classifying loans and scheduling supervision visits	Credit Officer	Monthly or more frequently if necessary because of default	Financial Transaction Control System (FTCS). MIS	Is loan still outstanding?	Y	4.2
						N	4.8
4.2	Reviewing loan performance	Credit Officer	Monthly or more frequently if necessary because of default	FTCS, MIS, Borrower's accounting information	Are business performance and loan repayment satisfactory?	Y	4.3
						N	4.4
4.3	Making a routine supervision visit	Credit Officer	initial visit within one month and subsequently every two month	FTCS, MIS, Borrower's accounting information **4A - Visit Report**	Are business performance and loan repayment satisfactory?	Y	4.1
						N	4.4
4.4	Making a remedial supervision visit	Credit Officer	as required by loan classification	FTCS, MIS, Borrower's accounting information **4A - Visit Report**	Are business performance and loan repayment satisfactory?	Y	4.1
						N	4.5
4.5	Reviewing and varying loan terms and conditions	Credit Officer	monthly for accounts requiring review	**4B-Variation Recommendation Form**	Are loan terms and conditions to be changed?	Y	4.6
						N	4.1
4.6	Reviewing and approving recommendation to vary loan terms and conditions	Credit Manager/ Credit Committee	monthly for accounts requiring review	**4C - Credit Review Form**	Is recommendation approved?	Y	4.7
						N	4.5
4.7	Advising the borrower of variations in loan terms and conditions	Credit Officer	Within 3 days of approval	**4D - Loan Contract Variation SL4A**	Does borrower accept revised terms and conditions?	Y	4.1
						N	4.5
4.8	Making a final supervision visit	Credit Officer	On loan repayment	**4A - Visit Report** **4E - Loan Evaluation Form**	Does borrower qualify for future loans?	Y	4.9
						N	End
4.9	Advising the borrower about eligibility for a further loan	Credit Officer	On loan repayment	**SL4B**	Does borrower wish to take-up a further loan?	Y	1.1
						N	End

4 SUPERVISION

4.0 Introduction

Active loan supervision should reflect the lender's commitment to the success of the enterprises it supports. In addition to protecting its investment, the Trsut has an obligation to help borrowers identify and undertake training, with the aim of fostering better entrepreneurial skills and building an enterprise that will in time graduate for financing under normal commercial terms.

Through initial loan supervision visits the Credit Officer should confirm that funds released have been employed for the purposes described in the Loan Contract and the enterprise's business plan.

Through subsequent loan supervision visits the Credit Officer should monitor the performance of the enterprise. The frequency of visits should be determined by performance. Enterprises which perform well should receive less frequent visits than enterprises which do not perform well.

Loan supervision should be proactive, aiming to identify potential business problems which will affect loan repayment performance, and to assist the borrower with avoiding or solving such problems. Proactive supervision is the primary means of avoiding default once a loan has been disbursed. It is the most important activity carried out by the Credit Officer.

4.1 Classifying Loans and Scheduling Supervision Visits

Each Loan Account should be given a "class" according to its perceived risk of default and loss. There are five classes which are basically defined by the age of arrears. A loan can be placed in a higher risk class than its arrears dictate if the Credit Officer believes the risk of recovery is very poor. A loan may not be placed in a lesser risk class than its arrears dictate. The classes are:

"1" - Standard Accounts

Each loan should initially be classed as Standard (**1**) and, provided that loan repayments and enterprise performance remain satisfactory, the classification of the loan should not change. Loans which have become Sub-Standard Accounts (**2**) may revert to Standard (**1**) status only when all arrears have been cleared and normal repayments have restarted.

"2" - Sub-Standard Accounts

Accounts where the enterprise is judged to be in difficulty and arrears or default are considered possible or where the account is in default of less than 30 days are classed as Sub-Standard Accounts (**2**). Accounts formerly classed as Doubtful Accounts (**3**) may be reclassified as Sub-Standard Accounts (**2**) only when repayment reduces the default to less than 30 days.

"3" - Unsatisfactory Accounts

Accounts with arrears or default of 31 to 60 days are classified as Unsatisfactory Accounts (**3**). Accounts formerly classified as Dobtful (**4**) may be reclassified as Unsatisfactory (**3**) only when repayment reduces the default to less than 60 days.

"4" - Doubtful Accounts

Accounts which have arrears or default of 61 to180 days are Doubtful Accounts (**4**). Accounts formerly classified as Non-Productive Accounts (**5**) may be reclassified as Doubtful Accounts (**4**) only when repayment reduces the default to less than 180 days.

"5" - Unproductive Accounts

Accounts which have arrears or default of more than 180 days are classified as Unproductive Accounts (**5**).

The class of a Loan Account can be changed at any time. It does not have to result from arrears, and reclassification from "**1**" to "**2**" should more normally be as a result of a visit to the borrower by the Credit Officer during which the Credit Officer becomes aware that there is potential for default. Most other changes in class are all linked to repayment performance and should be automatically processed each month prior to visit scheduling.

The schedule for supervision visits should be drawn up as follows:

- an initial visit within one month of the first disbursement for all loans, *for micro loans (where appropriate) accompanied by the representative of the intermediary which has assisted the lender in the formation of a joint liability group,*

- a visit at least every three months for class **1** loans to maintain personal contact with the borrower and assess the state of the business, *for micro loans (if appropriate) accompanied by the representative of the intermediary which has assisted the lender in the formation of a joint liability group,*

- regular visits for class **2** loans (at least in accordance with requirements for recovery follow-up visits set out in section 5), since it is essential to monitor the progress of the business very carefully and to maintain pressure for the borrower to repay, *including making contact with members of joint liability groups who will be responsible for repayment of the default in the case of micro loans.*

- a visit at least every month to class **3** and class **4** loans to ensure that any assets pledged as security are still on site and to maintain personal contact which may encourage the repayment of arrears, *including making contact with members of the joint liability groups who will be responsible for repayment of the default in the case of micro loans.*

- a visit every three months to class **5** loans while the loan recovery process continues.

The supervision process continues while there is an outstanding balance on the borrower's Loan Account.

4.2 Reviewing Loan Performance

To obtain information on the progress of an enterprise, the lender should require the borrower to provide simple management accounting information covering:

- statement of stocks, debtors, cash and creditors to be provided on demand;
- statement of revenue and expenses to be provided on demand; and
- an annual statement of accounts.

The Credit Officer may exercise discretion in insisting on the supply of this information, particularly with businesses which may not have the capability to provide it. Such discretion may only be exercised for small loans during the first loan, and the requirements should not be waived for subsequent loans.

Initially this information will be of mixed quality from micro loan borrowers but the Credit Officer will be able to collect a substantial part of the information about working capital and income and expenses at interview during supervision visits and should use such visits to ensure that borrowers understand how to record the information and the value to themselves of doings.

Prior to making the visit, the performance of the business and the loan should be reviewed. The Credit Officer should extract a copy of and examine all relevant information in the MIS (described in Section 6) together with any financial or other information available.

If performance is considered satisfactory - loan repayments are being made on time and the business appears to be viable - a routine quarterly supervision visit is all that is required. If loan repayments are not being made on time or the business does not appear to be viable, a remedial supervision is required. Visits to status **1** accounts are routine. Visits to **2**, **3**, **4** and **5** accounts are remedial.

4.3 Making a Routine Supervision Visit

The Credit Officer should make an advance appointment for a specific time and venue to meet the borrower. This will normally be at the borrower's premises. During and after the visit **Form 4A - Visit Report** should be completed. Proper completion of the visit report is important to ensure the history of progress of the business and the loan are documented.

The form sets the agenda for the visit, throughout which the Credit Officer should aim to match what he hears with what he sees with what appears on paper in the borrower's accounts information. Any apparent discrepancies should be questioned and rationalised.

Part 1 of the form should be completed prior to the visit.

The first subsection of Part 2 of the form should be completed during the visit. Emphasis should be placed on determining the working capital position because it will help the borrower to understand his financial situation and it provides early warning of a deteriorating financial situation.

The remainder of the form should be completed during and after the visit. For routine supervision visits, other than those which identify potential problems, the information which needs to be recorded is minimal.

4.4 Making a Remedial Supervision Visit

A remedial supervision visit is likely to require more time than a routine supervision visit and should involve detailed investigations and discussions of the borrower's business problems. Business problems are so varied in their nature that no short proforma can be used.

The Credit Officer should review the variations that have occurred from the business plan. If there is a likelihood that the loan terms and conditions will need to be varied, the Credit Officer may choose to invite the Credit Manager to accompany him/her since such proposals will later have to be justified to the Credit Committee.

Plans and reality are always different, but the key to successful diagnosis of business problems is an ability to identify those things which affect the business so seriously that they make it unviable and those which affect the business but have only a marginal effect on profitability. Remedial advice and the borrower's energies should be channelled towards the former.

The outcome of the remedial supervision visit should always be a set of recommendations for action. These may include: actions by the borrower to rectify the situation; possible change in Loan Account status; recommendations as to whether or not the loan terms and conditions need to be reviewed; and recommendations to waive the automatic calling of the loan at 45 days of arrears and automatic legal proceedings at 60 days of arrears.

4.5 Reviewing and Varying Loan Terms and Conditions

It is not desirable to vary loan terms and conditions. However, the lender, like any other business, needs to respond to many unforeseen situations, for example:

- a borrower's inability to make the previously agreed equity contribution,
- a shortfall in the amount of funding needed to purchase the essential assets,
- delays in starting the business or in obtaining items from suppliers,
- delays in becoming operational for technical reasons,
- changes in the assets required due to new market opportunities opening,
- slower growth in sales than expected,
- greater growth in sales than expected.

Therefore, there must be a mechanism for recommending and approving such changes.

Recommendations should be made by the Credit Officer on **Form 4B - Variation Recommendation Form.** Where appropriate, revised schedules of loan purposes and repayment and other supporting documents (for example, a revised business plan) should be attached to the recommendation. In general, it is advisable to discuss all proposed variations with the borrower, prior to recommending them. With the exceptions of the initiation and suspension of legal proceedings, the borrower should be required to sign a Loan Contract Variation, so it is important to obtain agreement in advance if possible.

4.6 Reviewing and Approving Recommendations to Vary Loan Terms and Conditions

Review and approval of recommendations should be carried out in accordance with the discretionary authorities set out from in Table 4.1.

If the variation only requires the approval of the Credit Manager, his signature on **Form 4B - Variation Recommendation Form** is sufficient. If the variation requires the approval of the Credit Committee it must be considered by the committee in full session.

The Credit Officer making the recommendation will attend the meeting and will be expected to answer the committee's questions about any variation. The Chairman of the committee should bring each and every recommendation to the attention of the committee so that there is the opportunity for such questions to be raised.

The Credit Manager will serve as Secretary to the Credit Committee, and is responsible for recording the approval or decline of recommendations in the Minutes. A specimen format for recording the committee's decisions is given in **Form 4C - Credit Review Form.**

If the recommended variation is declined, by the Credit Manager or the Credit Committee, the Credit Officer should review again if it is necessary to change the terms and conditions of the loan.

Table 4.1 Discretionary Authorities for Loan Variations

Decision Area	Authorized Officers	Limit of Authority
extension of time limit for loan utilization	Credit Manager	up to 1 month at a time and not more than 2 months in total
change of project site prior to loan disbursement	Credit Manager	NA
extension of grace period	Credit Committee	up to 1 month at a time and not more than 2 months in total
creation of 2nd charge on a security in favour of other financial institutions	Credit Committee	all small and micro loans
replacement of securities	Credit Committee	all small and micro loans
reappropriation of loan proceeds and change of items sanctioned	Credit Committee	all small and micro loans
rescheduling of capital investment loan	Credit Committee	all small and micro loans not more than twice
rescheduling of working capital loan	Credit Committee	all small and micro loans not more than twice

4.7 Advising the Borrower of Variations in Loan Terms and Conditions

If the recommendation is approved, the borrower should be advised in writing of the variation that sets out any special conditions the Credit Committee has imposed (for example, payment of all outstanding arrears of interest before rescheduling can be done). A standard letter (**SL4A**) should be sent together with **Form 4D - Loan Contract Variation** for completion by the borrower and return to the lender.

The Loan Contract Variation must give the full revised wording of each clause in the Loan Contrat which is varied. If the schedules are varied these should also be prepared and initialed by both parties to the agreement.

For micro loan variations each member of the joint liability group must also sign the second part of the Loan Variation Contract.

4.8 Making a Final Supervision Visit

When the loan has been fully paid, a final supervision visit should be made. The purpose of this visit is to assess the borrower's need for further assistance, and prepare an evaluation of the business and loan performance to determine whether future support can be provided.

The evaluation should be carried out by the Credit Officer responsible for the loan and the results recorded on **Form 4E - Loan Evaluation Form.**

4.9 Advising the Borrower of Eligibility for a Further Loan

If the evaluation is positive, portfolio considerations allow and the borrower is interested and eligible to obtain a further loan, the Credit Officer should advise the borrower using Standard Letter **SL4B**.

4. DOCUMENTATION FOR SUPERVISION

4A Visit Report

This form should be completed by the Credit Officer for each and every visit to the borrower. Part 1 should be completed before the visit. Part 2 should be completed during and after the visit.

ate:	

Credit Officer:	
Institution:	
Branch:	

Part 1 - Account Details and Status

Borrower Name:	
Enterprise Name:	
Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Class before visit	1	2	3	4	5	Class after visit	1	2	3	4	5

Approval Date	Loan Amount Approved (Tenge)	Loan Amount Disbursed (Tenge)	Total Amount Overdue (Tenge)

Fees and Other Costs Overdue (Tenge)	Interest Overdue (Tenge)	Principal Overdue (Tenge)	

Part 2 - Business Performance

Estimated Working Capital Position

Item	Amount (Tenge)
Consumable stores	
Raw materials	
Work in progress	
Fnished goods	
Subtotal Stocks	
Trade debtors	
Cash in hand	
Cash in bank	
Others	
Subtotal Other Current Assets	
Total Current Assets	
Trade creditors	
Wages and salaries due	
Tax due	
Others	
Total Current Liabilities	
Net Working Capital	

Observations and comments on business performance:

Observations and comments on loan performance:

Key problems affecting the business:

Recommendations for action:

Signature:		Date:	

4B Variation Recommendation Form

This form should be completed by the Credit Officer for each recommended variation in loan terms and conditions.

