

# Microfinance in Kyrgyzstan: Facilitating Women's Economic Empowerment

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## Abstract

Within a decade Kyrgyzstan became a leader among the former Soviet Central Asian states in using microfinance as a tool for fighting poverty and developing market economy through small and medium enterprises. Today the majority of clients of microfinance institutions in Kyrgyzstan are women, who have been traditionally excluded from formal finance and equal treatment at work, family and community. This thesis aims to examine the problems of the microfinance sector emerging from the activities of the government and microfinancial institutions. Understanding these problems can contribute to appropriate application of microfinance improving its impact on target groups overall and women, as a majority group, in particular. Using semi-structured interviews, on-line newspaper articles and other publications, as well as reports, development strategies and other documents related to microfinance, the research reveals that major obstacles to the effective application of microfinance in the country are unfavorable fiscal and social policies, inadequate legal framework, absence of macroeconomic forecasting and planning for the agricultural sector, and politicization of the microfinance issue on the side of the government, as well as low penetration in regions, over-indebtedness, existence of dishonest MFIs, and few credit complementary services on the side of MFIs.

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## Introduction

Microfinance is a relatively new phenomenon in the financial services sector that emerged throughout 1970s-1990s targeting the low-income people and viewed as a development tool. It implies small-scale financial services, such as loans and savings that the low-income need and can afford (Robinson 2001, 9; Brix 2009).

Traditionally, poor people accessed loans through informal channels, such as local moneylenders, who charged exorbitant interest rates and put them into detrimental debt bondage. Today the problem of the access of the poor to finance, especially in rural and remote areas, is usually addressed by microfinancial programs and institutions that offer affordable, short-term and collateral-free loans. There is a broad range of microfinancial institutions (MFIs), such as “NGOs, credit unions, cooperatives, private commercial banks, non-bank financial institutions and parts of state-owned banks” (ACCION International n.d.). They are present in many countries and often claim their commitment to social mission, such as reducing poverty and raising employment, and economic mission, such as developing small enterprises and consolidating financial systems (Sokolova 2009, 14).

Today up to 100 million needy people (ACCION n.d.) are served by at least 2000 large MFIs around the world (MIX Market 2012). Interestingly, 70% of MFIs’ clients are women (Luneva 2011). Studies revealed that women in developing countries had limited access to formal banking finance, as compared to men by about 10% (World Bank 2012). 70% of the world’ poor are women (Global Poverty Project n.d.) for a number of reasons, including (a) wages that are smaller than men’s in spite of qualifications, (b) domination of men in top-paying occupations, (c) women’s labor in the household, which is significant but unpaid, (d) pregnancies influencing women’s education and career, and others (Cawthorne 2008). In the current setup, microfinance appears as a real opportunity for women to involve into household-based, entrepreneurial economic activity that would contribute to greater gender equality in the long run.

The current literature on microfinance is complex and multidisciplinary. Some authors, such as Marguerite Robinson (2001, 2009), Dirk Steinward (2001), Doris Köhn and Michael Jainzik (2006), focus on approaches microfinance and their impact suggesting commercialization of microfinance can lead to greater sustainability and development, rather than subsidized lending programs. Other authors, including Milford Bateman (2010), and Jude Fernando (2006), are critics of microfinance. In their view, microfinance does not have the intended positive impact on target groups, and the entire approach should be reviewed. Finally, a third group of authors particularly focus on women's issues in microfinance, such as Anjali Kaur (2007), Susy Cheston and Lisa Kuhn (2002). They look at women in microfinance in complex considering social and cultural aspects, and economic conditions in which women live. These authors focus on cases from Latin America, South Asia and Africa, and neglect the formerly planned economies of Eastern Europe and Central Asia (EECA), which are relatively new to microfinance.

If we focus on women's issues in these economies, Central Asia represents a more or less culturally and historically homogeneous region where women have been traditionally placed in disadvantageous position as compared to other countries. Programs promoting gender equality and poverty reduction in this region have been approached through microfinance. However, Kyrgyzstan was the only one in the region to be successful. Within less than a decade it developed the legal and regulatory framework for microfinance that is considered the best and reached penetration and profitability rates that are among the highest in EECA (MIX Market n.d.). Understanding of operation of MFIs in Kyrgyzstan could contribute to developing programs on economic empowerment of women in other countries of Central Asia.

Today 65% of clients of MFIs in Kyrgyzstan are women, who borrow most of the money for their small and medium enterprises (SMEs) in agriculture and commerce (Orlova 2012). Despite the existence of strategies and laws on gender equality, power and resources traditionally belong to men. Microfinance is one of the financial/economic opportunities that women can use without traditional barriers. Increasing the use of microfinance by women to engage in income-

generating entrepreneurial activity can empower them in economic terms and ultimately lead to greater gender equality (Kaur 2007, 7-8). However, the problems posed to the microfinance sector by both the government, such as unfavorable fiscal and social policies, inadequate legal framework, absence of macroeconomic forecasting and planning for the agricultural sector, and politicization of the microfinance issue, and the MFIs, such as low penetration in regions, over-indebtedness, existence of dishonest MFIs, and few credit complementary components, undermines the effective provision and use of microfinancial services in Kyrgyzstan.

This thesis therefore aims to examine these problems, why they emerge and how they can be addressed. Appropriate application of microfinance can improve its impact on target groups overall and women in particular leading to their economic empowerment and greater gender equality in other areas. This thesis thus addresses the question: **how can microfinance be used to increase the access of women to income-generating entrepreneurial activity in Kyrgyzstan?**

Chapter 1 will review the current literature on the models of and approaches to microfinance and its role in economic empowerment of women. Chapter 2 will outline the research design. Chapter 3 will discuss the typical problems existing in the microfinance sector of Kyrgyzstan today and ways out of them.

## Chapter 1: Literature Review

This chapter will introduce the concept of microfinance from the broader perspective. It is broken into three sections. Section 1.1 will provide the definition of microfinance and types of MFIs. Section 1.2 will focus on the approaches to microfinance: poverty lending vs. financial systems. The role of microfinance in economic empowerment of women will be discussed in Section 1.3.

### ***1.1 Basic Information on Microfinance***

Microfinance is a “practice of providing financial services [...] to very poor families, to help them grow tiny businesses or engage in other productive economic activities” (ACCION International n.d.). It is supplied by three sources, including formal institutions, such as banks, semiformal institutions, such as non-governmental organizations, and informal sources, such as moneylenders.

Besides typical services, such as loans and savings, microfinance institutions offer insurance, payment and transfer services (Asian Development Bank n.d.). Very often terms “microfinance” and “microcredit” are used interchangeably. However, this is not precise, as microcredit or loans are only one type of microfinancial services. Therefore, some microfinance institutions can provide a broader range of services as compared to microcredit institutions.

Today various microfinance and microcredit models exist. There is no universal typology for them. Different authors classify models differently based on range of credit services and its supplements, as well as how security and accountability are ensured (Microfinance Hub 2010). According to Jeenbaeva (2008, 12), Microfinance Hub (2010), and Srivinas (n.d.), several models of microfinance deserve special attention, as they are practiced around the world. Models that are country specific will not be mentioned in this work. The first two models are based on individual lending and the remaining 7 models are group-based.



