



## MICROFINANCE LEGAL ENVIRONMENT IN AZERBAIJAN, BOSNIA & HERZEGOVINA, AND CENTRAL ASIA

### Azerbaijan

The new Law on Non-Bank Credit Institutions (NBCI) adopted in December 2009 establishes new licensing rules while additional requirements for NBCIs are under development. Commercially oriented NBCIs must now legally register as limited liability companies. The NBCIs are subject to tax and in some cases taxes have been imposed retroactively. While these new requirements may be unattractive to some existing not for profit MFIs, as limited liability companies those that are commercially oriented are better able to diversify ownership and raise external funds. Transformation to a bank would allow an NBCI to engage in a full range of financial service activity including deposit services, award of credits (without or without guarantee), cash services, foreign exchange services, safe services, and other typical financial activities of banks.

### Bosnia & Herzegovina

The current law establishes guidelines for the licensing of Microcredit Organizations either as for profit microcredit companies (MCCs) or non-profit microcredit foundations. Regardless of the legal status, an MCO's core activity is provision of microcredit. They are restricted from taking deposits. Since 2004, microfinance industry leaders have seen the need for a pathway for Bosnia's MCOs to transform into commercial legal projects. The new microfinance law adopted in 2006 stipulates the conditions for transformation of microcredit organizations into nonprofit microcredit foundations and then for-profit microcredit companies, which can take the form of Limited Liability or a Joint Stock Company. The MCC status enables institutions to open their capital structure to investors, however, MCC remain forbidden from taking deposits. To date, none of the MCOs have successfully navigated all of the requirements to transform into a commercial bank.

### Kazakhstan

In 1997, Kazakhstan took steps to incorporate MFIs into the formal financial sector. The government approved a regulation allowing local legal entities to apply for non-bank financial institution licenses for lending purposes. The Law on microlending organizations was introduced in 2003. MLOs are recognized, local legal entities but are not considered part of the formal financial system and are restricted from taking deposits. MLOs are monitored by the Government Statistics Agency and supervised by the Ministry of State Revenue through local tax authorities.

### Kyrgyz Republic

Of these countries, the Kyrgyz Republic is the only one with an official national microfinance strategy entitled Medium Term Microfinance Development Strategy in the Kyrgyz Republic 2006-2010 was approved by resolution by the Government and National Bank (the central bank). The law defines three different types of MFIs: a microcredit company, a microcredit agency and a microfinance company. The first two types are only permitted to engage in credit activities. A microcredit agency has the legal status of a non-profit organization. A microcredit company must be registered as a legal commercial entity. Neither is subject to prudential regulation but they require a certificate issued by the central bank to commence operations. The third type is a microfinance company that requires a license from the central bank. This type of institution is also subject to the prudential requirements.

### Tajikistan

The legislative framework also identifies three types of microfinance organizations: a microcredit deposit organization, a microlending organization and a microlending foundation. A microcredit deposit organization (MDO) is a commercial microfinance organization that takes deposits, extends micro-credits and conducts other operations as set forth in the law on the basis of a license issued by the central bank. A microlending organization (MLO) is a commercial microfinance organization licensed by the central bank and engaged in providing micro-loans and other services. A MDO and MLO can be founded as a closed joint stock company or limited liability company. A microlending foundation (MLF) is non-commercial and founded as a social foundation. MLFs only require a certificate issued by the central bank to engage in providing micro-loans and other services.

MDOs are able to engage in most forms of financial intermediation including deposits, microcredits with limits, cash operations, issuing guarantees, issuing and accepting payment cards, clearing and settlement operations.

## IFC AZERBAIJAN & CENTRAL ASIA MICROFINANCE TRANSFORMATION SUPPORT PROJECT

### Microfinance Institutions: IFC Clients

#### ARVAND Microcredit Deposit-taking Organization (Khujand, Tajikistan)

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

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

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

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

Now one of the leaders in the country's microfinance market, Bai-Tushum holds an estimated 25 percent market share. There are 7 branches and 41 sub-branches nationwide that provide financial products to micro-entrepreneurs in various sectors.

Since 2000, Bai-Tushum and its subsidiary have disbursed more than \$120 million and 66,000 loans, 43 percent of which have been for agriculture and agriculture-related businesses.

#### Donor Partner:

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For more information please visit [www.minbuza.nl](http://www.minbuza.nl)

#### CREADAGRO Limited Liability Non-Bank Credit Organization (Baku, Azerbaijan)

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

As of June 2010, CREADAGRO has disbursed over 50,000 loans \$180 million to more than 21,000 businesses.

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

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

Financing and supporting the growth of women's businesses has been a key objective of IMON since its inception. It also specializes in lending to micro and small entrepreneurs in rural areas, where there is significant unmet demand for financial services.

Approximately 42 percent of IMON's 26,600 clients are women, and 65 percent are from rural areas. Since July 2005, IMON has disbursed over 98,000 loans totaling more than \$72 million.