The relevant **Form 4A - Visit Report** which gives rise to the recommendation should be attached. If the variation proposed involves a change in the amount of the loan or the repayment schedule of the loan, the revised Schedules for the Loan Contract must be attached.

ate:	

Credit Officer:	
Institution:	
Branch:	

Part 1 - Account Details and Status

Borrower Name:	
Enterprise Name:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Loan Class	1	2	3	4	5

Part 2 - Variation Recommendation

I recommend the following variation in the loan terms and conditions

Credit Officer:		Date:	

I have reviewed and support the above recommendation

Credit Manager:		Date:	

4C Credit Review Form

This form should be completed by the Secretary to the Credit Commitee for all variations in loan terms and conditions for which Credit Committee approval is required.

ate:	

Credit Officer making Recommendation:	
Institution:	
Branch:	

Part 1 - Account Details and Status

Borrower Name:	
Enterprise Name:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Loan Class	1	2	3	4	5

Part 2 - Variation Recommended by Credit Officer and supported by Credit Manager

Variation Recommended	From (Som)	To (Som)
Waiving or reduction of equity requirement		
Approval of increase in loan amount		

Variation Recommended	From (months)	To (months)
Extension of grace period		

Variation Recommended	Details / Amount (Som)
First extension of grace period for not more than one month	
Second extension of grace period for not more than one month	
Creation of second mortgage over assets	
Replacement of securities	
Modification of loan budget and change of items sanctioned	As attached
Rescheduling of capital investment loan	As attached
Rescheduling of working capital loan	As attached
Waiving of automatic loan termination at 45 days of default	
Waiving of automatic charging of joint liability groupaccount for overdues at 45 days	
Waiving of automatic legal proceedings at 90 days of default	
Reinstatement of terminated loan	
Suspension of legal proceedings	
Other variation	As attached

Part 3 - Decision of the Credit Committee:

* The Credit Committee approved the variation in accordance with the details submitted on the Variation Recommendation Form and appendices thereto, subject to the Special Conditions, if any, set out below and hereby authorises the Credit Officer to pass its decision to the Borrower.

* The Credit Committee did not approve the variation proposed and authorised the Credit Officer to inform the Borrower of its decision.

Part 4 - Special Conditions

The variation is subject to the following special conditions:

Credit Manager:		Date:	

4D Loan Contract Variation

Small Loan Contract Variation Number _______

This Contract including the Schedules attached hereto (hereinafter called the Contract) is made on the ______________ day of ______________ 199_ between ____________________ ____________________ (hereinafter called the Lender) of the one part and ____________________ of ________________________ (hereinafter called the Borrower) of the other part.

Whereas the parties to this Contract have entered into a Loan Contract Number ____________ dated the ________________ day of ________________ 199 _ ,

Whereas the parties have agreed to vary the terms of the said Loan Contract,

Now therefore the parties hereto agree as follows.

1 This Contract Variation shall be read in conjunction with the said Loan Contract.

2 The said Loan Contract shall remain in full force and effect other than in so far as it shall be varied by the provisions of this Contract Variation.

Variations

3 Clause (...) of the said Loan Contract shall be varied to read ......

Clause (...) of the said Loan Contract shall be varied to read ......

Clause (...) of the said Loan Contract shall be varied to read ......

Schedule (...) of the said Loan Contract shall be replaced by Schedule (...) to this Contract Variation.

Schedule (...) of the said Loan Contract shall be replaced by Schedule (...) to this Contract Variation.

Schedule (...) of the said Loan Contract shall be replaced by Schedule (...) to this Contract Variation.

In witness whereof the parties hereto have executed the Contract on the date first written above

____________________________	____________________________
Borrower	Lender
Witness for the Borrower	**Witness for the Lender**
____________________________	____________________________
Name ____________________	**Name** ____________________
Address __________________	**Address** __________________
____________________________	____________________________
____________________________	____________________________

The parties to Joint Liability Contract Number ______________ made on the ______________ day of ____________ 199 _ between the Lender of the first part

and ____________________ of ______________________________ of the second part
and ____________________ of ______________________________ of the third part
and ____________________ of ______________________________ of the fourth part
and ____________________ of ______________________________ of the fifth part
and ____________________ of ______________________________ of the sixth part

do hereby expressly acknowledge that they have each read, understood and agree the above Contract Variation and that they shall continue to be jointly and severally bound to continue to guarantee the repayment of the said Loan Contract under its varied terms and under the same terms and conditions set forth in the said Joint Liability Contract.

____
Lender

____
Witness for the Lender

____
Name

____
Address

____
Member of the second part

____
Witness for the member of the second part

____
Name

____
Address

Member of the third part

____
Witness for the member of third part

____
Name

____
Address

Member of the fourth part

____
Witness for the member of the fourth part

____
Name

____
Address

4E Loan Evaluation Form

This form should be completed by the Secretary to the Credit Commitee for all variations in loan terms and conditions for which Credit Committee approval is required.

ate:	

Credit Officer making Evaluation:	
Institution:	
Branch:	

Part 1 - Account Details and Status

Borrower Name:	
Enterprise Name:	

Bank Account Number:								

Loan Account Reference:											

Loan Contract Number:								

Final Loan Class:	1	2	3	4	5	Lowest Loan Class:	1	2	3	4	5

Part 2 - Evaluation

Criteria	Evaluation Result			
	Column A		Column B	
Were management and implementation satsifactory?	Yes		No	
Was marketing satsifactory?	Yes		No	
Was financial planning satsifactory?	Yes		No	
Was technical capabililty satsifactory?	Yes		No	
Was book-keeping satsifactory?	Yes		No	
Was overall business performance satsifactory?	Yes		No	
Was the laon used for the approved purposes?	Yes		No	
Was the loan repaid without default?	Yes		No	
Was variation in the Loan Contract required?	Yes		No	

Part 3 - Recommendation

Justification for recommendation:

I consider the enterprise has/has not performed satsifactorily during the loan.

I consider the enterprise owners are/are not creditworthy.

Accordingly, I recommend:

that future applications for loan support are considered subject to eligibility.

that future applications are declined.

Credit Officer:		Date:	

SL4 Text of Standard Letters for Supervision

SL4A Review of Loan Terms and Conditions

Date:	

Issuing Officer:	
Institution:	
Address:	

Borrower's Name:	
Borrower's Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

Further to the recent review of the terms and conditions of your loan. I am pleased to inform you that the bank has approved the variation in the terms and conditions set out in the attached Loan Variation Contract. The variation is subject to any special conditions set out therein.

Your attention is drawn to the fact that all of the provisions of the original Loan Contract remain in full force and effect other than those varied by the Loan Variation Contract.

Please sign and return the three enclosed copies of the variation and return them to me. I will then arrange for the bank to sign and return your copy to you.

If your Loan Contract is secured by a Joint Liability Guarantee, the members of your Joint Liability Group also need to sign the Contract Variation.

Signature of Issuing Officer:	

SL4B Eligibility for Future Loans

Date:	

Issuing Officer:	
Institution:	
Address:	

Borrower's Name:	
Borrower's Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

Thank you for your final payment in settlement of your loan.

We are pleased to have been of service to you and wish you every success in your future business endeavour.

Should you require further credit assistance or other financial services, please contact us to discuss your needs.

Signature of Issuing Officer:	

5. RECOVERY

Activity Chart for Recovery of Loans

Step	Main Activities	Responsibility	Timing	Documentation	Outcome		Next Step
5.1	Issuing demand notices	Lender's Accounting Department	Monthly	**5A - Loan Demand Notice**	Is repayment made on time?	Y	5.2
						N	5.3
5.2	Updating borrower's account	Lender's Accounting Department	Monthly or more frequently if transactions occur	Financial Transaction Control System (FTCS), Borrower's Account Statements	Is further repayment due?	Y	5.1
						N	End
5.3	Issuing reminder notice	Lender's Accounting Department	Monthly for all new accounts overdue by 14 days	FTCS, **5B - Loan Reminder Notice, SL 5B**	Is repayment made?	Y	5.1
	Arrears follow-up	Credit Officer		**4A - Visit Report**		N	5.4
5.4	Issuing loan reminder and final notice	Lender's Accounting Department	Monthly for all new accounts overdue by 14 days	FTCS, **5C - Loan Reminder and Final Notice, SL5C,**	Is repayment made?	Y	5.1
	Arrears follow-up	Credit Officer		**4A - Visit Report**		N	5.5
5.5	Reviewing loan collectibility	Credit Offficer	Within 30 days of initial default for all accounts overdue by 21 days	Borrower's accounting information as available, **4A - Visit Report**	Is loan collectible without recovery action?	Y	4.5
						N	5.6
5.6	Making recommendations for recovery action	Credit Officer	Within 30 days of initial default for all accounts overdue by 21 days	**4B - Variation Recommendation**	Does recommendation require Credit Committee approval ?	Y	5.7
						N	5.8
5.7	Reviewing and approving recommendations for recovery action	Credit Committee	Within 45 days of initial default for all accounts requiring recovery action	**4C - Credit Review Form 5D - Loan Termination Notice, SL 5D, 5E - Loan Payments Made from Savings Account**	Is recommendation approved?	Y	5.8
						N	5.5
5.8	Implementing recovery action	Credit Manager Credit Officer Lender's Lawyer as required	Within 60 days of initial default for all accounts requiring recovery action	Loan Account File, Securities and Court documents	Is further action needed?	Y	5.5
						N	End

5 RECOVERY

5.0 Introduction

The sustainability of the Trust depends on the minimization of losses through business failure and ensuring that borrowers repay their loans. If the screening, application, appraisal and approval, disbursement and supervision procedures have been properly followed, in general, loan recovery should be a matter of course, and most borrowers should pay on demand. However, some borrowers will default.

The pursuit of defaulters should be conducted with vigor but not for retribution. Supervision visits should be continued on a regular basis. These visits will serve to:

- maintain contact with the defaulter,
- use persuasion to bring about repayment, and
- ensure that the assets that are loan security are not removed and are maintained in good, working condition.

If persuasion is not effective, recovery will be made from the collateral pledged to the lender. Lenders will, where necessary, exercise their rights to security in the Loan Contract. Where necessary lenders will proceed to the courts in order to enforce their rights under the Loan Contract.

Recourse to the law for the protection of rights in the Loan Contract should be undertaken in order to safeguard credit repayment discipline, the lender's financial position and the reputation of the Trust as a whole, but it should be remembered that litigative action should also be the last resort.

5.1 Issuing Demand (Reminder) Notices

The loan repayment schedule is specified in the Loan Contract. Lenders will collect principal and interest due at frequencies stipulated by the Loan Contract. Payments will normally be collected at the lender's offices, though in remoter areas where arrangements have been made for secure cash handling outside the lender's offices, payments will be collected by visiting staff from the lender's offices.

It is appropriate to notify the borrower in advance that moneys are due and the dates on which payments are to be made. This should be done by issuing **Form 5A - Demand (Reminder) Notice .** A single demand notice should be issued for interest payments and further reminders should be issued for each principal installment due.

5.2 Updating the Borrower's Account

Maintenance of the borrower's Loan Account, the record of all disbursements to the borrower and repayments of principal, payments of interest and other costs by the borrower is the responsibility of a lender's Accounting Department. Loan Accounts will be maintained by lenders in accordance with sound accounting principles.

In summary, at the end of each month, interest is charged to the borrower's Loan Account and, subsequently, payments received are set against any fees, interest and principal due in that order of priority. When payments are made, each payment will be used to first discharge accrued fees and interest in that order of priority up to the actual date of the payment and any balance will be used to reduce the outstanding loan principal.

It is the responsibility of the lender's Accounting Department to ensure that all fees, interest and other charges are correctly posted to the borrowers' Loan Accounts and to match payments with copies of the relevant demand (reminder) notices.

Statements should be issued to borrower's seven to ten days after the month end.

5.3 Issuing Second Reminder Notice

In the event of delinquency, the lender should issue a loan reminder notice immediately to the borrower using **Form 5B - Loan Reminder Notice**. The Credit Officer should follow up immediately with a telephone call if this is possible and within five days by a personal visit to the borrower. The visit should be recorded on **Form 4A - Visit Report**.

For micro loans, ***Form 5B - Loan Reminder Notice*** *must be copied to all members of the joint liability group together with* ***Standard Letter 5B****. During the follow-up visit, the Credit Officer should meet with all members of the joint liability group to advise them of the delinquent payment and to remind them that they will be liable for the amounts due in the event the borrower does not pay.*

It is the responsibility of the lender's Accounting Department, on a monthly basis, to ensure that all payments made following the issue of a reminder notice are matched with copies of the relevant demand and reminder notices and posted to the relevant Loan Account.

5.4 Issuing Final Notice

In the event that the lender does not receive payment in response to the loan reminder notice within fourteen days of its issue to the borrower, it will immediately issue a further loan reminder and final notice using **Form 5C - Loan Reminder and Final Notice**. The Credit Officer should follow up immediately with a telephone call if this is possible and with a visit within five days. The visit should be recorded on **Form 4A - Visit Report**.

For micro loans, ***Form 5C - Loan Reminder and Final Notice*** *must be copied to all members of the joint liability group together with* ***Standard Letter 5C****. During the follow-up visit, the Credit Officer should meet with all members of the joint liability group to advise them of the delinquency and to remind them that they will be liable for the amounts due in the event that the borrower does not pay.*

If payment is made in full, subsequent demand notices revert to normal. If payment is made in part, subsequent demand notices should include the amount in arrears.

It is the responsibility of the lender, on a monthly basis, to ensure that all transfers for repayments are matched with copies of the relevant demand, reminder and final notices and entered onto the relevant Loan Account.

In the event payment is not made in response to the final notice within fourteen days of the issue of the notice, loan status and loan collectibility must be reviewed.

5.5 Reviewing Loan Collectibility

The review of loan collectibility must take place within 30 days of the initial date of delinquency. The review is integrated with loan supervision activities for borrowers who are delinquent. To review loan collectibility, a visit must be made to the borrower's premises by the Credit Officer responsible for the loan. Prior to making the visit, the performance of the business and the loan should be reviewed.

The visit is essentially a remedial supervision visit[1]. The outcome of the visit should be a set of recommendations for action. These may include: actions by the borrower to rectify the situation, possible change in Loan Account classification, a recommendation as to whether or not loan terms and conditions need to reviewed and possibly recommendations to defer calling-in the loan and instigating legal action. The recommendations should focus on practical action, if possible agreed with the borrower, to secure repayment of the outstanding loan. The visit should be recorded on **Form 4A - Visit Report**.

For micro loans, the Credit Officer should meet with all members of the joint liability group to advise them that if it becomes necessary to terminate the loan they will be liable for the amounts due in the event that the borrower does not pay and that such amounts will be automatically paid to the bank from their savings account. The Credit Officer should also remind the joint liability group members that they will continue to be liable for the balance of any amount due after the funds in the savings account are exhausted, and that if the loan is terminated their liability will be for the full amount of the loan and any other dues outstanding.