### **Individual loans by MFIs**

One client receives a loan, provides security and is accountable for it. Typically such loans are offered with supplementary services, such as trainings and consultations in various fields.

### **Direct loans by commercial banks**

The goal of financing the poor in the model is to generate profit rather than achieve some kind of social mission.

### **Self-help groups**

Other name for this model is associations, which are composed of the low-income groups based on location, gender, religion, and other criteria with the goal of mobilizing funds, from local and external sources, including MFIs, and providing financial services to group members.

### **Community banking**

Principles of this model are somewhat similar to those of Grameen Bank model in Bangladesh and village bank model in Latin America. This model is a legalized version of self-help groups and provides loans based on “social” collateral. The model is used by many MFIs around the world today and is often promoted by NGOs in package with various advisory and training programs.

### **Cooperatives**

The model is similar to community banking in terms of providing financial services to the poor but its ownership structure and funding may be different and belong to its members united into cooperatives for a common social or economic goal. In addition, cooperatives are usually initiated by their members, whereas community banks are initiated by outsiders.

### **Credit unions**

The model is a non-profit entity that is created, financed and governed by a group of members sharing similar values, workplace, community, etc. It belongs to its members, who give loans to each other at low interest rates.

## **Bank guarantees**

This model is used by governments or donor agencies, which guarantee loans that individuals or self-formed groups can obtain from commercial or microfinance banks based on special arrangement. Sometimes the model requires compulsory deposits in these banks by clients. International organizations, such as UN, also use this model in their programs.

## **Rotating savings and credit associations (ROSCAs)**

In this model, a small group of individuals, typically women, agree to regularly make one-size contributions to the shared fund that is given in a lump sum to one member in each cycle. The regularity and size of contributions are decided by group members. This model is normally based on informal arrangement.

## **Non-governmental organizations**

This model of microfinance is important, as it laid the basis for MFIs around the globe by creating and promoting microfinance programs in many countries. First, NGOs are “intermediaries” between poor communities, MFIs, governments and donor agencies. They bring best practices to the communities and MFIs through trainings, consultations, publications, etc. Second, they offer microfinance services for vulnerable groups. Third, they normally belong to local and global networks ensuring information and best practices exchange.

From the above, two main lending models can be specified. The first model is individual loans provided by commercial banks and MFIs to single clients and normally requiring collaterals or other guarantees. The second model is group loans, also called solidarity group loans (Sokolova 2009), that could be given to a group of clients either based on collateral or group pledge specific to microfinance companies. Peer pressure, also called “social” collateral, is an important aspect in group loans, as a failure to pay by one group member will make his/her peers to pay for him/her (ACCION International n.d.). Today many MFIs practice group-based model, as it enables them to expand the number of clients (Arun and Hulme 2009, 1).

To understand the demand for microfinancial services, we need to specify who the clients of MFIs are. The typical client of MFI would come from vulnerable and low-income groups of population that cannot access formal financial services. As mentioned above, more than half of clients of MFIs around the world today are women. “These clients operate small businesses, work on small farms, or work for themselves or others in a variety of businesses – fishing, carpentry, vegetable selling, small shops, transportation, and much more” (CGAP n.d.). According to CGAP, among the reasons why some clients run their small enterprises are not only a desire to engage in particular activity but also the necessity, as local markets are not able to provide them with jobs and income.

It is estimated that from 750 million to 1 billion people could benefit from microfinance (ACCION n.d.). Using various microfinance models listed above and taking into account the characteristics of the poor, governments and MFIs can develop local initiatives to assist them. The approaches to these initiatives will be discussed in next section.

## **1.2 Approaches to Microfinance**

As the issue of microfinance involves important socio-economic problems, there has been heated debate among the scholars, international organizations, microfinance institutions, governments, entrepreneurs, civil society, and ordinary people about its impact on target groups. At times political forces play with the issue in their interest by appealing to poorest constituencies (Dudka 2012). The debate involves the question of proper approach to microfinance that would have better impact on target groups.

1990s marked the so-called “paradigm shift” in microfinance from subsidized programs targeted at specific groups of population – the “*poverty lending approach*” to “non-directed financial services” to the needy groups by commercial MFIs seeking self-sufficiency – the “*financial systems approach*” (Robinson 2001, Steinward 2001). The idea of poverty lending approach is in provision

of cheap credits with below market interest rates and complementary services, such as trainings, consultations, etc., to the poorest groups by governments and donors. The goal of such programs is to get the poor out of extreme poverty and empower them (Robinson 2009, 55).

Robinson and Steinward suggest that the shift towards commercial microfinance occurred because in 1980s-1990s scholars and policy makers started paying attention to the so-called “informal sector” that emerged particularly in developing countries as a result of structural changes in economy and was composed of small and medium enterprises that were invisible to governments before and their input to the economy was not considered. These enterprises were characterized by “family ownership [...], nonlegal status [...], lack of an authorized business location, the unavailability of standard forms of collateral, the small size of transactions [...], and the perceived riskiness of such businesses” (Robinson 2001, 11).

The approaches to microfinance have evolved as donor-and government-funded lending programs were increasingly criticized for being non-sustainable, inefficient and wasteful and creating market distortions in developing countries. First, such programs have limited funding and capacity to cover all the needy groups and will end at some point in time. Second, they tend to fail in reaching target groups and serve the interests of people who have access to information and personal ties (Tolbaev 2012). Third, they tend to have bad credit portfolios due to weak credit technology and bureaucratic procedures (Köhn and Jainzik 2006, 181). Finally, this approach does not lead to generation of local savings (Robinson 2009, 55).

According to Arun and Hulme, access to financial services is “a public good that is essential to enable people to participate in the benefits of a modern, market-based economy – analogous to access to safe water, basic health services, and primary education”. Therefore, the emergence of commercial microfinance was the response to market (formal banking sector’s) and government (subsidized lending program’s) failures to reach the poor (Arun and Hulme 2009, 1). It became popular to think that the financial systems approach to microfinance would ensure the targeted and large-scale provision of financial services to needy groups by self-sufficient

institutions (Robinson 2001, 11). Thus, the commercial MFIs are viewed as an optimal provider of financial services, knowing their client groups' needs best. They are sustainable, efficient and flexible, as they have different (market-oriented) incentives and behavior. They compete with other financial institutions, commercial banks for instance, rather based on the number of clients but not the size of loans. Thus, their profit-seeking incentives make them expand their services in rural and remote areas and diversify services to meet the poor's demands (Arun and Hulme 2009, 1). In addition, the financial systems approach reduces risks of investing funds into unfeasible and short-lived microenterprises. This approach can be applied in countries with liberal economies where state intervention is minimal.