Where the recommendation does not involve termination of the loan or legal action, the procedures described in Section 3 should be followed.

5.6 Making Recommendations for Recovery Action

The procedure for reviewing and varying loan terms and conditions is the same as described in Section 3. Loans which have overdues of any amount over 45 days will be automatically called-in, unless a satisfactory compromise has been reached with the borrower, through the issue of **Form 5D - Loan Termination Notice.** Recommendations for any alternative course of action should be made by the Credit Officer on **Form 4B - Variation Recommendation Form** and require special approval.

1 See Section 4 for details.

For micro loans, the savings account of the joint liability group will be drawn on automatically for loans with any amount overdue by more than 45 days. ***Form 5D - Loan Termination Notice*** *must be copied to all members of the joint liability group together with* ***Standard Letter 5D****. Recommendations for any alternative course of action will be made by the Credit Officer on* ***Form 4B - Variation Recommendation Form*** *and require special approval.*

For micro loans, where the amounts due are paid from the savings accounts of the joint liability group, the borrower and the other group members should be advised of the transaction using ***Form 5E - Loan Payments Made from Savings Account.***

Loans which have overdue payments of any amount over 90 days will be automatically subject to legal proceedings. Recommendations for any alternative courses of action will be made by the Credit Officer on **Form 4B - Variation Recommendation Form**.

Where a compromise has been reached with the borrower about repayment, revised schedules for repayment should be attached to the recommendation. If loan termination and/or legal proceedings are not recommended, the Credit Officer must fully justify the recommendation in writing and demonstrate to the satisfaction of the Credit Committee that recovery can be effected by other means.

5.7 Reviewing and Approving Recommendations for Recovery Action

Review and approval of recommendations for recovery action should be carried out in accordance with the discretionary authorities delegated to the Credit Committee, as set out in Table 5.1.

Table 5.1 Discretionary Authorities For Recovery Action

Decision Area	Authorized Officers	Limit of Authority
waiving of automatic loan termination	Credit Committee	all loans
waiving of automatic charge against JLG savings	Credit Committee	all loans
waiving of automatic legal proceedings	Credit Committee	all loans
reinstatement of a loan	Credit Committee	all loans
suspension of legal proceedings	Credit Committee	all loans
all other variations	Credit Committee	all loans

The Credit Manager and the Credit Officer making the recommendation for waiving of loan termination and/or initiation of legal proceedings or for reinstatement of the loan and/or suspension of legal proceedings shall attend the meeting and answer the committee's questions about such action.

The approval or decline of recommendations should be recorded in the Minutes of the Credit Committee meeting in the format shown in **Form 4C - Credit Review Form.**

If a recommendation is declined, the Credit Officer shall review loan collectibility again.

5.8 Implementing Recovery Action

Once a recovery recommendation is approved, recovery action shall be vigorously implemented. If the loan is terminated, **Form 5D - Loan Termination Notice** must be issued without delay. Similarly, if there are to be legal proceedings, these must also be commenced without any delay. If some other compromise has been reached with the borrower, the visit schedule for supervision must be strictly adhered to. Further default by a borrower with whom compromise has been reached shall cause immediate loan termination and if necessary legal proceedings. Only in very exceptional circumstances of "force majeure" should lenders consider further compromise.

5. DOCUMENTATION FOR RECOVERY

5A Loan Demand Notice

Date:	

Issuing Officer:	
Institution:	
Address:	

Borrower Name:	
Enterprise Name:	
Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

UNDER OUR LOAN CONTRACT WITH YOU THE FOLLOWING AMOUNTS WILL BE DUE AND PAYABLE TO THE BANK ON THE DATES SHOWN BELOW.

PLEASE ENSURE THAT YOU MAKE PAYMENT IN FULL TO US ON OR BEFORE THE DUE DATES.

Date	**Item**	**Amount Due (Tenge)**
	Fees and Other Charges	
	Interest	
	Loan Principal	
Total		

5B Loan Reminder Notice

Date:	

Issuing Officer:	
Institution:	
Address:	

Borrower Name:	
Enterprise Name:	
Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

UNDER OUR LOAN CONTRACT WITH YOU THE FOLLOWING AMOUNTS WERE DUE AND PAYABLE TO THE BANK ON THE DATES SHOW BELOW BUT HAVE NOT BEEN PAID BY YOU.

WE REMIND YOU THAT UNDER THE TERMS OF THE LOAN CONTRACT ASSETS OF A DEFAULTING BORROWER CAN BE SEIZED AND SOLD IN ORDER TO CLEAR THE OUTSTANDING DEBT.

PLEASE ENSURE THAT YOU MAKE PAYMENT IN FULL TO US WITHIN THE NEXT FOURTEEN DAYS TO AVOID LOSS OF YOUR ASSETS

Date	**Item**	**Amount Due (Tenge)**
	Fees and Other Charges	
	Interest	
	Loan Principal	
Total		

5C Loan Reminder and Final Notice

Date:	

Issuing Officer:	
Institution:	
Address:	

Borrower Name:	
Enterprise Name:	
Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

UNDER THE TERMS OF OUR LOAN CONTRACT WITH YOU THE FOLLOWING AMOUNTS WERE DUE AND PAYABLE TO THE BANK ON THE DATES SHOWN BELOW BUT WHICH, DESPITE PREVIOUS REMINDERS, REMAIN UNPAID BY YOU.

IF THE AMOUNTS DUE ARE NOT PAID WITHIN THE FOURTEEN DAYS, WE WILL CONSIDER TERMINATING THE LOAN CONTRACT AT WHICH TIME THE WHOLE AMOUNT OF THE LOAN, TOGETHER WITH FEES AND OTHER CHARGES AND INTEREST, WILL BECOME IMMEDIATELY PAYABLE.

PLEASE ENSURE THAT YOU MAKE PAYMENT IN FULL TO US WITHIN THE FOURTEEN DAYS FROM THE DATE OF THIS NOTICE IN ORDER TO AVOID TERMINATION OF THE LOAN CONTRACT.

Date	**Item**	**Amount Due (Som)**
	Fees and Other Charges	
	Interest	
	Loan Principal	
Total		

5D Loan Termination Notice

Date:	

Issuing Officer:	
Institution:	
Address:	

Borrower Name:	
Enterprise Name:	
Address:	

Bank Account Number:								

Loan Account Reference:												

Loan Contract Number:								

THE FOLLOWING AMOUNTS OWED TO US HAVE BEEN OVERDUE FOR TERM BEYOND THAT WHICH THE LOAN CONTRACT PERMITS. WE HAVE BEEN UNABLE TO REACH A MUTUALLY AGREEABLE COMPROMISE WITH YOU CONCERNING THEIR PAYMENT.

ACCORDINGLY, UNDER THE TERMS OF OUR LOAN CONTRACT WITH YOU WE ARE TERMINATING THE LOAN AND THE ENTIRE OUTSTANDING AMOUNT OF THE LOAN TOGETHER WITH THE FEES AND OTHER CHARGES AND INTEREST DUE ARE PAYABLE FORTHWITH. INTEREST WILL CONTINUE TO ACCRUE ON YOUR LOAN ACCOUNT UNTIL FULL PAYMENT IS MADE TO THE BANK.

PLEASE ENSURE THAT YOU MAKE PAYMENT IN FULL WITHIN THE NEXT SEVEN DAYS. FAILURE TO REPAY AT THIS TIME MAY RESULT IN LEGAL ACTION AGAINST YOU.

Date	***Item***	***Amount Due (Tenge)***
	Fees and Other Charges	
	Interest	
	Loan Principal	
Total		

5E Loan Payments Made from Savings Account

Date:	

Issuing Officer:	
Institution:	
Address:	

Guarantor Name:	
Guarantor's Address:	

Borrower Guaranteed:	
Borrower's Enterprise Name:	

Borrower's Loan Account Reference:	

Borrower's Loan Contract Number:	

Joint Liability Savings Account Number:	

Joint Liability Guarantee Contract Number:	

UNDER THE TERMS OF THE CITED LOAN AND GUARANTEE CONTRACTS WE HAVE THE RIGHT TO CLEAR OVERDUE AMOUNTS OWED TO US FROM THE SAVINGS ACCOUNT HELD BY YOUR JOINT LIABILITY GROUP.

IN VIEW OF THE REPEATED FAILURE OF THE ABOVE MENTIONED BORROWER TO PAY THE OVERDUE AMOUNTS SHOW BELOW, THESE DUES WILL BE PAID TO US FROM YOUR JOINT LIABILITY GROUP SAVINGS ACCOUNT ON THE DATES AND IN THE AMOUNTS SHOWN BELOW. YOUR JOINT LIABILITY GROUP REMAINS JOINTLY AND SEVERALLY LIABLE FOR ALL AMOUNTS OUTSTANDING IN THE EVENT THERE ARE INSUFFICIENT FUNDS IN THE SAVINGS ACCOUNT TO COVER ALL THE DEBT. LEGAL ACTION MAY ALSO BE TAKEN AGAINST YOU TO RECOVER ANY UNSETTLED AMOUNTS.

SETTLEMENT OF THE BORROWER'S ACCOUNT IN THIS MANNER MAY AFFECT HIS AND YOUR ELIGIBILITY FOR FUTURE LOANS. YOU ARE STRONGLY URGED TO PAY OR CAUSE TO BE PAID THE AMOUNTS SOUGHT BEFORE THE DATES SHOWN BELOW.

Date	Item	Amount Due (Tenge)
	Fees and Other Charges	
	Interest	
	Loan Principal	
Total		

SL5 Text of Standard Letters for Recovery

SL5A Loan Reminder for Joint Liability Group Members

Date:	

Issuing Officer:	
Institution:	
Address:	

Guarantor's Name:	
Guarantor's Address:	

Borrower Guaranteed:	
Borrower's Enterprise Name:	

Joint Liability Savings Account Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

With regard to our Joint Liability Contract with you, we write to advise that the above named Borrower who is a Member of your Joint Liability Group has defaulted on payments due to us under his/her Loan Contract with us. The details are set out on the enclosed Loan Reminder Notice.

Under the terms of the Joint Liability Contract you are jointly and severally liable with the other Joint Liability Group Members for the settlement of the outstanding amounts in the event that the said Borrower does not pay.

We would strongly advise you to use your best endeavours, together with the other Joint Liability Group Members, to ensure that the defaulting Borrower pays the amounts owed to us within the next fourteen days.

Yours faithfully

Signature of Issuing Officer:	

SL5B Loan Reminder and Final Notice for Joint Liability Group Members

Date:	

Issuing Officer:	
Institution:	
Address:	

Guarantor's Name:	
Guarantor's Address:	

Borrower Guaranteed:	
Borrower's Enterprise Name:	

Joint Liability Savings Account Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

With regard to our Joint Liability Contract with you, we write to advise that despite our earlier reminder the above named Borrower who is a Member of your Joint Liability Group has continued to default on payments due to us under his/her Loan Contract with us. The details are set out on the enclosed Loan Reminder and Final Notice.

Under the terms of the Joint Liability Contract you are jointly and severally liable with the other Joint Liability Group Members for the settlement of the outstanding amounts in the event that the said Borrower does not pay. If it becomes necessary to terminate the loan, you will be jointly and severally liable for the entire amount of the outstanding loan and all fees and other costs and interest due to us.

We would strongly advise you to use your best endeavours, together with the other Joint Liability Group Members, to ensure that the defaulting Borrower pays the amounts owed to us within the next fourteen days.

Yours faithfully

Signature of Issuing Officer:	

SL5C Loan Termination Notice for Joint Liability Group Members

Date:	

Issuing Officer:	
Institution:	
Address:	

Guarantor's Name:	
Guarantor's Address:	

Borrower Guaranteed:	
Borrower's Enterprise Name:	

Joint Liability Savings Account Number:								

Joint Liability Guarantee Contract Number:								

Dear Sir/Madam

With regard to our Joint Liability Contract with you, we write to advise that despite two previous reminders, the above named Borrower who is a Member of your Joint Liability Group continues to default on his/her obligation to us. It has been necessary for us to terminate his/her loan under the Loan Contract.

Under the terms of the Joint Liability Contract you are jointly and severally liable with the other Joint Liability Group Members for the settlement of the entire outstanding amount loan principal, together with all fees and costs and interest due to us.

In the event that the Borrower or Members of the Joint Liability Group do not pay the amounts due to the bank within the next fourteen days, under the terms of the Joint Liability Guarantee Contract we shall draw on your Joint Liability Savings Account to settle the debt to the bank. We remind you that the Joint Liability Guarantee Contract remains in full force and effect and that you remain jointly and severally liable for any amounts not recovered from your Joint Liability Savings Account.

We would strongly advise you again to use your best endeavours, together with the other Joint Liability Group Members, to ensure that the amounts owed are paid to us within the next fourteen days.

Signature of Issuing Officer:	

6. MANAGEMENT INFORMATION SYSTEMS

6 MANAGEMENT INFORMATION SYSTEMS

6.1 Credit Data on Loan Files

In any organization, manual and computerized data management systems interact in many ways. The sum of the manual and computerized systems constitute the organization's Management Information System (MIS). The constituents of the MIS are listed below.

6.1.1 Application Files

Lenders will maintain Application Files. Files should be maintained in alphabetical order by the name of the prospective borrower.

Depending on the stage to which the enquiry advances before it is declined or accepted for application, the Application File will contain:

- **Form 1A - Enquiry Form,**
- for small loans, a business plan, as shown in **Form 1C - Business Plan**,
- copies of standard letters and any other correspondence.

If the borrower and the enterprise is considered eligible for a loan, the Application File will also contain:

- **Form 2A - Loan Application**,
- **Form 2B - Visit, Creditworthiness and References Report**,
- **Form 2C - Appraisal and Recommendation Form**,
- copies of Standard Letters and any other correspondence.

6.1.2 Loan Account Files

If the application is successful, the Application File shall be reclassified as an Account File. Account Files should be maintained in alphabetical order by borrower name.

The Account File should contain:

- the Application File,
- **Form 2D - Credit Review Form** for the Approval or Decline of Applications,
- copies of perfected loan agreements and securities executed by the lender;
- copies of Standard Letters and other correspondence for loan processing.

NOTE: ALL ORIGINAL LEGAL DOCUMENTS CONCERNING LOANS SHOULD BE KEPT IN A LOCKED, FIRE-PROOFED SAFE BY THE PFI.

On satisfaction of all preconditions for disbursement, a Loan Account Reference will be allocated. This reference should appear on the outside of the Account File. At this time the Account File should be transferred to a separate filing system, still maintained in alphabetical order by enterprise in the new system.

Subsequent additions to the file should include:

- **Form 3A - Authority To Disburse**,
- copies of withdrawal requests made to the lender and copies of suppliers invoices,
- Standard Letters and other correspondence concerned with disbursement,
- **Form(s) 4A - Visit Report(s)**,
- if appropriate, **Form(s) 4B - Variation Recommendation Form(s)**
- if appropriate, **Form(s) 4C - Credit Review Form(s)** for the approval or decline of variations,
- if appropriate, copies of loan agreement variations issued by the lender,
- at the discharge or write off of the loan **Form 4E - Evaluation Form**,
- copies of Standard Letters and any other correspondence concerning loan or supervision,
- copies of **Form 5A - Loan Demand Notice**, and copies as appropriate of **Form 5B - Loan Reminder Notice**, **Form 5C - Loan Reminder and Final Notice**, **Form 5D - Loan Termination Notice** and **Form 5E - Loan Payments from Savings Account**.
- and copies of all other correspondence including recovery correspondence.

It is appropriate to "tag" the files so that they are conveniently divided into: **Screening; Application, Appraisal and Approval; Disbursement; Supervision** and **Recovery** sections. The maintenance of files in this way will help to ensure the integrity of the data.

6.2 Management Reports

6.2.1 Structure of the Management Reports

While flexibility of the data management system to new user requirements is highly desirable, numerous demands for **ad hoc** reports from senior management are to be avoided if a logical and systematic approach to data management is to be achieved. Such emergency requests interrupt the normal flow of work and make it extremely difficult for proper database management to take place.

It is, therefore, desirable to have a comprehensive set of output reports available which fulfill various user requirements, which can be distributed in hard copy to specific users on a periodic basis as well as eventually being available on-line to users with appropriate access.

MIS reports will be drawn from a computerized and/or a manual database on applicants and borrowers and the loan ledgers. The reports are designed to be:

- loan specific, giving detailed loan parameters on a loan-by-loan basis for better tracking of loan performance and comprehensive loan management,

- position-specific, so that individual Credit Officers and their Managers receive detailed reports only for the loans under their supervision, making reports more useful for monitoring performance, establishing priorities and determining specific necessary action;

- sector-specific, so that sectoral performance can be more easily monitored and strategic decisions on portfolio priorities taken by senior management; and

- comparative, so that each management level can compare the performance of the loans or area under their or their subordinates' control with other loans or areas, in order to enhance appreciation of sectoral or regional differences in the portfolio, assist with strategic portfolio management and monitor performance at all levels.

Credit Unions initially will maintain a simpler form of management information but will be expected to conform to the bank style of management information within a period determined between each credit union and the National Bank of the Republic of Kazakstan at the time of the credit union being registered.

6.2.2 Reporting Requirements and Frequency

The reporting requirements for the are:

- **Form 6A - Loan MIS Report** on a monthly basis for management and work planning purposes;

- submission of **Form 6A** and **Form 6B - Summary MIS Report** on a monthly basis for senior management and the National Bank of the Republic of Kazakstan; and

- submission of **Form 6D - Client Benefit Monitoring Report** every six months for senior management and the National Bank of the Republic Kazakstan,

Credit unions will prepare a simpler Monthly Management Information Report until automated accounting is installed. The reporting requirements for credit unions are:

- **Form 6C - Monthly Management Information Report** for work planning and for credit union management and the National Bank of the Republic pf Kazakstan.

Credit Unions will also submit **Form 6D - Client Benefit Monitoring Report** every six months.

6.2.4 Client Benefit Monitoring

Form 6D - Client Benefit Monitoring Report is derived from **Form 6E - Client Benefit Monitoring Survey**. Form 6E will be completed by borrowers and members of credit unions, each respondent completing Page 1 and that Section which covers the appropriate borrower/membership category.

The sample for each survey will be determined by the Trust in consultation with the National Bank of the Republic of Kazakstan, lending institutions and the Boards of Credit Unions.

6.2.4 Interpretation of the Reports

Form 6A - Loan MIS Report provides a complete listing of loans, classified and subtotalled by loan class (1, 2, 3, 4, 5), with loans within each status listed in ascending order by loan reference number. The percentage recovery (and the movements from month to month) provide a guide to the long term performance of the portfolio. Ultimately, in a stable portfolio, these percentages provide some guide to the provisions for bad debt which will be required. The aging of the overdue balances provides an indication of the collectibility of the overdues. Generally, the older the overdues, the less the chance of collecting the debt. The information concerning the collection rate provides a continuous measure of performance in meeting the annual collection target.

Form 6A can also be subtotalled by Credit Officer and loan status category. This provides a guide to the performance of the portfolios of each Credit Officer and should be used by the individual Credit Officer to schedule supervision visits. It also allows the Credit Officer to see readily where effort is required to improve recovery, both by status category overall and by individual loan. It also allows the Credit Officer to identify whether a small number of loans are responsible for depressing the recovery performance or whether the problems in the portfolio are widespread.

Form 6B provides summary information giving an overview for senior management, the Trust and National Bank of the Republic of Kazakstan of portfolio performance in sufficient detail to allow enquiry into different aspects of each lender's loan portfolio. Summary subtotaling by loan class, credit officer, subsector, loan size and region are examples of how the presentation can be used to provide management with different perspectives on the portfolio.

Form 6C summarizes the activities of the credit union and the status of the loan portfolio. The analysis of the loan portfolio is presented by sectors. The analysis includes collection rates for loan principal and interest and an aging of overdue principal and interest.

Form 6D provides summary detail of the increases/(decreases) in savings, income, surplus or profitability, numbers of economically active household members, area of land under use, technology level, asset worth and numbers of employees for each category.

6. DOCUMENTATION FOR MANAGEMENT INFORMATION SYSTEMS

6A.I Loan MIS Report (Tenge) - Loan Principal Movements

Loan Account Reference	Total Loan Amount	Total Principal Outstanding at Start of Period	of which		Total Principal Disbursed During the Period	Total Principal Falling Due During the Period	of which		Total Principal Collected During the Period	of which			Total Principal Outstanding at End of Period	of which		Collection Rate for Current Due Principal and Principal Put on Demand in the Period	Collection Rate for Principal in Arrears
			Principal not yet Due	Principal in Arrears			Current Due Principal	Principal Put on Demand in Period		Principal in Arrears at Start of Period	Current Due Principal	Principal Put on Demand in Period		Principal not yet Due	Principal in Arrears		
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
			0			0				0	0	0	0	0	0	-	-
Totals	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-

6A.2 Loan MIS Report (Tenge) - Loan Principal Arrears Analysis

Loan Account Reference	Total Principal Outstanding at the End of the Period	Total Arrears of Principal at End of Period	of which								Amount to be Provided for Bad and Doubtful Debt
			0 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	181 to 360 days	Over 360 days	
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
	0	0								0	0
Totals	0	0	0	0	0	0	0	0	0	0	0

6A.3 Loan MIS Report (Tenge) - Loan Interest Movements

Loan Account Reference	Interest in Arrears at Start of Period	Interest Falling Due During the Period	Total Interest Due	Interest Collected During the Period	Interest Arrears at End of Period	Interest Collection Rate	Fees and Other Costs in Arrears at Start of Period	Fees and Other Costs Falling Due During the Period	Total Fees and Other Costs Due	Fees and Other Costs Collected During the Period	Fees and Other Costs Arrears at End of Period	Fees and Other Costs Collection Rate
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
			0		0	-			0		0	-
Totals	0	0	0	0	0	0	0	0	0	0	0	0

6A.4 Loan MIS Report (Tenge) - Loan Interest, Fees and Other Costs Arrears Analysis

Loan Account Reference	Total Interest, Fees and Other Costs Outstanding at the End of the Period	of which								Amount to be Provided for Bad and Doubtful Debt
		0 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	181 to 360 days	Over 360 days	
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
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	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
	0								0	0
Totals	0	0	0	0	0	0	0	0	0	0

6B.1 Summary Loan MIS Report (Tenge) - Loan Principal Movements

Loan Analysis Category	Total Loan Amount	Total Principal Outstanding at Start of Period	of which		Total Principal Disbursed During the Period	Total Principal Falling Due During the Period	of which		Total Principal Collected During the Period	of which			Total Principal Outstanding at End of Period	of which		Collection Rate for Current Due Principal and Principal Put on Demand in the Period	Collection Rate for Principal in Arrears
			Principal not yet Due	Principal in Arrears			Current Due Principal	Principal Put on Demand in Period		Principal in Arrears at Start of Period	Current Due Principal	Principal Put on Demand in Period		Principal not yet Due	Principal in Arrears		
Loan Class 1			0			0				0	0	0	0	0	0	-	-
Loan Class 2			0			0				0	0	0	0	0	0	-	-
Loan Class 3			0			0				0	0	0	0	0	0	-	-
Loan Class 4			0			0				0	0	0	0	0	0	-	-
Loan Class 5			0			0				0	0	0	0	0	0	-	-
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-
Credit Officer 1			0			0				0	0	0	0	0	0	-	-
Credit Officer 2			0			0				0	0	0	0	0	0	-	-
Credit Officer 3			0			0				0	0	0	0	0	0	-	-
Credit Officer 4			0			0				0	0	0	0	0	0	-	-
Credit Officer 5			0			0				0	0	0	0	0	0	-	-
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-
Subsector 1			0			0				0	0	0	0	0	0	-	-
Subsector 2			0			0				0	0	0	0	0	0	-	-
Subsector 3			0			0				0	0	0	0	0	0	-	-
Subsector 4			0			0				0	0	0	0	0	0	-	-
Subsector 5			0			0				0	0	0	0	0	0	-	-
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-
Loan Size less than Tenge 5,000			0			0				0	0	0	0	0	0	-	-
Loan Size Tenge 5,001 to 25,000			0			0				0	0	0	0	0	0	-	-
Loan Size Tenge 25,001 to 50,000			0			0				0	0	0	0	0	0	-	-
Loan Size Tenge 50,001 to 100,000			0			0				0	0	0	0	0	0	-	-
Loan Size over Tenge 100,000			0			0				0	0	0	0	0	0	-	-
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-
Oblast 1			0			0				0	0	0	0	0	0	-	-
Oblast 2			0			0				0	0	0	0	0	0	-	-
Oblast 3			0			0				0	0	0	0	0	0	-	-
Oblast 4			0			0				0	0	0	0	0	0	-	-
Oblast 5			0			0				0	0	0	0	0	0	-	-
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-

6B.2 Summary Loan MIS Report (Tenge) - Loan Principal Arrears Analysis

Loan Analysis Category	*Total Principal Outstanding at the End of the Period*	Total Arrears of Principal at End of Period	of which								Amount to be Provided for Bad and Doubtful Debt
			0 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	181 to 360 days	Over 360 days	
Loan Class 1	0	0								0	0
Loan Class 2	0	0								0	0
Loan Class 3	0	0								0	0
Laan Class 4	0	0								0	0
Loan Class 5	0	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Credit Officer 1	0	0								0	0
Credit Officer 2	0	0								0	0
Credit Officer 3	0	0								0	0
Credit Officer 4	0	0								0	0
Credit Officer 5	0	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Subsector 1	0	0								0	0
Subsector 2	0	0								0	0
Subsector 3	0	0								0	0
Subsector 4	0	0								0	0
Subsector 5	0	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loan Size less than Tenge 5,000	0	0								0	0
Loan Size Tenge 5,001 to 25,000	0	0								0	0
Loan Size Tenge 25 001 to 50,000	0	0								0	0
Loan Size Tenge 50,001 to 100,000	0	0								0	0
Loan Size over Tenge 100,000	0	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Oblast 1	0	0								0	0
Oblast 2	0	0								0	0
Oblast 3	0	0								0	0
Oblast 4	0	0								0	0
Oblast 5	0	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

6B.3 Summary Loan MIS Report (Tenge) - Loan Interest Movements

Loan Analysis Category	Interest in Arrears at Start of Period	Interest Falling Due During the Period	Total Interest Due	Interest Collected During the Period	Interest Arrears at End of Period	Interest Collection Rate	Fees and Other Costs in Arrears at Start of Period	Fees and Other Costs Falling Due During the Period	Total Fees and Other Costs Due	Fees and Other Costs Collected During the Period	Fees and Other Costs Arrears at End of Period	Fees and Other Costs Collection Rate
Loan Class 1			0		0	-			0		0	-
Loan Class 2			0		0	-			0		0	-
Loan Class 3			0		0	-			0		0	-
Loan Class 4			0		0	-			0		0	-
Loan Class 5			0		0	-			0		0	-
Total	0	0	0	0	0	-	0	0	0	0	0	-
Credit Officer 1			0		0	-			0		0	-
Credit Officer 2			0		0	-			0		0	-
Credit Officer 3			0		0	-			0		0	-
Credit Officer 4			0		0	-			0		0	-
Credit Officer 5			0		0	-			0		0	-
Total	0	0	0	0	0	-	0	0	0	0	0	-
Subsector 1			0		0	-			0		0	-
Subsector 2			0		0	-			0		0	-
Subsector 3			0		0	-			0		0	-
Subsector 4			0		0	-			0		0	-
Subsector 5			0		0	-			0		0	-
Total	0	0	0	0	0	-	0	0	0	0	0	-
Loan Size less than Tenge 5,000			0		0	-			0		0	-
Loan Size Tenge 5,001 to 25,000			0		0	-			0		0	-
Loan Size Tenge 25,001 to 50,000			0		0	-			0		0	-
Loan Size Tenge 50,001 to 100,000			0		0	-			0		0	-
Loan Size over Tenge 100,000			0		0	-			0		0	-
Total	0	0	0	0	0	-	0	0	0	0	0	-
Oblast 1			0		0	-			0		0	-
Oblast 2			0		0	-			0		0	-
Oblast 3			0		0	-			0		0	-
Oblast 4			0		0	-			0		0	-
Oblast 5			0		0	-			0		0	-
Total	0	0	0	0	0	-	0	0	0	0	0	-

6B.4 Summary Loan MIS Report (Tenge) - Loan Interest, Fees and Other Costs Arrears Analysis