The subsidized lending programs traditionally targeted the agricultural sector for special groups or goals. To a certain extent, they were the "prerequisite" programs preceding the modern MFIs – donors and governments funded and experimented with lending schemes (Kloppenburger 2006, 4) and developed the basic legal framework for microfinance. The commercial microfinance is "the response to a new demand for financial services by a newly emerged class of microenterprises" (Steinward 2001, 23). The new approach targets a wider range of people and contributes to the solution of economic problems, such as unemployment and income on a more global scale. It is believed to have greater potential for poverty reduction (Neuhoff 2006, 253-254). Though the financial systems approach appears as an attractive one, many microfinance institutions and programs are still at least partially funded by governments and donor agencies. Only MFIs in Indonesia were able to become fully financially self-sustaining (Steinward 2001, 32). MFIs do not attract the desired number of investors, because they are new to capital markets and may be commercially unsustainable (Kloppenburger 2006, 5). The transformation of subsidized lending programs into commercial MFIs allows reducing their dependency on donor support and developing private funds. Commercialization with professional management, governance and accountability tools allows them "to attract more commercial funding in the

form of loans or equity capital [... for] greater stability in the long run”, as well as “to generate their own resources through profits” (Goodman 2006, 13-14).

These approaches are not two extremes but rather a scale, where various microfinance models mentioned and not mentioned above are located. When deciding between these two approaches, one has to make a tradeoff between the social goal of supporting the poor and the economic goal of making a profit. However, the proper combination of the socially important poverty lending approach with the economically viable financial systems approach can have a positive impact on the poor. Köhn and Jainzik suggest that poverty lending programs could be transformed to become “financially self-sustaining” and “institutionally enduring”, if three conditions in Box 1 are met (2006, 181-183).

**Box 1: Dimensions of sustainability in microfinance institutions**

- (i) Financial sustainability (= [risk adequate] profitability)
  - (ii) Institutional sustainability
    - Level of human resources maintained and increased (personnel development etc)
    - Capacities to develop new products
    - Operations: Ability to redesign and adapt organisational and IT structures continuously in response to market and produce developments
  - (iii) Lasting positive sector impact
    - Maintaining the target group orientation
    - Enhancement of competition and market dynamics
- (i as precondition for ii and iii) (Köhn and Jainzik 2006, 183)

Robinson says the choice of the approach direction should be based on the characteristics of target groups. People are poor differently. Some may be extremely poor and others can be economically active poor. Extremely poor people may not be able to apply for and use commercial microfinancial services, because of factors, such as age, ethnicity, gender, poor education and skills, unemployment, disasters, etc. (2009, 51-55). Their problems can be addressed with the assistance of subsidized lending programs that recently get criticized by commercial MFIs for inefficiency, non-sustainability and creating market distortions, as well as by the public for failing to reach the target groups due to poor planning and performance and corruption. Commercial MFIs can target economically active poor. If we speak of the transition

economies, including Kyrgyzstan, microfinance is somewhat different from the rest of the world. According to Sokolova, the microfinance programs in these economies rather seek to support economically active poor in opening or running their SMEs. They aim at developing local markets and establishing middle class (2009).

In discussion of approaches to microfinance, planners of microfinancial programs should remember that the majority of clients of MFIs are women from developing countries, who have specific needs. Next section will elaborate on these needs.

### **1.3 Women and Microfinance**

The idea of microfinance is in the provision of financial services to the poor that have no access to formal finance and income. Microfinance has been increasingly included in gender and development strategies of government and donor agencies, as it has to do with both at once – women, who make up the overwhelming majority of MFIs’ clients, and the poor, who are the target clients of MFIs. Studies conducted by UNDP, UNIFEM, and the World Bank revealed the correlation between gender empowerment and human development. The gender equality is widely considered to be important for overall poverty reduction and development strategies (Cheston and Kuhn 2002, 7).

Kaur says that empowering women is considered to contribute to greater gender equality and poverty reduction (2007, 7). Mayoux defined empowerment “as a process of change in power relations” as framed in the Box 2.

#### **Box 2: Framework for Women’s Empowerment in Different Spheres of Life**

**Power Within:** enabling women to articulate their own aspirations and strategies for change

**Power To:** enabling women to develop the necessary skills and access the necessary resources to achieve their aspirations

**Power With:** enabling women to examine and articulate their collective interests, to organize to achieve them and to link with other women’s and men’s organizations for change

**Power Over:** changing the underlying inequalities in power and resources that constrain women’s aspirations and their ability to achieve them.

Source: Mayoux, 2000 (In Kaur 2007, 7)

Women's empowerment is important for three reasons. *First*, women in developing countries have been more exposed to poverty than men due to "socially constructed constraints [and] macroeconomic conditions" (Kaur 2007, 2). Even if women are not poor they are traditionally more vulnerable than man because they have much fewer entitlements (Cheston and Kuhn 2002, 8). According to Akinsanmi, "impoverished rural women face multiple disadvantages [having] limited access to income, land, water, capital, education and other social services, which can lead to illiteracy, malnutrition, disease, high infant mortality and low life expectancy" (in Kaur 2, 2007). The work of these women is typically household-based with low productivity due to "the lack of credit, technology and extension services, which could ease their burdens, and sociocultural constraints" (Kaur 2007, 2). *Second*, women are considered to spend better than men. Studies revealed improvements in healthcare, nutrition and education with increase in women's income (Kaur 2007, 8-9). Studies of microfinance confirmed a positive impact of increased income on "children's schooling, household nutrition status and women's empowerment" (Arun, Hulme and Rutherford 2009, 13). *Third*, some scholars believe that the sustainability of microfinance programs and institutions can be ensured if they choose to work with women because women have demonstrated better repayment records and investment into more profitable enterprises (La Torre 2006, 24), as they are "more cautious in their investment choices and are more sensitive to social pressure within peer groups" (Vento 2006, 84-85).

One of the ways to empower women is to involve them in income-generating activities. Provision of access to financial services by MFIs is critical for women's empowerment because of traditional barriers to other sources of finance. Thus, microfinance has a significant potential for transforming traditional power relations between men and women. According to Cheston and Kuhn, "microfinance institutions around the world have been quite creative in developing products and services that avoid barriers that have traditionally kept women from accessing formal financial services such as collateral requirements, male or salaried guarantor requirements, documentation requirements, cultural barriers, limited mobility, and literacy" (2002, 6). Creating



or raising women's income can make them less dependent on husbands and increase their status in the family as one of the "breadwinners". With increased income women have more power to decide on family budget and investment issues. Indeed, empowerment of women is not only about finance but it also includes a set of measures at community and national levels, such as equipping women with basic skills, education and information in relevant field, providing legal and political support for their initiatives, developing networks and channels for information and experience exchange, etc.