Loan Analysis Category	Total Interest, Penalty Interest, Fees and Other Costs Outstanding at the End of the Period	of which								Amount to be Provided for Bad and Doubtful Debt
		0 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	181 to 360 days	Over 360 days	
Loan Class 1	0								0	0
Loan Class 2	0								0	0
Loan Class 3	0								0	0
Laan Class 4	0								0	0
Loan Class 5	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Credit Officer 1	0								0	0
Credit Officer 2	0								0	0
Credit Officer 3	0								0	0
Credit Officer 4	0								0	0
Credit Officer 5	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Subsector 1	0								0	0
Subsector 2	0								0	0
Subsector 3	0								0	0
Subsector 4	0								0	0
Subsector 5	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loan Size less than Tenge 5,000	0								0	0
Loan Size Tenge 5,001 to 25,000	0								0	0
Loan Size Tenge 25,001 t0 50,000	0								0	0
Loan Size Tenge 50,001 to 100,000	0								0	0
Loan Size over Tenge 100,000	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Oblast 1	0								0	0
Oblast 2	0								0	0
Oblast 3	0								0	0
Oblast 4	0								0	0
Oblast 5	0								0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

MONTHLY MANAGEMENT INFORMATION REPORT

Month covered by this Report [ ]

Credit Union Name [ ]

1 Balance Sheet

Assets	Tenge
Cash	
At Bank/Deposits	
Loans Outstanding	
Total Assets	

Liabilities	Number	Tenge
Members' Savings		
Credit Union's Borrowings		
Sub Total Liabilities (A)		
Capital		
Opening Shares (a)		
New Shares Issued (b)		
Shares Redeemed (c)		
Closing Shares ((a+b)-c)		
Sub Total Capital (B)		
Total Liabilities and Capital (A+B)		

2 Summary of Loan Activities

2.1 Loan Principal

	Principal Outstanding at Start of Month		Disbursements during Month		Repayment Collected this Month		Principal Outstanding at End of Month		Overdue Principal at End of Month	
	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge
Totals										

2.2 Loan Interest

	Arrears Outstanding at Start of Month		Interest Due this Month		Total Interest to be Collected this Month		Interest Collected this Month		Arrears Outstanding at End of this Month	
	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge
Totals										

3 Dividends and Interest Paid by the Credit Union

Dividends Paid during this Month	
No of Members	Tenge

Interest Paid on Savings this Month
Tenge

Seed Interest Paid during this Month
Tenge

6C.1

1 Loan Principal Movements (by sector)

Sector	Principal Outstanding at Start of Month		Disbursements during Month		Repayments due this Month		Repayments collected this Month		Principal Outstanding at End of Month		Overdue Principal at End of Month	
	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge
Agriculture												
Agri-Processing												
Manufacture												
Construction												
Transport												
Trade												
Services												
Other												
Totals												

2 Loan Interest Movements (by sector)

Sector	*Overdue Interest at Start of Month*		*Interest Due this Month*		Total Interest due Collection this Month		Interest Collected during this Month		Overdue Interest at End of Month	
	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge	No of Clients	Tenge
Agriculture										
Agri-Processing										
Manufacture										
Construction										
Transport										
Trade										
Services										
Other										
Totals										

3 Analysis of Overdue (by sector)

Sector	Loan Principal Collection Rate	Ageing of Overdue Loan Principal					Loan Interest Collection Rate	Ageing of Overdue Interest				
		1-30 days	31-60 days	61-180 days	181-360 days	>360 days		1-30 days	31-60 days	61-180 days	181-360 days	>360 days
	per cent	Tenge	Tenge	Tenge	Tenge	Tenge	*per cent*	Tenge	Tenge	Tenge	Tenge	Tenge
Agriculture												
Agri-Processing												
Manufacture												
Construction												
Transport												
Trade												
Services												
Other												
Totals												

CLIENT BENEFIT MONITORING REPORT

Credit Unions - percentage increase/(decrease)

Number of Members	Savings						
	verage Deposi Amount	Frequency of Deposit					Average Savings Balance
		monthly	uarterly		half-yearly		

Lending Institution - percentage increase/(decrease)

Number of Savers	Savings						
	verage Deposi Amount	Frequency of Deposit					Average Savings Balance
		monthly	quarterly		half-yearly		

Households - percentage increase/(decrease)

Average Income	Average Surplus	Average Level of Savings	Average Number of Economically Active Members		Average Area of Land under Productive Use	Average Asset Worth
			male	female		

Enterprise - percentage increase/(decrease)

Average Income	Average Profitability	Average Level of Savings	Average Level of Techhnology				Average Asset Worth	Average Number of Employees									
			manual	electric powere	low mech	high mech		managers		supervisors		skilled		semi-skille		unskilled	
								M	F	M	F	M	F	M	F	M	F

Farms - percentage increase/decrease

Average Land Area under Production	Average Yield	Average Output	Average Income	Average Profitability	Average Asset Worth	Average Number of Employees									
						managers		supervisors		skilled		semi-skille		unskilled	
						M	F	M	F	M	F	M	F	M	F

Livestock Units - percentage increase/decrease

Average Size of herd/flock	Average Yield	Average Output	Average Income	Average Profitability	Average Asset Worth	Average Number of Employees									
						managers		supervisors		skilled		semi-skille		unskilled	
						M	F	M	F	M	F	M	F	M	F

Client Benefit Monitoring Survey

Oblast	
Raion	
Member/Client Name and Address	

Credit Officer Name	
Interview Date	
Credit Officer Signature	
Credit Manager Name	
Date Checked	
Credit Manager Signature	
Date Entered	

Members of a Credit Union/Clients of Lending Institutions Detail

	Bank Account Number												
	Savings Account Number												
	Loan Account Number												
	Loan Contract Number												
1	Loan Status Class	1		2		3		4		5			
2	Current/Most Recent Loan	first		second		third		fourth					

3 **Credit History**

		Date Approved	Loan Amount (Tenge'000)	Interest Rate (per cent/pa)	Purpose	Loan Term (months)	Amount Outstanding (incl interest)	Amount Overdue (incl interest)
3.1	current/most recent							

		Date Approved	Loan Amount (Tenge'000)	Interest Rate (per cent/pa)	Purpose	Loan Term (months)	Performance good	satisfactory	poor
3.2	previous (1)								
3.2	previous (2)								

4 **Savings History**

		Date Account Opened	Current Balance (Tenge'000	Frequency of Deposits (Tenge'000) each month	each quarter	half-yearly	yearly	Average Deposit (Tenge'000)
4.1								

SECTION B: HOUSEHOLD DATA

1 **Economically Active Members**

		Gender	Age Group 16-30 years	30-55 years	55-65 years	Education Level	Current Employment Type	Years in Job	Monthly Income
1.1									
1.2									
1.3									
1.4									
1.5									
1.6									

2 **Dependants**

		Infant	4-15 years	16-65 years	>65 years
2.1	male				
2.2	female				

3 **Household Expenses**

	Item	Amount Tenge'000
3.1	food items	
3.2	clothes and footwear	
3.3	hygiene items	
3.4	gas, water and electricity	
3.5	telephone	
3.6	medical and dental	
3.7	schooling	
3.8	transport	
3.9	house repair and maintenance	
3.10	support of relatives	
3.11	**total**	

4 **Expenses for Household Plot**

	Item	Amount Tenge'000
4.1	seeds, fertilisers, pesticides, etc	
4.2	fuel	
4.3	hired labour	
4.4	hire of tractor, etc	
4.5	hire of draught animals	
4.6	cost of livestock management	
4.7	repair of sheds and stalls	
4.8	other	
4.9	other	
4.10		
4.11	**total**	

5 **Household Income**

	Source	Amount Tenge'000
5.1	external enterprise	
5.2	household enterprise	
5.3	salaries	
5.4	pensions	
5.5	social security payments	
5.6	gifts	
5.7	other	
6.8	**total**	

6 **Income from Household Plot**

	Item	Amount Tenge'000
6.1	meat sale	
6.2	wool sale	
6.3	milk sale	
6.4	fruit sale	
6.5	vegetable sale	
6.6	other	
6.7		
6.8	**total**	

7 **Household Assets**

	Item	Land Area (hectare)	Value (Tenge'000)
7.1	land		
7.2	house		
7.3	buildings		
7.4	vehicles		
7.5	machinery and equipment		
7.6	cash		
7.7	savings/deposits		
7.8	receivables (salary/pension/welfare)		
7.9	other		
7.10	**total**		

8 **Household Creditors**

	Source	Term (months)	Interest per cent/year)	Purpose	Balance Owed (Tenge'000)
8.1	bank				
8.2	other FI				
8.3	money lender				
8.4	supplier				
8.5	advance				
8.6	friend				
8.7	family				
8.8	other				
8.9	**total**				

SECTION C ENTERPRISE DATA

1 Enterprise Type and Ownership

	Sector			Form of Ownership	Technology Level	Years in Operation	Market/Customers		
	Main	Secondary	Minor				Main	Secondary	Minor
1.1									
1.2									
1.3									
1.4									
1.5									

2 Enterprise Assets

	Item	Land Area (hectare)	Value (Tenge'000)
2.1	land		
2.2	buildings		
2.3	machinery and equipment		
2.4	vehicles		
2.5	stocks (raw materials)		
2.6	stocks (work in progress)		
2.7	stocks (finished goods)		
2.8	cash and deposits		
2.9	receivables		
2.10	other		
2.11	**total**		

3 Enterprise Creditors

	Source	Term (months)	Interest (per cent/year	Balance Owed (Tenge'000)
3.1	bank			
3.2	other FI			
3.3	money lender			
3.4	supplier			
3.5	advance			
3.6	friend			
3.7	family			
3.8	other			
3.9				
3.10			**total**	

4 Enterprise Annual Costs

	Item	Amount Tenge'000
4.1	labour	
4.2	materials	
4.3	consumables (fuel, oil, spares)	
4.4	utilities (water, gas, electricity)	
4.5	rent	
4.6	communications (phone, post, etc)	
4.7	vehicles (fuel, repair, insurance, etc)	
4.8	transport	
4.9	publicity	
4.10	other	
4.11	interest (on loans, etc)	
4.12	tax	
4.13	owner's drawings	
4.14		
4.15		
4.16		
4.17	**total**	

5 Enterprise Annual Income

	Item (product or service sold)	Amount (Tenge'000)
5.1		
5.2		
5.3		
5.4		
5.5		
5.6	**total**	

6 Enterprise Investment Intentions

	Item	Amount (Tenge'000)		
		New	Replacement	Total
6.1	land			
6.2	buildings			
6.3	machinery			
6.4	vehicles			
6.5	working capital			
6.6	other			
6.7	**total**			

7 Enterprise Employees

		Total at Last Survey	Full Time Paid Employees		Part Time Paid Employees		Unpaid Family Members	Totals
			Male	Female	Male	Female		
7.1	Managers							
7.2	Supervisors							
7.3	Skilled							
7.4	Semi-skilled							
7.5	Unskilled							
7.6	**total**							

SECTION D FARM DATA

Land area (hectares)

	Land	area (hectare)
1	owned (a)	
2	rented in (b)	
3	rented out (c)	
4	total ((a-b)-c)	
5	area irrigated	

6 **Livestock units**

	Type	number
6.1		
6.2		
6.3		
6.4		
6.5		

7 **Output**

	Product/Crop	area under crop (ha)	yield per hectare	per cent sold	price per unit (Tenge)	customer	payment (Tenge'000)		
							cash	receivable	total value
7.1									
7.2									
7.3									
7.4									
7.5									
7.6	total								

8 **Inputs**

	Item	unit	quantity	per cent purchased	unit price (Tenge)	supplier	form of payment (Tenge'000 - for barter put Tenge equivalent)		
							cash	barter	total value
8.1	labour								
8.2	irrigation								
8.3	energy								
8.4	seed								
8.5	fertilisers								
8.6	pesticides								
8.7	mechanised preparation/harvest								
8.9	other								
8.10	total								

9 **Farm Assets**

	Item	Land Area (hectare)	Value (Tenge'000)
9.1	land		
9.2	buildings		
9.3	machinery and equipment		
9.4	vehicles		
9.5	stocks (inputs)		
9.6	stocks (harvested produce)		
9.7	cash and deposits		
9.8	receivables		
9.9	other		
9.10	total		

10 **Farm Creditors**

	Source	Term (months)	Interest per cent/year	Purpose	Balance Owed (Tenge'000)
10.1	bank				
10.2	other FI				
10.3	money lender				
10.4	supplier				
10.5	advance				
10.6	friend				
10.7	family				
10.8	other				
10.9					
10.10				total	

11 **Farm Investment Intentions**

	Item	Cost (Tenge'000)			
		New	Extension	Replacement	Total Value
11.1	land				
11.2	buildings				
11.3	machinery				
11.4	vehicles				
11.5	working capital				
11.6	other				
11.7	total				

12 **Farm Employees**

	Employee Category	Full Time Paid Employees		Part Time Paid Employees		Unpaid Family Members	Totals	Total at Last Survey
		Male	Female	Male	Female			
12.1	Managers							
12.2	Supervisors							
12.3	Skilled							
12.4	Semi-skilled							
12.5	Unskilled							
12.6	total							

Principal Codes

Gender

Male	Female
1	2

Education Level

Primary	Secondary	Vocational College	Technical College	Unfinished Higher	Higher	None
1	2	3	4	5	6	7

Sector

Agriculture Crops	Livestock	Mixed Farming	Agro-Processing	Manufacture	Construction	Transport
1	2	3	4	5	6	7
Trade					**Services**	**Other**
Petty Trader	Market Trader	Wholesaler	Retailer	Other		
8	9	10	11	12	13	14

Form of Ownership

Sole Owner (Male)	Sole Owner (Female)	Family	Several Persons (relatives)	Several Persons (unrelated)	Cooperative	State	Other
1	2	3	4	5	6	7	8

Technology Level

manual	electrically powered	mechanised (low)	mechanised (high)
1	2	3	4

Market/Customers

end-user	urban trade	other urban enterprises	rural trade	other rural enterprises	direct export	other
1	2	3	4	5	6	7

Creditors - Purpose

purchase					
supplies	**equipment**	**machinery**	**vehicles**	**land**	**livestock**
1	2	3	4	5	6
land improvement	tax payment	building construction	payment of debt	everyday expenses	other
7	8	9	10	11	12

DAILY CASH BOOK

Credit Union Name | | **Date**

	Opening Balance	Inflow	Outflow	Closing Balance	Check	Comments
Cash						
Capital						
loans disbursed						
loans repaid						
loans						
savings deposited						
savings withdrawn						
savings						
shares purchased						
shares redeemed						
shares						
dividends account						
seed fund account						
bank deposits						
bank withdrawals						
bank						
Revenues						
interest on lending						
Expenses						
interest paid on Seed Funds						
interest paid on savings						
dividends paid						
other						
Totals						
Closing Balance						

7. REGULATIONS

7 SMALL AND MICRO LOAN REGULATIONS

7.1 Introduction

7.1.1 Status of the Regulations

The Regulations shall be the basis for all lending undertaken under the auspices of the Trust. The Regulations are issued by the Trust to provide guidance to such commercial banks and other authorised financial institutions participating.

7.1.2 Precedence of Documents Governing Lending

The Regulations shall take precedence over the Lending Manual and any contract made between any of the participating parties in relation to the extension of loans.

Any provision in the Regulations found not to be enforceable under the laws of the Republic of Kazakstan shall not affect the validity of any other provision contained in the Regulations.

Modifications in the Regulations shall not be retroactively enforceable.

7.2 Authority and Mechanisms for Revising the Regulations

Revisions to the Regulations may be made at any time by the Trust. Amendments to the Regulations shall apply equally to all participating institutions[1]. The Trust shall give 90 (ninety) days notice of any amendment to the main text of the Regulations and 30 (thirty) days notice of any amendment to the appendices to the Regulations.

Should a participating institution seek an amendment to the Regulations, it shall make a request for such amendment in writing to the Trust, stating the reasons for the proposed changes. The Trust shall review all such proposals, consulting other participating institutions, and shall notify all participating institutions of its decision on any proposed amendment within 60 (sixty) days of receipt of the request.

7.3 Objectives and Scope

The Trust aims to increase micro and small enterprise (MSE) access to investment and working capital finance on fully commercial terms in order to stimulate growth and to create employment in the rural MSE sector. Trust entry is intended to foster local financial institutions and branches of national financial institutions that are able to mobilise local resources for investment in local enterprise. Achievement of these objectives will contribute to the development of a market economy, improvements in the efficiency and performance of financial institutions in the rural areas, socio-economic development and improvement of living standards for Trust clients and their employees.

[1] Appendix A7/1 lists the participating institutions

Participating institutions will be required to use Trust funds to finance new ventures, enterprise expansion, modernisation and technical upgrading in order to improve factor productivity and product quality. Where appropriate, projects financed shall be required to give adequate attention to environmental safety and pollution control. Recipients of loans shall be members of joint liability groups with savings and group guarantees as collateral, individuals with adequate savings and the product of their investment as collateral and registered businesses offering satisfactory collateral.

Loans shall be for capital investment and/or for working capital. Loan purposes that are excluded from consideration shall be the refinancing of existing obligations and real estate operations. Only those enterprises that are able and willing to bear a fully commercial interest rate which allows the lending institutions to cover all their costs[2] and generate a reasonable margin of profit shall be financed. Enterprise for which government policy from time to time allows subsidised rates of interest are excluded because participant institutions are required to operate on a sustainable basis free from budgetary support.

The primary concern of all participating financial institutions shall be development of economic activity in the districts in which they are located; participating credit unions may, where circumstances warrant and the members are agreed, follow the principle of provident loans but such loans shall not exceed 10 (ten) per cent of the loan portfolio at any time. Potential enterprises that may be financed include, but shall not be limited to micro and small scale industries, agriculture, agro-processing industries, rural handicrafts, transport, construction, services and general trading.

7.4 Definitions

For the purposes of these Regulations the following definitions shall be applicable:

7.4.1 Joint Liability Group

A Joint Liability Group (JLG) is a group of persons who associate for the purpose of obtaining credit, on the basis of joint and several liability for the debt, for investment in a collaborative business enterprise in any sector. Each member of the JLG enters into an individual contract with the lending institution and enters into a joint and several guarantee with each of the other members of the group in respect of the joint liability. By this means members of a JLG are able to invest in assets which otherwise would be beyond an individual's capacity to offer the necessary level of security.

Each member of a JLG is required to open a savings account with the lending institution at least two months prior to a loan application being made and for the account to contain a minimum balance - related to the size and type of loan sought - which forms a partial security for the loan sought. A minimum savings balance, related to the amount outstanding from the group as a whole, must be maintained during the life of the loan.

2 These costs include the cost of funds, the costs of any external services procured to assist with project implementation and appropriate provisions for bad and doubtful debt.

A JLG shall have a minimum of five and a maximum of 10 members. Members of a JLG may not be closely related to each other by marriage or blood and only one member of a household may be a member of a JLG at any one time.

7.4.2 Credit Union

A credit union is a cooperative financial organisation, owned and operated by and for its members, according to democratic principles, for the purpose of encouraging savings, using pooled funds to make loans to members at reasonable rates of interest and providing related financial services to enable members to improve their economic and social condition.

Although they are cooperative societies, they differ in many significant respects from other cooperative societies. In their business operations they most closely resemble banking institutions. Some of the features that distinguish them from other cooperatives and financial institutions are as follows:

- their operations are concentrated within their own membership;
- their working funds comprise mostly members' shares and deposits; and
- they make loans to members, emphasising primarily the borrower's character, ability to pay and the viability of the investment proposal. The exception to this is that credit unions offer loans for provident use in which investment viability is not a factor.

7.5 Loan Terms and Conditions

7.5.1 Loans

Loans shall be denominated in US Dollars and repayable in US Dollars or in Tenge (at the US Dollar:Tenge rate of exchange prevailing at the date of each payment). Only persons and enterprises which satisfy the eligibility criteria wholly shall qualify to apply for loans. Satisfaction of the eligibility criteria, however, shall not be construed as placing an obligation to lend upon the participating financial institutions.

Participating institutions shall charge market-based interest rates to the borrowers.

Loans shall be of two types: **micro loans** to members of joint liability groups against the guarantee of the other group members and to individuals with adequate savings and offering the product of the loan as the security and **small loans** to individuals, qualifying JLG and enterprises against normal physical or financial security.

Both types of loan shall have upper financial limits which for the shall be reviewed, and adjusted upward, periodically by the Trust in order to maintain their real value against inflation.

Wherever possible, loans will be disbursed by payments directly to suppliers. Where this is not possible, disbursements in cash will only be made against withdrawal

applications supported by substantiating documents; credit unions may not extend provident loans from Trust funds.

7.5.2 Micro Loans

Borrowers seeking loans in a JLG shall enter into individual loan contracts with the financial institution and into joint and several guarantees with the other group members, the guarantees to be in favour of the lending institution. All micro loans shall be made to individuals, not to a JLG.

Applicants shall be required to satisfy standard eligibility criteria and loans shall be made on standard terms and conditions, regardless of the sector[3].

Applicants shall each be required to make regular deposits in a savings account for a minimum period of two months prior to their first loan application. Although the savings will be deposited at the Narodny Bank in a single account opened in the name of the lending institution, records of individual savings accounts shall be kept at the financial institution at which the prospective borrowers intend to seek a loan. At the time of approving a loan the financial institution shall raise a charge against each borrower's savings account as partial security for the loan. No withdrawals shall be permitted from savings accounts upon which a charge has been raised during the first three months of the loan term and thereafter the borrower will be required to maintain a minimum balance - in the case of JLGs the minimum balance shall be an aggregate amount to be divided equally among the members of the group[4].

A borrower may request a repeat loan but only after full and prompt payment of the previous loan. In the event of a member of a JLG defaulting, the other members of the group qualify for a repeat loan once the group has settled in full the defaulter's loan and penalties. Wilful defaulters shall not be eligible for further loans.

A borrower who defaults with 'force majeure' cause may recover eligible status by rectifying the default within six months of the due date of repayment of the loan. In the case of a defaulting member in a JLG, the defaulter must have rectified his/her obligation with the group before being eligible for further loans as a member of the group or as an individual.

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3 Appendix A7/2 sets out the eligibility criteria and terms and conditions for micro loans.
4 Appendix A7/4 sets out the savings requirement

7.5.3 Small Loans

Small loan borrowers - individuals, qualifying JLG and companies or other legal entities - shall enter into loan and security contracts with the lending institution.

Small loan applicants shall be required to satisfy standard eligibility criteria and loans shall be made on standard terms and conditions, regardless of the sector[5].

Wilful defaulters shall be subject to vigorous pursuit and recovery action and shall not be eligible for further loans.

7.6 Implementation Responsibilities and Compensation

7.6.1 Responsibilities

The participating institutions shall be responsible for:

- promotion of the Trust
- application processing and loan approval, supervision and recovery
- arrears management
- loan portfolio management
- maintenance of financial records

and, where appropriate, offer business advice, other financial services (as available) and assistance with access to training.

Each participating financial institution shall appoint a credit manager to attend to Trust funded loans - in a bank branch this would be the incumbent credit manager, in a credit union it would be the president of the credit committee. This manager shall be responsible for the supervision of those officers who are charged with the appraisal, supervision and recovery of Trust funded loans.

Participating institutions shall appoint a credit officer whose main responsibilities shall be:

- to promote the Trust

- to provide pre-credit training to JLG and assist other micro and small entrepreneur gain access to training

- to explain eligibility requirements and loan terms and conditions to potential borrowers

- to open potential borrowers' savings accounts

- to accept and appraise loan applications from eligible applicants and make recommendations for the approval or decline of loans

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[5] Appendix A7/3 sets out the eligibility criteria and terms and conditions for small loans

- to ensure that all securities are in place prior to first disbursement of loans
- to disburse loan funds in accordance with Trust procedures
- to supervise loans through regular visits
- collect repayments in accordance with Trust procedures
- review cases of loan default, identify wilful default, call in defaulted loans and collect arrears.

7.6.2 Compensation

NGOs acting as the Trust's agent shall receive a management fee to be negotiated between the Trust and each participating NGO separately. Participating institutions that are not agents of the Trust shall not receive compensation from the government or other source for operating the project since all compensation is to be funded from interest charged on loans made and income raised for services extended to clients or members.

However, if a participating credit union or other association acts as an intermediary by introducing members of the union or association - as individual entrepreneurs or as members of a JLG - to another participating institution, and if a loan is approved, the lending institution shall negotiate a compensation package with the credit union or association for the maintenance of the borrowers' savings accounts and for such assistance in the monitoring and supervision of loan use and its recovery as shall be agreed.

7.6.3 Contractual Arrangements

Implementation arrangements shall be governed by contracts that formalise the rights and obligations of all parties; such contracts shall include but not be limited to the following:

- a standard loan agreement between each micro loan borrower in a JLG and the lending financial institution;
- a standard joint liability agreement, to include a charge over JLG members' savings accounts, between a JLG and the institution making the loan;
- a standard loan agreement, to include a charge over the individual's savings account, between each individual micro loan borrower and the lending institution ;
- a standard loan agreement between each individual, enterprise or other legal entity and the lending institution; and
- an agreement, defining the responsibilities and setting out the compensation of the intermediary for executing the responsibilities, where a credit union collaborates with another financial institution in providing credit.

7.7 Portfolio Management

7.7.1 Loan Approval and Discretionary Authorities

All micro and small loans shall be subject to specific discretionary authorities for approval and control[6].

7.7.2 Lending Audit

Participating institutions shall establish a lending audit function; staff independent of Trust operations will review all Trust funded loans regularly, checking the integrity of the loans and their records and lender adherence to these Regulations and the procedures laid down for Trust funded loans. Lending audit procedures are set out in an Trust Lending Audit Manual.

In the event of irregularities being detected as a result of the lending audit, the normal disciplinary procedures of the lending institution shall be applied.

7.7.2 Accounting and Management Information

Participating institutions shall maintain accounts of all Trust funded transactions in their books in accordance with accounting conventions and procedures prescribed by the National Bank of the Republic of Kazakstan for banks and credit unions. This includes the maintenance of management accounts, the classification of loans according to the degree of risk and the making of provisions for doubtful debt as stipulated by the National Bank of the Republic of Kazakstan.

Procedures for accrual of interest on loans will be those stipulated by the National Bank of the Republic of Kazakstan.

At a minimum, participating institutions will be required to maintain a Trust funded loans management accounting information system that will be able to identify each loan by:

- client
- micro and small loan category
- institution at which the loan is domiciled
- credit officer responsible for the loan
- current classification of the loan
- economic sub-sector
- loan purpose
- enterprise type
- type of security/collateral

[6] Appendix A7/5 sets out these discretionary authorities.

7.7.3 Client Benefit Monitoring

Baseline data will be collected from all applicants for loans through the use of a standard questionnaire. These data will compile information on the following:

- identity of client populations expected to use and benefit from Trust services;
- socio-economic profiles of Trust clients, differentiated by gender, household size, existing occupations, asset and income levels, education and literacy levels, savings levels and habits, indebtedness levels, current access to credit, entrepreneurial experience and market outlets;
- needs of client populations for improving opportunities to earn an increased or more reliable income;
- perceptions in client populations about the constraints to increased income and improved quality of life;
- willingness of client populations to pay for services at commercial rates; and
- satisfaction of Trust eligibility criteria.

Benefit monitoring shall be conducted through half-yearly sample surveys of Trust borrowers.

7.7.4 Reporting

Each participating financial institution shall prepare a monthly report on activities undertaken; the report shall include details of the following:

- Trust funded loan applications received;
- number and values of Trust funded loan approvals and declines;
- number and values of Trust funded loan disbursements made;
- Trust funded loan portfolio performance for the period, including:
    - total outstanding at the start of the period,
    - opening arrears of interest and principal,
    - interest and principal falling due during the period
    - principal not yet due,
    - principal and interest rescheduled,
    - principal and interest written off,
    - principal and interest written back,
    - principal placed on demand,
    - current due principal and interest collected,
    - past due principal and interest collected,
    - principal and interest falling into arrears,

  - closing arrears of principal and interest,
  - current due collection rate,
  - past due collection rate,
  - overall collection rate,
  - aged analysis of arrears by classification, and
  - provision by loan classification.

- the data shall be presented by loan classification, economic sub-sector, type of enterprise financed, loan size, size of arrears and such other categories as deemed useful for monitoring exposures and portfolio management; and

- a sample of Trust funded loan supervision reports reviewing business performance and compliance with conditions.

A7/1 AUTHORIZED PARTICIPANT INSTITUTIONS

A7/1.1 Participating Banks

Authorized participating banks and their branches are the following:

A7/1.2 Participating Institutions/NGOs

Institutions and NGOs authorised to participate are the following:

A7/1.3 Participating Credit Unions

Credit Unions authorised to participate are the following:

A7/2 TERMS AND CONDITIONS FOR MICRO LOANS

A7/2.1 Maximum Loan Size

Micro loans shall be of two types and the maximum loan size will reflect the type:

A7/2.1.1 First Loan

A first micro loan shall not exceed Tenge 35,000 (US$ 500 equivalent) per individual whether as a member of a JLG or as an individual borrower.

A7/2.1.2 Repeat Loans

Subject to there being no default in the first loan and to provide incentive to good credit discipline, an individual whether as a member of a JLG or as an individual borrower, may apply for a subsequent micro loan. A repeat loan shall not exceed Tenge 70,000 (US$ 1,000 equivalent) per individual whether as a member of a JLG or as an individual borrower.