Despite the commonly supported belief of benefits of microfinance on the poor, women in particular, it has raised criticism for not making the intended impact on target groups. Bateman (2010), Armendariz and Roome (2008), and Fernando (2006), as well as other authors have criticized the existing microfinance programs for equalizing poverty reduction and women empowerment with provision of credits. They argue that the problems emerge because MFIs, governments and donor agencies focus on provision of credits but not the use. Such a setting can be beneficial only for profit-seeking financial elites (Bateman 2010, 50-51). Many factors, other than no income, such as absence of information, education and skills, can create risks for entrepreneurs to be trapped in greater poverty. The services of many MFIs fail to be designed in complex, including provision of complementary services, such as skills training, and consideration of needs and circumstances of women. Armendariz and Roome (2008) and Fernando (2006) raise an important point about loans and responsibility increasing the burden on women within families, societies and economies. Empowerment of women requires complex measures aimed at changing power relations within the families and societies, such as involving men in sharing burden of loans (Armendariz and Roome 2008, 118-119). Fernando believes that the positive results of the existing programs are simply visibility. In reality, the situation of women can be opposite. Therefore, he emphasizes the need to improve the current programs and the tools of assessing the impact of such programs (2006).

The current situation in developing countries is such that it is better to fix the existing programs, rather than completely abolish them, as no other programs have been operating so far. The criticism of microfinance is important in learning from mistakes and making it work more “properly”. Considering the above mentioned criticism, Cheston and Kuhn highlight several key programmatic factors contributing to real empowerment of women and balancing the sustainability/profitability issues in approaches to microfinance:

### **Business training**

Business training can be provided as a complementary service to a credit. Studies show that complementary services can yield additional profits to MFIs, as their clients are better able “to plan, calculate and project profit, and manage money” (Cheston and Kuhn 2002, 39-41).

Business trainings are important for the clients of MFIs in Kyrgyzstan, as two thirds of them reside in rural areas and often lack access to information that urban dwellers have. These people are former teachers and doctors who found themselves in new market relations (Li 2008) and need to learn basics of business planning, marketing, budgeting, etc. This factor will be discussed later in the thesis.

### **Women’s general education and literacy**

Studies show that illiteracy is one of the problems in microfinance. Illiteracy creates problems for women to manage enterprises and access the formal financial sector. It is advised that at least one member in a MFI client group is literate to guide the group. Very few MFIs in the world offer literacy trainings for women. Such literacy initiatives, as World Education and Women’s Empowerment Project in Nepal, could have significantly improved the capacity for empowering women (Cheston and Kuhn 2002, 41-42).

This programmatic factor is not relevant to the case of Kyrgyzstan, as 81% of women have higher education (UNDP HDR 2011, 4). The remaining 19% have completed primary or secondary education.

## **Balancing family and work responsibilities**

By starting up enterprises, women increase their responsibilities in addition to their normal household work that is significant in developing countries. Obviously, women chose the type of enterprise that is not away from their households. However, balancing family and work responsibilities can be burdensome for women and requires special strategies by MFIs that would meet family and community expectations of women. For instance, African NGO Sinapi Aba Trust and Opportunity International offered trainings on time management and “husband management” for their client in Africa. Moreover, some MFIs, including Opportunity International prioritized “outreach” to husbands of female clients seeking their support for work/household balance of women. Joint events, such as orientations and group meetings, with participation of husbands are also held by some MFIs in order to increase their awareness and understanding (Cheston and Kuhn 2002, 42).

MFIs in Kyrgyzstan definitely need to consider this programmatic factor, as women dedicate much of their time to household and family. However, it will not be discussed in this thesis, due to the lack of information about the extent to which husbands are involved in enterprises of women.

## **Dialogue on social and political issues**

To receive the social support for empowerment of women through microfinance, stakeholders can initiate a public discussion of women’s issues in communities. Discussion of common problems of women can appeal to a feeling of women’s solidarity and contribute to their mobilization (Cheston and Kuhn 2002, 42-43).

This programmatic factor is relevant to Kyrgyzstan’s context. Last year ex-President Roza Otunbaeva officially launched the microfinancial summit of Central Asia, where she emphasized the role of women in microfinance initiatives, which, in her view, helps to reduce poverty and develop economy. This kind of political support for women is important, as it normally gives rise

to new assistance programs. This factor will be discussed in chapter on microfinance in Kyrgyzstan.

### **Experience in decision making and leadership**

Cheston and Kuhn believe that group lending can be used for the facilitation of decision making and leadership among women through trainings, consultations, periodical rotation of group leadership and promotion of active participation of all group members in decision making. Other means can be considered (Cheston and Kuhn 2002, 43-44).

This programmatic factor is used in Kyrgyzstan in the form of trainings on leadership and decision making for women. However, it can be also used to increase women's capacity of starting up and managing their own individual enterprises. This chapter will not be discussed later, as MFIs already include this programmatic component in their activities.

### **Ownership, control, and participatory governance**

This factor is applicable to self-help groups and other savings-based community groups with little external support. Women are proud of ownership and autonomy in such settings. Their savings remain within the community, and the capital is spent in their own discretion. Independence from external sources significantly reduces the rate of interest that is reinvested or saved (Cheston and Kuhn 2002, 44-45).

MFIs in Kyrgyzstan started discussing savings programs for their clients only recently. Definitely, this programmatic factor has a potential to empower women, if their savings will be invested within their community. Therefore, this factor will be discussed as part of credit complementary services in Kyrgyzstan.

### **Building institutions responsive to women's needs**

For women's needs to be met best, MFIs could assign more women to management positions, as well as field offices. This holds especially true for field positions, as women in local communities may feel more comfortable working with women (Cheston and Kuhn 2002, 46-49).

A strong argument for consideration of this factor is that the overwhelming majority of clients of MFIs are women.

In fact, MFIs employ men and women equally in Kyrgyzstan. From the web-sites of 4 leading MFIs in Kyrgyzstan, including Bai Tushum & Partners, Mol Bulak Finance, Kompanion, and Frontiers, we can see that the top management positions and Board of Directors are almost equally composed of men and women – 23 and 22 respectively. This programmatic factor is important but will not be considered in this thesis.

### **Designing products to meet women's needs**

This factor reiterates what was said above. When MFIs design their products and product delivery schemes, they should consider the gender specific conditions of women. They can conduct “impact assessments, monitoring, market research, and client feedback” (Cheston and Kuhn 2002, 29) to generate necessary information. Moreover, they should take into account “limited business networks and opportunities, greater domestic burden, weaker self-confidence, less education, and, in many cases, a restrictive legal environment. These disadvantages can sometimes be perpetuated in microfinance programs, with men dominating mixed lending groups and women receiving smaller loan amounts than men” (Cheston and Kuhn 2002, 49-50).

This programmatic factor is most important in Kyrgyzstan's context, as the microfinance sector in the country is quickly growing. 7 largest MFIs are now competing among themselves for clients and need to improve the existing services towards the needs of women or develop new services specifically targeted at women. This factor will be reviewed later in the thesis.

Although microfinance is not a guaranteed tool for empowering women in the eyes of critics, the evidence shows that it can contribute to economic empowerment by at least generating income.

The fact that the microfinance sector is expanding shows the increasing demand and popularity of its services. In this situation, the problem is not in the microfinance idea itself but in proper planning and application.

## Chapter 2: Research Design

This thesis is based on qualitative research design and covers primary and secondary data.