A7.2.2 Eligibility Criteria

Eligibility criteria for micro loans shall include, but not necessarily be confined to, the following which must be satisfied in full:

- be a permanent resident of Kazakstan,
- be of legal age,
- be of sound mind,
- have sufficient experience or knowledge to carry out the intended enterprise,
- resident for at least one year in present location,
- be of good reputation and have no criminal record,
- not be bankrupt,
- have no existing debt with a financial institution,
- have a good credit history on all previous loans, whatever the source,
- be willing to join a JLG, if appropriate, and
- have satisfied the savings obligations.

The intended enterprise of the borrower must satisfy the following criteria:

- employ less than twenty five people;

- be free of potentially negative environmental impact;

- be able to cover the shortfall between the net (before debt service) cash flow capacity to cover interest payments and loan principal repayment and the total cost of the project; and

- have a sound estimated monthly operating margin, after all costs including the borrower's own drawings, of at least 1.5 times the payments of principal and interest due to the lending institution.

7/2.3 Loan Terms and Conditions

Loan terms and conditions shall be as follows:

maximum duration of first loan	9 months
maximum duration of repeat loans	12 months
maximum interest grace period	90 days
payment schedule for interest	monthly payments
repayment schedule for principal (first loans)	single payment at term maturity
repayment schedule for principal (repeat loans)	quarterly instalments
maximum permissible loan amounts	see Appendix A7/4
interest rate	Libor + 12 per cent
penalty interest rate	none
borrower equity contribution	see eligibility criteria above
drawdown period	30 days
security	150 per cent of loan value
savings requirement	see Appendix A7/4

A7/3 TERMS AND CONDITIONS FOR SMALL LOANS

A7/3.1 Maximum Loan Size

Small loans shall be of two types: first loans and repeat loans.

A7/3.1.1 First Loans

Maximum loan size for a first loan shall be Tenge 175,000 (US$ 2,500 equivalent) whether for an individual or an enterprise. A JLG having a good credit history of a first and second micro loan and a savings balance adequate to sustain a small loan shall be eligible for small loans at levels shown in Appendix A7/4.

A7/3.1.2 Repeat Loans

Provided a previous loan has been repaid and the savings account balance permits, maximum loan size for repeat loans shall be Tenge 245,000 (US$ 3,500 equivalent) whether for an individual borrower or an enterprise.

A7/3.2 Eligibility Criteria

Eligibility criteria for small loans shall include, but not necessarily be confined to, the following - borrowers or managers of borrowers, if the borrower is not an individual[7], must satisfy the following criteria:

- be a permanent resident of Kazakstan,
- be of legal age,
- be of sound mind,
- have individual/collective experience or knowledge to operate the enterprise,
- have been resident for at least one year in present location,
- be of good reputation and have no criminal record,
- not be bankrupt or have any overdue debt with a financial institution,
- have a good credit history on all previous loans, whatever the source,
- have satisfied the savings obligations.

The intended enterprise of the borrower must satisfy the following criteria:

- employ less than fifty people;
- have been operating for at least one year;
- be able to demonstrate it has adequate management, technical, marketing and financial management skills at its disposition;
- be able to demonstrate that is has regular access to needed raw materials;

[7] Defined as individuals taking a loan on an individual basis, all directors of a company, if the loan is taken on a company basis and all other persons with management decision making authority, if the loan is taken by some other legal person.

- be able to demonstrate it has a market for its product or services;
- be free of potentially negative environmental impact;
- be able to maintain simple financial records of income and expenditure;
- not be bankrupt or have any overdue debt with a financial institution;
- have a good credit history, if it has borrowed previously from any source;
- be able to cover the shortfall between the net (before debt service) cash flow capacity to cover interest payments and loan principal repayment and the total cost of the project; and
- have a sound estimated monthly operating margin, after all costs including the borrower's own drawings, of at least 1.5 times the payments of principal and interest due to the lending institution.

A7/3.3 Loan Terms and Conditions

maximum duration of first loans	12 months
maximum duration of repeat loans	24 months
maximum grace period for interest (first loans)	90 days
payment schedule for interest	monthly payments
principal repayment schedule (first loans)	half-yearly instalments *
principal repayment schedule (repeat loans)	quarterly instalments *
maximum permissible loan amounts	see Appendix A7/4
interest rate	Libor + 12 per cent
penalty interest rate	none
borrower equity contribution	see eligibility criteria above
drawdown period	30 days
security	150 per cent of loan value
savings requirement	see Appendix A7/4

* some grace allowed where production is seasonal

A7/4 MAXIMUM PERMISSIBLE LOAN AMOUNTS MINIMUM SAVINGS BALANCES REQUIRED

A7/4.1 Maximum Permissible Loan Amounts

Maximum permissible loan amounts for each type of loan are shown in Table A7/4.1 below:

Table A7/4.1 Maximum Permissible Loan Amounts (Tenge)

Loan Type	Individual	Enterprise	JLGroup Aggregate	
			5 member	10 member
Micro Loans				
First Loans	35,000	NA	175,000	350,000
Repeat Loans	70,000	NA	350,000	700,000
Small Loans				
First Loans	175,000	175,000	525,000	1,500,000
Repeat Loans	245,000	245,000	NA	NA

A7/4.2 Minimum Savings Balances Required

The minimum savings balances required are shown in Table A7/4.2 below:

Table A7/4.2 Minimum Savings Balances Required (Tenge)

Type	Individual	Enterprise	JLG Member
Micro Loans			
Minimum at 1st Application	7,000	NA	5,000
Minimum for Repeat Loan	10,500	NA	7,500
Small Loans			
Minimum at 1st Application	21,000	30,000	15,000
Minimum for Repeat Loan	30,000	35,000	NA

A7/5 LOAN MANAGEMENT RESPONSIBILITIES AND DISCRETIONARY AUTHORITIES

Credit officers shall be responsible for all aspects of a personal portfolio of Trust funded loans. Each personal portfolio of loans will comprise a mixture of micro and small loans.

Each JLG and each other borrower shall be assigned a supervising credit officer from the moment of first enquiry by the client. The credit officer will process loans assigned to him/her from application through completion of the business plan to contract preparation and will then supervise the loan until final repayment has been made. The credit officer assigned to a loan shall make a written recommendation on the acceptance or decline of the loan proposal.

Responsibility for the approval of loan financing proposals shall be as shown in Table A7/5.1 below; participating institutions shall extend discretionary authority at the levels indicated to the officers and committees as shown in the table.

Table A7/5.1 Responsibility for the Approval of Loans

Loan Type	Banks	Other Institutions
Micro Loans		
individual borrower	branch credit manager	credit committee
joint liability groups	branch manager	credit committee
Small Loans		
individual/enterprise	branch manager	credit committee
joint liability groups	branch credit committee	credit committee

Responsibility for the control of loans and for variation and rescheduling of loans shall be as shown in Table A7/5.2 below:

Table A7/5.2 Responsibility for Loan Control, Variation and Rescheduling

	Banks	Other Institutions
Micro Loans		
Control	branch credit manager	credit manager
Variation	branch credit committee	credit committee*
Rescheduling	branch credit committee	credit committee*
Small Loans		
Control	branch credit manager	credit manager
Variation	branch credit committee	credit committee*
Rescheduling	regional credit committee	credit committee*

Note *: in credit unions all rescheduling and variation would be referred to the Board of Directors

A7/6 SECURITY REQUIREMENT AND SECURITY MARGINS

A7/6.1 Security Requirement

Security against default on loans shall be taken as shown below in Table A7/6.1:

Table A7/6.1 Security Requirement

Loan Type	Security Description
Micro Loans	
individual borrower	savings; product of the loan
JLG borrowers	savings; joint and several guarantees; product of the loan
Small Loans	
individual borrowers	savings; loan procured assets; product of the loan; personal assets
enterprises	savings; loan procured assets; personal guarantees from each director and personal assets
JLG borrowers	savings; joint and several guarantees; loan procured assets; product of the loan; members' personal assets

A7/6.2 Security Margins

Margins for valuing an asset as a loan security are shown in Table A7/6.2 below:

Table A7/6.2 Security Margins

Asset	Security Form	Margin (%)
Land and Buildings		
urban commercial property	mortgage	75
urban industrial property		50
urban housing		80
rural commercial property		65
rural industrial property		40
rural housing/farm property		40
agricultural land		50
Machinery and Equipment		
industrial	lien charge	50
agricultural		60
trade		65
Vehicles		
commercial	lien charge	50
agricultural		50
personal		60
Other		
bonds	lien charge	80
savings deposits	lien charge	90

This schedule will be expanded to include other forms of asset suitable to loan security, e.g. warehouse receipt, once these have been established.

8. CONTRACTS

Joint Liability Contract Number _______

This Contract including the Schedules attached hereto (hereinafter called the Contract) is made on the ____________ day of _____________ 199_ between _________________ _______________ (hereinafter called the Lender) of the first part

and _________________ of ____________________________________ of the second part
and _________________ of ____________________________________ of the third part
and _________________ of ____________________________________ of the fourth part
and _________________ of ____________________________________ of the fifth part
and _________________ of ____________________________________ of the sixth part

(hereinafter individually called the Members and collectively called the Joint Liability Group)

Whereas the Lender has established a credit scheme for the provision of loans to micro and small enterprises,

Whereas one or more Members of the Joint Liability Group have applied to the Lender for loans (hereinafter called the Loans) and the Lender has agreed to provide the Loans to the said members subject to the Joint Liability Group jointly and severally giving a guarantee of repayment as security for the Loans,

Whereas the Members of the Joint Liability Group have opened in their joint names an account with the Lender (hereinafter called the Account),

Now therefore the parties hereto agree as follows.

1 Each Member of the Joint Liability Group agrees that as security for the Loans which the Lender has agreed to make to one or more Members of the Joint Liability Group by one or more loan contracts specified in Schedule I to this Contract (hereinafter called the Loan Contracts) the Lender shall be entitled to joint and several guarantee of repayment of the Loans together with Interest and other costs arising and due to the Lender under the terms of the Loan Contracts (hereinafter called the Joint Liability Guarantee).

2 The Lender reserves its right to the Joint Liability Guarantee.

3 The Lender shall be entitled to exercise its rights under this Joint Liability Contract in the event that any Member of the Joint Liability Group fails to comply with any of such Members obligations under such Member's Loan Contract.

4 Each Member of the Joint Liability Group acknowledges that in the event of a breach by any Member of the Joint Liability Group of any obligations under this Joint Liability Contract the Lender shall be entitled to terminate all of the Loan Contracts with immediate effect.

5 The Members of the Joint Liability Group hereby jointly and severally agree to pay on the request of the Lender without reference to any court any and all amounts of loan Principal, Interest and other costs due to the Lender under the Loan Contracts and all costs incidental to the recovery of the Loans.

6 Each Member of the Joint Liability Group acknowledges that if any member of the Joint Liability Group shall fail to pay to the Lender any amount of Principal or Interest or other costs due to the Lender on or before the due date for such payment, the Lender shall have the right at its sole discretion to pay the amount due from the Bank Account without reference to the Members of the Joint Liability Group.

7 Each Member of the Joint Liability Group acknowledges that if any Member of the Joint Liability Group shall die or for any other reason including reasons of disablement or force majeure shall be unable to discharge such Member's obligations under such Member's Loan Contract or this Contract, this Contract shall remain in full force and effect and each Member shall remain jointly and severally bound to repay such Member's Loan under the terms of such member's Loan Contract and to meet such Member's obligations under this Contract.

8 This Contract shall be subject to the Laws of the Republic of Kazakstan and the parties hereto agree that in the event of litigation the ruling of the ___________ Court shall be binding upon them.

In witness whereof the parties hereto have executed the Contract on the date first written above

Lender

Witness for the Lender

Name

Address

Member of the second part

Witness for the Member of the second part

Name

Address

Member of the third part

Witness for the Member of the third part

Name

Address

Member of the fourth part

Witness for the Member of the fourth part

Name

Address

Member of the fifth part

Witness for the Member of the fifth part

Name

Address

Member of the sixth part

Witness for the Member of the sixth part

Name

Address

Joint Liability Contract

Schedule I Loan Contracts

The Loan Contracts to which this Joint Liability Contract refers are

Loan Contract Number ___________ dated the ___________ day of ___________ 199 _ between the first and second parties to this Contract

Loan Contract Number ___________ dated the ___________ day of ___________ 199 _ between the first and third parties to this Contract

Loan Contract Number ___________ dated the ___________ day of ___________ 199 _ between the first and fourth parties to this Contract

Loan Contract Number ___________ dated the ___________ day of ___________ 199 _ between the first and fifth parties to this Contract

Loan Contract Number ___________ dated the ___________ day of ___________ 199 _ between the first and sixth parties to this Contract

____
Lender

Witness for the Lender

____
Name ___________________
Address ___________________
____
____
____

____
Member of the second part

Witness for the Member of the second part

____
Name ___________________
Address ___________________
____
____
____

____
Member of the third part

Witness for the Member of the third part

____
Name ___________________
Address ___________________
____
____
____

____
Member of the fourth part

Witness for the Member of the fourth part

____
Name ___________________
Address ___________________
____
____
____

____
Member of the fifth part

Witness for the Member of the fifth part

____
Name ___________________
Address ___________________
____
____
____

____
Member of the sixth part

Witness for the Member of the sixth part

____
Name ___________________
Address ___________________
____
____
____

Lien Contract Number ______

This Contract including the Schedules attached hereto (hereinafter called the Contract) is made on the __________ day of __________ 199_ between ______________ ______________ (hereinafter called the Lender) of the one part and ____________ of ______________ (hereinafter called the Borrower) of the other part.

Whereas the Lender has established a credit scheme for the provision of loans to micro and small enterprises.

Whereas the Borrower has applied to the Lender for a loan (hereinafter called the Loan) and the Lender has agreed to provide the Loan to the Borrower subject to the Borrower granting the Lender a lien over certain of the Borrower's assets as security for the Loan,

Now therefore the parties hereto agree as follows.

1 The Borrower agrees that as security for the Loan which the Lender has agreed to make to the Borrower by a loan contract specified in Schedule I to this Contract (hereinafter called the Loan Contract) the Lender shall be entitled to a lien over the assets of the Borrower specified in Schedules II and III to this Contract (hereinafter called the Lien).

2 The Lender reserves its right to the Lien.

3 The Borrower hereby declares that all the assets aforesaid are the absolute property of the Borrower at the sole disposal of the Borrower and free from any mortgage, charge, lien or encumbrance and that the Borrower shall not create any mortgage, charge, lien or encumbrance upon or over the same nor do or allow anything that may prejudice this security.

4 The Borrower undertakes to comprehensively insure the said assets under one or more insurance policies issued in favour of the Lender and shall maintain such insurance during the validity of the Loan Contract.

5 The Borrower acknowledges that the Lender has the right to control the use of the assets under the Lien.

6 The Lender shall be entitled to exercise its rights under this Lien Contract in the event the Borrower fails to comply with any of the Borrower's obligations under the Loan Contract.

7 The Borrower acknowledges that in the event of a breach of the Borrower's obligations under this Lien Contract the Lender shall be entitled to terminate the Loan Contract with immediate effect.

8 The Borrower acknowledges that the Lender may place identifying marks on the assets subject to the Lien.

9 The Borrower shall on the request of the Lender deliver the said assets to the Lender and the Lender may without reference to any court satisfy its claims arising from the Loan Contract through disposal of the said assets.

10 This Contract shall be subject to the Laws of the Republic of Kazakstan and the parties hereto agree that in the event of litigation the ruling of the __________ Court shall be binding upon them.

In witness whereof the parties hereto have executed the Contract on the date first written above

______________________ Borrower	______________________ Lender
Witness for the Borrower	**Witness for the Lender**
______________________ Name ______________ Address ______________ ______________________ ______________________ ______________________	______________________ Name ______________ Address ______________ ______________________ ______________________ ______________________

Micro Loan Contract Number ______

This Contract including the Schedules attached hereto (hereinafter called the Contract) is made on the ____________ day of ____________ 199_ between ________________ ________________ (hereinafter called the Lender) of the one part and ______________ of ______________________ (hereinafter called the Borrower) of the other part.

Whereas the Lender has established a credit scheme for the provision of loans to micro and small enterprises that is governed by regulations issued and amended from time to time by the National Bank of the Republic of Kazakstan (hereinafter called the Regulations),

Whereas the Borrower has applied to the Lender for a loan (hereinafter called the Loan) through to support the implementation of a business plan (hereinafter called the Borrower's Business Plan),

Whereas the Lender has agreed to make the said Loan to the Borrower upon the terms and conditions hereinafter set forth,

Now therefore the parties hereto agree as follows.

1 The Contract shall be subject to all the provisions of the Regulations as issued and amended from time to time by the National Bank of the Republic of Kazakstan.

2 The Lender shall lend to the Borrower the Total Loan Amount for the Items to be Funded from the Loan as set out in Schedule I to this Contract. The Borrower shall utilise the Loan solely for these purposes.

3 The Loan shall be effective from the Date of Effectiveness set out in Schedule II to this Contract.

4 The Loan will be repaid to the Lender by the Borrower within the Term of the Loan set out in Schedule II to this Contract.

5 The Borrower shall be entitled to utilise the Loan during the Loan Drawdown Period set out in Schedule II to this Contract. At the expiry of the Loan Drawdown Period the Lender shall have the right at its sole discretion to cancel from the Total Loan Amount any undrawn balance of the Loan.

6 The Lender will disburse the Loan or part thereof on presentation by the Borrower of the Lender's prescribed Withdrawal Application.

7 Repayment of the Loan Principal shall commence at the end of the Grace Period for Principal set out in Schedule II to this Contract.

8 Payment of Loan Interest shall commence at the end of the Grace Period for Interest set out in Schedule II to this Contract. Interest falling due during the Grace Period for Interest will be added to the Loan Principal amount at the end of the Grace Period for Interest.

9 Interest shall be payable on the last working day of every month from the end of the Grace Period for Interest at the rate set out in Schedule II to this Contract. Interest shall be calculated on the average daily outstanding balance of the Loan Principal.

10 The Loan shall be repaid in accordance with the Repayment Schedule set out in Schedule III to this Contract.

11 The Borrower shall pay the Lender on demand all costs incurred in the execution of this Contract and the Loan Securities.

12 The Borrower shall provide the Lender with Securities for the Loan as set out in Schedule IV to this Contract. Notwithstanding the Date of Effectiveness of the Loan, the Lender shall not disburse any of the Loan Proceeds to the Borrower until such time as the Securities have been perfected.

13 The Borrower shall insure any assets purchased with the Loan Proceeds at or before the time(s) of purchase and shall lodge the insurance policy with the Lender within ten days of the said purchase(s).

14 The Borrower shall open and maintain an Account with the Lender of the type specified in Schedule IV to this Contract. The Borrower shall maintain or cause to be maintained minimum balance set out in Schedule IV to this Contract in the said Account.

15 In the event that at any time the Borrower shall fail to pay to the Lender any amount of Principal or Interest or other costs due to the Lender on or before the due date for such payment, the Lender shall have the right at its sole discretion to draw the amount due from the said Account without reference to the Borrower.

16 On the occurrence of any default on the part of the Borrower in the performance of this Contract the Lender may at its sole discretion cancel the Loan Contract and demand immediate payment from the Borrower for all amounts of Principal and Interest and other costs due to the Lender.

17 This Contract shall be subject to the Laws of the Republic of Kazakstan and the parties hereto agree that in the event of litigation the ruling of the ___________ Court shall be binding upon them.

In witness whereof the parties hereto have executed the Contract on the date first written above

____________________________	____________________________
Borrower	Lender
Witness for the Borrower	**Witness for the Lender**
____________________________	____________________________
Name ____________________	Name ____________________
Address ____________________	Address ____________________
____________________________	____________________________
____________________________	____________________________
____________________________	____________________________

Mortgage Contract Number ______

This Contract including the Schedules attached hereto (hereinafter called the Contract) is made on the ____________ day of ____________ 199_ between ________________ ______________ (hereinafter called the Lender) of the one part and _______________ of ____________________ (hereinafter called the Borrower) of the other part.

Whereas the Lender has established a credit scheme for the provision of loans to micro and small enterprises,

Whereas the Borrower has applied to the Lender for a loan (hereinafter called the Loan) and the Lender has agreed to provide the Loan to the Borrower subject to the Borrower granting the Lender a mortgage over certain of the Borrower's assets as security for the Loan,

Now therefore the parties hereto agree as follows.

1 The Borrower agrees that as security for the Loan which the Lender has agreed to make to the Borrower by a loan contract specified in Schedule I to this Contract (hereinafter called the Loan Contract) the Lender shall be entitled to a mortgage over the assets of the Borrower specified in Schedule II this Contract (hereinafter called the Mortgage).

2 The Borrower acknowledges that on the basis of this Contract the Lender will register its right to the Mortgage together with the prohibition of transfer of or any encumbrance over the said assets.

3 The Borrower hereby declares that all the assets aforesaid are the absolute property of the Borrower at the sole disposal of the Borrower and free from any mortgage, charge, lien or encumbrance and that the Borrower shall not create any mortgage, charge, lien or encumbrance upon or over the same nor do or allow anything that may prejudice this security.

4 The Borrower undertakes to comprehensively insure the said assets under one or more insurance policies issued in favour of the Lender and shall maintain such insurance during the validity of the Loan Contract.

5 The Borrower acknowledges that the Lender has the right to control the use of the assets under the Mortgage.

6 The Lender shall be entitled to exercise its rights under this Mortgage Contract in the event the Borrower fails to comply with any of the Borrower's obligations under the Loan Contract.

7 The Borrower acknowledges that in the event of a breach of the Borrower's obligations under this Mortgage Contract the Lender shall be entitled to terminate the Loan Contract with immediate effect.

8 The Borrower acknowledges that the Lender may place identifying marks on the said assets.

9 The Borrower shall within fifteen days of the request of the Lender deliver the said assets with vacant possession to the Lender and the Lender may without reference to any court satisfy its claims arising from the Loan Contract through disposal of the said assets.

10 This Contract shall be subject to the Laws of the Republic of Kazakstan and the parties hereto agree that in the event of litigation the ruling of the ___________ Court shall be binding upon them.

In witness whereof the parties hereto have executed the Contract on the date first written above

____________________	____________________
Borrower	Lender
Witness for the Borrower	**Witness for the Lender**
____________________	____________________
Name ____________	Name ____________
Address ____________	Address ____________
____________________	____________________
____________________	____________________
____________________	____________________

Small Loan Contract Number ______

This Contract including the Schedules attached hereto (hereinafter called the Contract) is made on the ____________ day of ____________ 199_ between _________________ _________________ (hereinafter called the Lender) of the one part and ________________ of ______________________ (hereinafter called the Borrower) of the other part.

Whereas the Lender has established a credit scheme for the provision of loans to micro and small enterprises that is governed by regulations issued, and amended from time to time by the National Bank of the Republic of Kazakstan, (hereinafter called the Regulations),

Whereas the Borrower has applied to the Lender for a loan (hereinafter called the Loan) for the implementation of a business plan (hereinafter called the Borrower's Business Plan),

Whereas the Lender has agreed to make the said Loan to the Borrower upon the terms and conditions hereinafter set forth,

Now therefore the parties hereto agree as follows.

1 The Contract shall be subject to all the provisions of the Regulations as issued and amended from time to time by the National Bank of the Republic of Kazakstan.

2 The Lender shall lend to the Borrower the Total Loan Amount for the Items to be funded from the Loan as set out in Schedule I to this Contract. The Borrower shall utilise the Loan solely for these purposes.

3 The Loan shall become effective from the Date of Effectiveness set out in Schedule II to this Contract.

4 The Loan will be repaid to the Lender by the Borrower within the Term of the Loan set out in Schedule II to this Contract.

5 The Borrower shall be entitled to utilise the Loan during the Loan Drawdown Period set out in Schedule II to this Contract. At the expiry of the Loan Drawdown Period the Lender shall have the right at its sole discretion to cancel from the Total Loan Amount any undrawn balance of the Loan.

6 The Lender will disburse the Loan or part thereof on presentation by the Borrower of the Lender's prescribed Withdrawal Application accompanied by written substantiation of payment having been made by the Borrower or by a supplier's proforma invoice. Where the Borrower submits a supplier's proforma invoice the Lender shall pay the supplier directly.

7 Repayment of the Loan Principal shall commence at the end of the Grace Period for Principal set out in Schedule II to this Contract.

8 Payment of Loan Interest shall commence at the end of the Grace Period for Interest set out in Schedule II to this Contract. Interest falling due during the Grace Period for Interest will be added to the Loan Principal amount at the end of the Grace Period for Interest.

9 Interest shall be payable on the last working day of every month from the end of the Grace Period for Interest at the rate set out in Schedule II to this Contract. Interest shall be calculated on the average daily outstanding balance of the Loan Principal.

10 The Loan shall be repaid in accordance with the Repayment Schedule set out in Schedule III to this Contract.

11 The Borrower shall pay the Lender on demand all costs incurred in the execution of this Contract and the Loan Securities.

12 The Borrower shall provide the Lender with Securities for the Loan as set out in Schedule IV to this Contract. Notwithstanding the Date of Effectiveness of the Loan, the Lender shall not disburse any of the Loan Proceeds to the Borrower until such time as the Securities have been perfected.

13 The Borrower shall comprehensively insure any assets given as Securities for the Loan or purchased with the Loan under one or more insurance policies issued in favour of the Lender. The Borrower shall insure any existing assets given as Securities and lodge the insurance policy with the Lender prior to the first disbursement of the Loan. The Borrower shall insure any assets purchased with the Loan Proceeds at or before the time(s) of purchase and shall lodge the insurance policy with the Lender within ten days of the said purchase(s).

14 The Borrower shall open and maintain an Account with the Lender of the type specified in Schedule IV to this Contract. The Borrower shall maintain a minimum balance set out in Schedule IV to this Contract in the said Account.

15 In the event that at any time the Borrower shall fail to pay to the Lender any amount of Principal or Interest or other costs due to the Lender on or before the due date for such payment, the Lender shall have the right at its sole discretion to pay the amount due from the said Account without reference to the Borrower.

16 On the occurrence of any default on the part of the Borrower in the performance of this Contract the Lender may at its sole discretion cancel the Loan Contract and demand immediate payment from the Borrower for all amounts of Principal and Interest and other costs due to the Lender.

17 This Contract shall be subject to the Laws of the Republic of Kazakstan and the parties hereto agree that in the event of litigation the ruling of the __________ Court shall be binding upon them.

18 The Borrower hereby undertakes and covenants with the Lender that during the validity of this Contract the Borrower shall:

a implement the Borrower's Business Plan with due diligence and in conformity with sound administrative, financial, technical and business practices.

b make prompt and adequate arrangement for the equity funds required to implement the Borrower's Business Plan.

c use the assets purchased with the Loan exclusively for the purposes of the Borrower's business.

d keep and maintain proper books of accounts and records.

e provide the Lender with such information as the Lender may from time to time request concerning the utilisation of the Loan and progress with implementation of the Borrower's Business Plan.

f promptly inform the Lender in writing of any events or conditions which may delay the implementation of the Borrower's Business Plan or which may have adverse effect on the Borrower's financial condition.

g permit the Lender and its representatives to inspect and examine the buildings, site, works, constructions, materials, plant, machinery or equipment and other effects or assets of the Borrower and to examine and audit any accounts, books or other documents relating to the implementation of the Borrower's Business Plan or otherwise to the operations and financial position of the Borrower.

h keep the assets given as Securities and the assets purchased with the Loan in good repair and proper working order.

i except with the prior written consent of the Lender not change any provisions, clauses, terms and conditions of the Memorandum and Articles of Association or of the Partnership Deed or of the constitution of the Borrower.

j except with the prior written consent of the Lender not undertake any amalgamation with any other business or dissolve or voluntarily wind-up the Borrower's business.

k except with the prior written permission of the Lender not sell, transfer, assign, lease, pledge, hypothecate or otherwise dispose of any of the assets given as Securities or purchased with the Loan.

j maintain and renew all rights which are necessary or useful for the conduct of the Borrower's business.

k comply with all laws, regulations, statutory rules and bye-laws.

l fulfill all tax and social security payment obligations.

m except with the prior written permission of the Lender not incur, guarantee or assume any debt or issue any loans.

n except with the prior written permission of the Lender not open any bank account at any other financial institution.

o except with the prior written permission of the Lender not enter into any loan contract with any other lender.

p not declare or distribute or appropriate any dividends or profits without having first met the Borrower's financial obligations to the Lender and having made adequate provision for taxes, social security charges, depreciation and doubtful and bad debts.

q at all times adopt and comply with all environmental laws and regulations.

In witness whereof the parties hereto have executed the Contract on the date first written above

______________________	______________________
Borrower	Lender
Witness for the Borrower	**Witness for the Lender**
______________________	______________________
Name ________________	Name ________________
Address ______________	Address______________
______________________	______________________
______________________	______________________