Primary sources include semi-structured interviews (please see Annex). Initially, at least 10 interviews with representatives of MFIs and organizations dealing with microfinancial issues in Kyrgyzstan were planned. The selection was based on the level of competence and experience of interviewees in microfinance. However, due to time and travel constraints (all interviewees are from Kyrgyzstan), only three interviews responded via e-mail.

For primary research I also use on-line newspaper articles and briefs, publications on weblog of Babur Tolbaev (Chief Executive Officer of country's leading MFI Mol Bulak Finance) and publications on websites of other local and international MFIs and institutions related to microfinance.

Secondary sources are reports of local and international institutions, including Association of Microfinance Organizations (MFOs) of Kyrgyzstan, National Bank of the Kyrgyz Republic, and United Nations Development Program, as well as sectoral development strategies of Kyrgyzstan.

## Chapter 3: Women and Microfinance in Kyrgyzstan

Ex-President Roza Otunbaeva in her speech to 2011 Central Asian Microfinance Summit stressed the role of women in developing microfinance initiatives in Kyrgyzstan. This chapter will try to investigate how to improve the role of microfinance in developing women's income-generating activities. First, it will discuss the issues, which make access of women to microfinancial services important. Second, it will give the information on evolution of microfinance in Kyrgyzstan. Finally, the typical problems existing in the microfinance sector today will be defined in order to provide the ways out of these problems.

### **3.1 Women's Issues**

Women in Kyrgyzstan constitute over 50% of the country's 5.3 million strong population but have fewer rights than men. Declaration of women's rights often fails to transform from laws and strategies into working policies (Azattyk 2012). Gender equality is proclaimed in the Constitution (Article 16, Section 4), Criminal, Labor and Family Codes, Laws "On state guarantees of equal rights and opportunities for men and women", "On reproductive rights", "On family violence and measures of social and legal protection against family violence", Decree of President "On measures to improve gender policy" (№136 dated March 20, 2006). In addition, Kyrgyzstan declared its commitment to gender equality at international level by ratifying the Universal Declaration of Human Rights (Art. 7) and Convention on the Elimination of all Forms of Discrimination Against Women (Art. 5 and 16).

In many spheres, however, there has been a trend towards worsening of the situation with gender equality in Kyrgyzstan, such as increasing rates of home violence and bride stealing (Institute for War & Peace Reporting 2010). Though women (81%) equally hold secondary or higher education (UNDP HDR 2011, 4), they are under a disadvantage in accessing top and well paid positions, especially at local level. Women occupy only 9% of top positions in local

governments despite the fact the Decree “On measures to improve gender policy” stipulates for at least 30% of women in state and local decision making positions (Kolesnikova 2012). Despite qualifications, women’s wages make up only 67% of what men earn. In addition, some sources report that the gender problem can be aggravated with age discrimination of women above 40 years old at work (Sultanbekova 2012). The official level of unemployment of women is 1.5 times higher than men’s (Kutueva 2009). According to the Gender Inequality Index, only half of the women in the country participate in the formal labor market (UNDP HDR 2011, 4).

Today two thirds of the population resides in rural areas with strong social and cultural patriarchic traditions (Adamaliev 2010; Kolesnikova 2012). Women are expected to take care of children and (grand) parents, to labor in household and farms. Studies show that they spend 3.5 times more of their time for these expected responsibilities and certainly do not get paid for them. Often they have no entitlements to estate and lands and excluded from decision making within their families and communities (Kadam n.d.). Due to the failure of gender policies and traditional discrimination of women in regard to their role in society and property rights, women get increasingly trapped in poverty and vulnerability as compared to men.

Today women have found their niche in economy through active involvement in small and medium enterprises (Sultanbekova 2012) that are becoming their main source of income. Most women are engaged in crop farming and sell their products in outdoor markets or to wholesale traders. Only 18% of women own private enterprises and only 15% have entitlements to farms/lands. As women typically need small-size loans for their enterprises, they face problems in accessing formal financial services, because banks are not willing to work at microlevel. Moreover, typically women have the poor knowledge of market and finance and this creates certain risks for banks and deters banks from working with them (CCI KR n.d.).

In this situation, microfinance has been becoming a popular and feasible tool for poverty reduction among women (Kadam n.d.) who were traditionally excluded from formal credits and income. “By putting financial resources in the hands of women, microfinance institutions help



level the playing field and promote gender equality” (Cheston and Kuhn 2002, 11). Last summer the first Central Asian Microfinance Summit was held upon the initiative of ex-president Roza Otunbaeva. The declared goals of summit were to share best practices, attract donors and develop microfinance as a tool for fighting poverty and economic development in Kyrgyzstan (President 2011). Most importantly, initiation of this summit by the president was the sign for taking concrete steps towards the solution of problems existing in the microfinance sector with particular focus on the role of women. This summit laid basis for the wide dialogue between MFIs, state sector and donors in Kyrgyzstan held within the last year.

### ***3.2 Evolution of Microfinance***

The first microfinancial initiative was launched in Kyrgyzstan in 1995 by FINCA (FINCA 2012, 3). In the following years, the number and funding of such initiatives increased with the support of international donors, such as UNDP, the World Bank, EBRD, ADB, and others (Marat 2008). These initiatives took poverty lending approach and worked mainly with informal self-help groups.

Within few years the legal framework for microfinance was developed, including Laws “On credit unions” and “On microfinancial organizations”. The laws favored microfinancial institutions by setting quite liberal limits for their activities. MFIs can dictate their own sizes of loans and interest and commission rates. They can develop a wide range of credit products and services. Credit portfolio diversification is also at their discretion (AMFO n.d.).

The basic institutional and legal framework allowed for quick growth of MFIs in Kyrgyzstan. Today the country has adopted all microfinance and microcredit models practiced around the world (President 2011) from informal village-based self-help groups to commercial microfinancial organizations with wide range of services.

According to National Bank, there are 22 commercial banks and 454 MFIs in Kyrgyzstan today. Each group charges 22-28% and 38-100% interest rates respectively. The average interest rate for banks makes up 24% and for MFIs is 38% (Tazabek 2012). Though banks charge less money, MFIs cover 90% of all users of microfinancial services or 400 thousand clients from cities, as well as from villages (Dudka 2012). This indicates to the fact that most of the clients cannot access banking services and therefore prefer microfinance.

Despite the big number of registered MFIs in the country, 85% of the aggregate credit portfolio belongs to only seven institutions (Please see Table 1 for the rating of MFIs). These companies operate with the assistance of donors and international financial organizations (Dudka 2012). In 2011, some MFIs outperformed the commercial banks, such as EkoIslamikBank and Commercial Bank KYRGYZSTAN, in terms of net profits (Tazabek 2012). Obligations of MFIs to external sources make up over 57% of the total credit portfolio. MFIs in Kyrgyzstan would not have had the effect they have today without foreign support (Mombekov 2012). According to National Bank forecasts for 2011-2015, within the upcoming 5 years, credit portfolio of MFIs is expected to double and the number of clients might exceed 600 thousand people. In addition, the internal reserves are expected to grow from 35 million KGS to 5 billion KGS, and therefore, the deposits are expected to rise from 0.02% to 1.5% to GDP (Dudka 2012).

Among other achievements of MFIs is that Kyrgyzstan was the first country in Central Asia to create Association of Microfinancial Organizations and develop medium-term development strategies for 2006-2010 and 2011-2015 (Saakyan 2012). In addition, Credit Information Bureau Ishenim was established. It allows for the exchange of credit history information among the members of the Bureau and thus to avoid risks of over-indebting. These achievements indicate that planning and coordination of activities by MFIs in Kyrgyzstan were crucial for their success. Here the role of the largest commercial MFIs is important. As upon their initiatives, the Association is effectively approaching the government and donors. This confirms the proposition that profit-seeking incentives of commercial MFIs lead to their

effectiveness, economy and sustainability relative to subsidized lending programs in Kyrgyzstan so far.

As Table 1 illustrates, the leading MFIs in Kyrgyzstan are all commercial. Government-funded institutions, such as Ayil Bank and newly created Ala Too Finance, and numerous non-profit agencies registered in Kyrgyzstan are not capable of increasing their portfolio. They are fully subsidized and dependent on foreign donor funding, as in the view of Ulan Mombekov, foreign donors give loans only to MFIs with portfolios larger than 2 million USD (2012).

**Table 1: Rating of the largest MFIs\* in Kyrgyzstan based on their credit portfolio, net profit, number of clients, and capital**

No	Name of MFI	Credit portfolio, thousand KGS (Kyrgyz soms)	Share of credit portfolio of MFI, %	Net profit, thousand KGS	Number of clients	Share of clients, %	Capital, thousand KGS
1	Closed Joint Stock Company "Microcredit Company Finca"	3 136 170	21.63	129 308	122 263	26.37	956 046
2	Closed Joint Stock Company "Microfinance Company "Financial Group Kompanion"	2 763 970	19.06	157 646	137310	29.61	824 189
3	Closed Joint Stock Company "Microfinance Company "Bai-Tushum & Partners"	2 546 431	17.56	104 361	35428	7.64	740 079
4	Microcredit Company "Mol Bulak Finance"	2 509 586	17.31	271 735	105 125	22.67	1 344 378
5	Limited Company "Microcredit Company "Frontiers"	707 929	4.88	39 348	78	0.02	290 824
6	Closed Joint Stock Company "Pervaya Microcredit Company"	458 298	3.16	9 332	13 514	2.91	241 704
7	Closed Joint Stock Company "Microcredit Company OKSUS"	139 282	0.96	24 535	3794	0.82	23 917
	<b>Total:</b>	<b>12 261 665.43</b>	<b>84.57</b>	<b>736 264.55</b>	<b>417 512</b>	<b>90.04</b>	<b>3 076 758</b>
	<b>Total for MFIs:</b>	<b>14 498 674</b>	<b>100</b>	<b>1 137 308.96</b>	<b>463 691</b>	<b>100</b>	<b>6 583 943</b>

(Tazabek 2012)

\* Please note that the Law of the Kyrgyz Republic on Microfinancial Organizations stipulates for the following three types of MFIs

1. Microfinancial company (financial and credit entity in the form of joint stock company that can give loans to legal entities and individuals)
2. Microcredit company (credit entity created in any organizational-legal form of commercial organization that can give microcredits to legal entities and individuals)
3. Microcredit agency (credit entity in the form of non-commercial organization that can give microcredits to legal entities and individuals and cannot distribute profit among its members and spend it for the goals of its By-Laws)

The recently established poverty lending line “Accessible Credits for Famers -2” raised much public criticism for ill practices in distribution of credits to the target group. Ayil Bank in charge of the program is under investigation right now. So far 700 thousand Kyrgyz soms (KGS) were given out (Tazabek 2012). The agricultural producers are to receive 1 billion KGS in total. Of 11.5 thousand applicants only 1.3 thousand farmers received loans at 7% annual interest rate. According to Bank’s representative, the complaints about nepotism and corruption are being raised by those who did not receive loans (Bengard 2012).

This spring the government announced the new poverty lending line sponsored by Kumtor Operating CJSC. It is planning to spend another one billion KGS for supporting the unemployed from rural areas. This non-profit initiative will provide group loans based on social collateral and individual loans based on property collateral (Dudka 2012). Unsurprisingly, the announcement spurred the wide discussion of this program not only by the people but MFIs. The first argument against such program like in the previous case is lack of transparency in selection and distribution of loans. The second argument is voiced by MFIs, who are concerned about possible market distortions due to the below-market annual interest rate of 7%, as well as about inefficiency, wastefulness and non-sustainability of the program (Tsoy 2012). Given the fact that the loans will be distributed without any complementary services, such as skills trainings, there is a serious possibility of failure of the program.

During the recent press meeting of the Association of MFOs, Roza Otunbaeva leveled a criticism against MFIs. She said that MFIs were turning into moneylenders charging exorbitant interest rates and forgot that microfinance was intended for poverty reduction. She emphasized that so far microfinancial services covered only 10% of population and needed to be expanded (Dudka 2012). The response of the commercial MFIs to such kind of criticism is that the state itself creates conditions for high interest rates, such as issuing high bonds and making MFIs give loans in KGS, whereas MFIs take their own loans in foreign currency. Gulnara Shamshieva of Baitushum & Partners is convinced that the state should not solve its social problems at the

expense of the market-oriented microfinance sector. In her view, MFIs in Kyrgyzstan no longer rely on full donor support and therefore have to sustain themselves. MFIs are completely dependent on macroeconomic performance, which needs to be improved (Dudka 2012). The government has to review its relations with the microfinance sector. Instead of forcing MFIs towards loss-making programs or opposing itself against MFIs through poverty reducing programs, it needs to set a dialogue with MFIs and develop financial products that will not only meet social goals but will have sustainable effect on target groups.

### ***3.3 Problems Existing in the Microfinance Sector and Ways Out of Them***

Despite the significant achievements in the microfinance sector, there are still problems that need to be addressed to improve the performance of the sector overall and women's use of microfinancial services particularly. These problems emerge on the side of both the government and MFIs in Kyrgyzstan. Tackling the general problems in the sector can by definition improve the conditions of accessing the microfinancial services by women, as they make up 65% of clients. The government and MFIs developing microfinancial programs need to pay attention to the specific problems constraining the appropriate application of the microfinance idea to women as a separate client group.

Problems specific to women will be discussed as part of problems emerging from activities of MFIs based on three selected programmatic factors of Cheston and Kuhn (2002), including (1) business training, (2) designing products to meet women's needs, and (3) dialogue on social and political issues.

Additional external factors complicating the work of MFIs, such as political instability or economic crises in partner countries, which are beyond the control, will not be considered here.

## **Problems emerging from the government**

Though the current government is making efforts to assist the development of microfinance sector, the existing fiscal and social policies, legal framework, the absence of forecasting and planning, as well as political forces in power manipulating with the issue of microfinance in their interests create numerous obstacles to the application of these efforts. Let's look at them in detail.

### *Unfavorable fiscal and social policies*

In the area of fiscal policy, there are two factors that make interest rates of MFIs almost two times higher than the commercial banking sector and make MFIs appear as if they are inflating prices of their services. First, the government requires MFIs to give loans to their clients in Kyrgyz soms, whereas MFIs take their loans from external lenders in foreign currency. Given the shortage of internal resources, MFIs from Kyrgyzstan take loans at 19-20% interest rates from international financial institutions, as compared to 3-4% rate set for developed countries (Tsoy 2012). Second, according to Daniyar Imanaliev, who was responsible for medium-term budget planning in the Ministry of Finance, in recent years the government has been increasing the level of bonds because of heavy public spending through domestic borrowing. This raised the demand for money and the interest rate in the country (2012). As a result, commercial banks engaged in currency conversion operations for MFIs charge a 12-13% interest rate instead of 4% as in previous years (Tsoy 2012). Last year the interest rate of government bonds reached 35% that is a bad sign for the national budget (Dudka 2012). The steady growth of interest rates makes the hedging costs increase the costs of loans to ordinary clients by 10% (Bairamukova 2011).

Recently the National Bank closed down MFIs, such as Money Trust and Ala-Too, whose annual interest rates reached 100% (Tazabek 2012). This drew the attention of parliamentarians, who were "surprised" by the exorbitant rates set by some MFIs. As a result, they started the discussion of possible setting of ceilings for loans. While it is good to regulate the MFIs to certain

extent, heavy intervention is not good for the market, which was declared liberal. According to the National Bank, the current law prohibits this kind of intervention in rate setting (Tazabek 2012). The interest rates are regulated by the Civil Procedure Code. The state can lower the rates only if it pays for the difference it creates in the market (Kutueva 2012).

The artificial interest rates can be below the market rate, and MFIs will be operating at loss. According to National Bank, this may drive MFIs underground and reduce transparency or even push them out of the market. This will increase the price of loans but the clients and the government will not know about it, as MFIs will conceal information how the rates for loans are calculated (Mambetshaeva 2012). The failure of such ceiling “experiments” have been observed in some Latin American and African countries (AMFO 2011, 9).

This kind of intervention in the private sector is not good for the image of the country in international organizations, such WTO, as well as for the investment climate (Tazabek 2012). Lack of predictability and consistency in government actions will have an opposite negative effect on the market. Nurgul Torobaeva of Bai Tushum & Partners says that instead of setting ceilings, the government should think of policies that would naturally decrease rates without the need for ceilings (Tsoy 2012).

In the area of social policy, recently, the government introduced two poverty lending programs for the agricultural producers and the unemployed. This already raised the debate about the advantages and disadvantages of such programs. MFIs divided in their view of the impact of such program on them. Ulan Termechikov, Chair of Board of the leading MFI Kompanion, believes that these kinds of programs are important for the extremely poor and will not have a negative impact on commercial MFIs. All risks are on the state government. (Dudka 2012). However, others believe such programs are not effective investment and can create market distortions. Babur Tolbaev believes that though such initiatives should be welcomed, they should be designed differently. He thinks that the state should not focus on provision but the use of credits and provide clients with information on how to engage in business, introduce new



technologies and develop associations (2012). Given that MFIs largely focus on the economically active poor, the government's social initiatives are needed. However, they should be developed jointly with the MFIs to avoid unexpected and undesirable outcomes and to help the extremely poor develop commercially sustainable enterprises.

#### *Inadequate legal framework*

Today the problems with services by MFIs emerge from the Law on Microfinancial Organizations that establishes the currency requirements for MFIs. The government could have reviewed the law and allowed MFIs to give loans in foreign currency, reducing risks of MFIs in conversion operations and allow them to give cheaper loans to clients. Though, these risks would then be ultimately put on the clients.

Additionally, the law limits the activity of MFIs to giving loans. Microfinance in Kyrgyzstan may include a wider range of services, if the law is revised. According to the 2011 study conducted by M-Vector for the Association of Microfinancial Organizations, people showed interest in such services, as money transfers, mobile banking, micro insurance, leasing and savings. So far, MFIs have developed documents for amending the law. Now is the time for the government to consider and adopt the changes.

The law also lacks the mandatory provision for informing borrowers about the effective interest rate calculation which could allow choosing between different MFIs (Turgunbaeva 2011). This kind of provision is important if the state wants to differentiate between socially-oriented and dishonest MFIs.

#### *Absence of macroeconomic forecasting and planning for the agricultural sector*

As 80% of clients of MFIs are villagers, they need to know which kind of crops to grow, where to sell them, where to obtain information and technologies, what the weather will be like, etc. Since there is no quality forecasting and planning for the agricultural sector by the state government, MFIs cannot consult their clients on these issues. In addition, when the government

makes promises to buy some kind of commodity from farmers, it should keep them. There were instances when the government promised grain producers to buy their products but instead of this 40% of national grain reserves were filled up with cheap grain from neighboring states (Musaeva 2008), lowering prices and revenues of local producers. This shows the unsatisfactory performance of Ministry of Agriculture that is responsible for the sector.

#### *Politicization of the microfinance issue*

According to Damir Dosumbetov of MFI Kompanion, the politicization of the microfinance issue may drive the best MFIs underground and reinforce moneylenders and dishonest MFIs (2012). Recently, there have been protest actions in front of the President's Administration pushing for reduction of interest rates and threatening with the third revolution in the country (Samsalieva 2012). The fact that discussion of ceilings on interest rates reached the Parliament is in the populist promises by some politicians, who are not aware of the situation in the microfinance sector, to reduce the rates. Some suspect this is done to take people's attention away from economic problems and make MFIs a "scapegoat" (Tsoy 2012). Obviously, this damages the reputation of well-performing MFIs. For the microfinance sector to develop consistently, the government has to demonstrate its support and stop politicizing it.

### **Problems emerging from MFIs**

On the side of MFIs, there are several problems discussed in the public, including low penetration in regions, over-indebtedness, existence of dishonest MFIs, and little range of complementary services.

#### *Low penetration in regions*

As put by Roza Otunbaeva, microfinance is like "drip irrigation" in Kyrgyzstan and covers only 10% of people. The remaining 90% also need financial assistance (Berezovskaya 2012). MFIs have limited number of branch offices with mainly representative offices in each region (AMFI KR 2011, 10). The study conducted by M-Vector for the Association of MFOs in

Kyrgyzstan revealed the need for microfinancial services by families mostly from rural areas (AMFI KR 2011, 17-18). However, the biggest expenses born by MFIs today are operational expenses, especially in regions. In Damir Dosumbetov's view, reduction of taxes and mandatory contributions for staff members of MFIs could have reduced the price of loans (2012).

#### *Over-indebtedness*

The problem of over-indebtedness in the microfinance sector is the most discussed today. According to Credit Information Bureau Ishenim, it has reached 30%. The problem is not turning into a crisis because of good repayment records (98.5%) (Tsoy 2012). According to National Bank, this happens because clients of MFIs and their creditability are not analyzed well (Dudka 2012). To address the problem, there is a need for a better exchange of credit history among MFIs. CIB Ishenim does not cover all MFIs in the country and therefore does not possess all credit histories. Therefore, the government needs to devise mechanisms facilitating information exchange.

#### *Existence of dishonest MFIs*

Besides 36 MFIs in Kyrgyzstan who agreed to abide by the principles of transparency, high quality of services, equality of members and clients, and professionalism (AMFO n.d.), the remaining 418 MFIs are small-scale institutions that are not as visible. Some are dishonest and damage the reputation of the microfinance sector overall. Charging interest rates up to 100% without informing their clients preliminarily about rate calculation methods, they put them into debt bondage (Tsoy 2012). Often credit repayment in informal or dishonest MFIs is "ensured" using criminal (violent) methods (AMFI KR 2011, 13). To avoid these reputation problems and ensure that clients use the services of socially-oriented MFIs, the government and MFIs have to assist the public and clients in differentiating "good" MFIs from "bad" ones. The Association of MFOs recommends equipping the National Bank with more powers for developing market

mechanisms stimulating honest competition and transparency of services by MFIs (AMFI KR 2011, 39).

*Few credit complementary components*

Today most loans are taken for animal husbandry, crop farming, and commerce (AMFI KR 2011, 15-16). MFIs organize trainings for their staff, who in turn hold trainings and consultations for clients on the issues of business planning, marketing, etc. in the field. As 80% of clients are from rural areas, they need advice on agriculture as well. However, MFIs often lack expertise in this field. Babur Tolbaev suggests that agricultural producers need to be given information about animal husbandry and crop farming. Farmers run their enterprises based on primitive skills of planning their business. Moreover, they lack information from relevant state agencies regarding natural conditions that would affect their productivity (Tolbaev 2012). In this situation, the solution to the problem lies in developing joint measures between the relevant state agencies and MFIs in raising awareness and training basic skills. Because most women are engaged in crop farming, the training programs could specifically cover the sorts of crops grown by them, tending and storage issues. In addition, to extending information to regions, MFIs could consider opening of hotlines and information resource centers in regions because as investors say “access to information is key to entrepreneurial activity of women” in Kyrgyzstan (EU CA Invest Programme for Kyrgyzstan n.d., 17).

Besides complementing loans with training and advisory services, MFIs are limited in designing products that would meet the needs of clients, women in particular, because of the inadequate legal framework and other factors, such as high costs of operating branch offices in remote areas. Among the complementary services, which have big potential and are in demand but are not present or underdeveloped, are

- (1) savings most demanded in rural areas due to distance of banks,
- (2) microleasing offered today only by commercial banks and very convenient for villagers who urgently need agricultural equipment,

(3) microinsurance developed at informal level but not present in formal MFIs,

(4) transfer and payment services highly demanded among villagers, whose relatives send remittances, but not allowed by law for MFIs,

(5) mobile banking also not allowed by law but with promising demand from villagers and again labor migrants from abroad (AMFI KR 2011, 20-23). Provision of women with these services would contribute to their empowerment.

Dialogue on social and political issues of women is another component that MFIs could initiate. Gender analysis of SMEs revealed that women's entrepreneurship is more developed in north of the country. Conservative traditions of south keep their women within households depriving them of income. Often a woman enters the husband's family through the notorious practice of bride stealing, when she is taken into marriage against her will, and/or bride ransom, when the man's side basically buys a woman. As a result, her status and rights in a family and society get reduced (CCI KR n.d.). Even if a woman starts up her own enterprise, most likely she will work informally. Today 70% of women's enterprises are within the informal/shadow sector (Isaeva 2012). The fact that the government does not know or does not want to know why these women prefer to run informal microenterprises creates problems for women, whose labor is not protected by law, the state, whose taxpayers are concealing revenues, and MFIs, who take risks of working with the informal sector. So far MFIs have been successful in communicating with government, media and civil society. The leading MFIs have supported many public events and activities that show their social responsibility. If these MFIs show their interest in women's issues, there is a good possibility for media coverage and public discussion. Appropriate promotion of women's issues in society and politics would be a win-win situation for MFIs by improving their image and for women by empowering them.

## Conclusion

Microfinance is one of the economic “miracles” in Kyrgyzstan that has been supporting small and medium enterprises even in rural areas. It proved its sustainability at times of political and economic crises and draws the public attention because it has significant potential for reducing poverty, especially among women who were traditionally excluded from formal finance and income. Its relative accessibility for small income-generating activities is seen as a tool for economic empowerment of women. However, research shows that despite the achievements in the microfinance sector, access of women to microfinance is constrained by the problems that result from the activities of the government and MFIs.

Research reveals that the problems emerging on the side of the government include unfavorable fiscal and social policies that indirectly inflate interest rates of loans for borrowers, inadequate legal framework that impedes diversification of services and products by MFIs and allows dishonest MFIs operate in the market, absence of macroeconomic forecasting and planning for the agricultural sector that makes rural borrowers plan and organize their enterprises in information vacuum, and politicization of the microfinance issue that damages the reputation of MFIs.

Apparently, on the side of microfinance institutions, the problem of low penetration in regions due to high operation costs creates physical constraints for accessing services by the poor, women in particular, over-indebtedness creates potential risks for MFIs and their clients as 30% of clients are borrowing too many credits at once, existence of dishonest MFIs puts borrowers into bad loan conditions and damages the reputation of “good” MFIs, and few credit complementary components are insufficient for effective use of services by clients and need to be diversified and supported by the state.

The limited scope of this research suggests the need for further study of evolution and functioning of the microfinance sector in Kyrgyzstan, as well as the impact of microfinancial

programs on clients and population in general. This could help to improve the performance of the sector in the country and could serve as a lessons guide for neighboring Central Asian states in designing their development and gender strategies.

## Annex: List of Interviewees and Interview Questions

### List of interviewees

Name	Experience relevant to this research	Date
Dosumbetov, Damir	Head of Credit Administration Department, Microfinancial company Kompanion	May 31, 2012
Imanaliev, Daniyar	Former Senior Specialist, Medium-term Budget Forecast Division Budget Policy Department, Ministry of Finance	May 29, 2012
Mombekov, Ulan	Former Regional Head of Representative Office, Ayil Bank	May 20, 2012

### List of interview questions

1. What is the role of MFIs in local economic development in Kyrgyzstan
2. How would you do assess it?
3. Which challenges/problems MFIs in Kyrgyzstan face in their activity?
4. In your view, to which extent are MFIs sustainable without foreign donor support?
5. In your view, which measures should the state undertake to help MFIs?
6. Were the best international practices used in the work of MFIs in Kyrgyzstan?
7. In your view, what is necessary to improve in the work/services of MFIs to provide more affordable and effective services that meet the needs of clients?
8. It is believed that Kyrgyzstan has the highest interest rates for group credits. Why?
9. In your view, which factors contributed to quick development of MFIs in Kyrgyzstan, as compared to other countries of Central Asia?



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