

be registered with an appropriate state agency. The issue of securities and their circulation take place based on the Law on Securities Markets. According to Article 2 of this law, an issued securities are securities that concurrently the following characteristics:

- They give an entity of property and non-property rights, which are liable to verification, transfer and absolute realization in line with form and order given by law.

- They generated from an issue.

- They give equal amounts and equal time horizons for the exercise of right within the same issue.

Issues of securities are liable to state registration. The relationship that is generated through a securities issue is regulated by the Law on Securities Markets, independent of the type of issue (although the Law on

Securities Markets does not regulate the issue of the government securities). Moreover, issues of securities by the joint-stock companies are regulated by the Law on Joint Stock Companies.

On 4 July 2004, Resolution No. 40 of the State Commission on Securities Markets and Resolution No. 41, based on Article 4 paragraph 4 of the Law on Securities Markets, adopted Standards of Initial Public Offerings and Standards of Additional Share Issues and Issues by Conversion, respectively. These standards detail and harmonize the respective provisions in the Law on Securities Markets and the Law on Joint Stock Companies.

These are the main classifications of securities in the Kyrgyz Republic.

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FORMATION AND DEVELOPMENT OF CREDIT UNIONS IN KYRGYZSTAN

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Since April 1997, under the direct supervision of National Bank of the Kyrgyz Republic, the project for establishing a credit union system has been implemented in rural areas of our country.

These unions are a form of voluntary cooperation between residents, aimed at making financial sources for economic activities more available. For instance, it is a good opportunity for rural residents to get access to financial resources to establish, develop and improve small and medium enterprises, such as livestock breeding, growing agricultural crops or processing agricultural produce, establishing sewing or any other handicraft workshop or engaging in commercial activities.

The creation and work of a credit union is based on cooperative principles. All members of the union contribute their shares as the financial basis for further activities. All the important problems are solved by the union members at general meetings on the principle of equal rights.

Credit unions are not a new-fangled idea. In many countries these cooperative movements have been around for more than a hundred years. Today in the developed western countries, credit cooperation is widespread. For example, 45% of the population of Ireland, 30% of population of the USA and 20% of the population of Australia are members of credit unions. The proportion of crediting the agricultural sector of the economy is rather large. In the Netherlands it makes up 90%, in France – 70%, in Japan – 50%, in the USA – 26%, in Sweden, Finland, Spain, Portugal, Austria, Italy, Greece – from 30% to 50%.

In Germany, France and Japan cooperative banks, which today belong to the leading banking structures of those countries, appeared as a result of the activities of credit unions.

The reason for implementing the Finance Company for the Support and Development of Credit Unions (FCSDCU) Project is to create sustainable and financially strong credit unions, which together would make the institution of rural credit-financial organizations the closest to the rural inhabitants of the regions. In other words, the project is designed to establish specialized organizations in rural area, so-called credit unions, in the form of credit-financial institutions, which aim to ensure financial support for the business development of their members.

That means that credit unions should have everything they need for their work. First of all they need practical experience and skills in organizing the work of an enterprise, with a loan as a commodity.

The participants (members) of credit unions are independent private businessmen, interested in establishing such an enterprise. By this they get the opportunity to provide permanent financial support for their private businesses.

In the cooperative system as a whole there should be a reasonable correlation between the cooperatives established by private businessmen for marketing their goods or producing a necessary resource on the one hand and credit unions providing financial resources in the form of loans, on the other.

In this way a combination of the private interests of a credit union member with his interest in the

cooperative of which he/she is a member (e.g. provision, trading or any other cooperative) can be achieved.

In the initial implementation stage of the FCSDCU project a commission, organized by the National Bank especially for its implementation, did a lot of hard work preparing the legislative basis regulating the establishment and activities of credit unions. At the same time, within the frames of the project, a large-scale explanatory campaign about the project's work was conducted among the rural population in order to popularize the idea of micro crediting through credit unions.

Today the activities of credit unions are being implemented within the frames of the Law of the Kyrgyz Republic About credit unions, which came into force on November 24th 1999. Issuing this law was an important stage in the development of the credit union system, as it determines the borders of the legal sphere of credit unions' activities as well as their legal status as independent enterprises in the financial market.

In 2003 441 credit unions were established in the republic of which 303 were active. The total capital of the unions was 171 million soms and the loan portfolio exceeded 298 million soms. The FCSDCU provided credit unions with loans worth more than 81 million soms, of which over 5 million soms were for leasing office equipment and vehicles, 656,000 soms were allotted in the form of target loans for purchasing offices and office furniture for a period of up to five years at 17% annual interest. In total, the credit unions of the republic were leasing 107 sets of office equipment (computers, printers, scanners, modems, UPS, photocopiers), 10 vehicles, three offices and two sets of office furniture. The figures by oblasts are as follows.

In Chui oblast there are 37 active credit unions with 2,282 members. Their total capital is over 18 million soms and the credit portfolio – over 32 million soms. The FCSDCU has granted loans of over 13 million soms and office equipment worth more than 600,000 soms.

In Talas oblast there are 22 credit unions with 1,273 members. Total capital is about 11 million soms and the aggregate credit portfolio – about 21 million soms. They received loans from the FCSDCU for more than 9 million soms and are leasing office equipment worth about 200,000 soms.

In Osh oblast there are 70 active credit unions with 7,562 members. The aggregate capital is about 60 million soms and the credit portfolio – over 102 million soms. The FCSDCU has granted about 40 million soms in the form of loans and over 1.6 million soms in the form of office equipment, office and vehicle leases.

During 2003, large credit unions of Osh oblast, which are in the city of Osh, significantly increased their credit portfolios: the Golden Osh credit union was granted loans worth 2,968,000 soms, including 300,000 soms for purchasing an office over a period of five years at 17% annual interest. This allowed the credit portfolio to be increased to 3,652,800 soms.

Credit unions such as Shambala-Ata, Korifei, Fons-Aurum, Centavra-Ug, Ata-Doolot and others managed to increase their credit portfolios by 117,500, 1,162,000, 2,207,000, 430,100 and 366,000 soms accordingly.

As for the Uzgen rayon in Osh oblast, we should mention the Dosbek credit union. During 2003 it received loans worth 5,945,000 soms, including 238,000 thousand soms to purchase a vehicle and 115,000 soms for leasing office equipment for a period of five years at 17% annual interest. At the beginning of 2003, the credit portfolio of the credit union was 9,243,000 soms and by the end of the year it had increased by more than 6 million soms and stood at 15,261,000 soms.

The Mig-Nur credit union was granted loans worth 880,000 soms, including 105,000 soms to purchase an office and 33,996 – for office equipment leased for five years at 17% annual interest.

Such credit unions as Aravan, Uldash –Ata, Duldu-Ata-Yiyk-Je” from Aravan rayon were granted loans for 1,000,000 soms, 730,000 soms and 300,000 soms respectively, allowing them to increase their credit portfolios by 1,103,200, 551,800 and 629,400 soms respectively.

In 2003, the Kara-Suu credit union of Kara-Suu rayon was granted loans worth 424,000 soms and the Oomat credit union – 1,000,000 soms.

In Jalal-Abat oblast (61 credit unions, 3,902 members, aggregate capital – over 27 million soms, credit portfolio – about 50 million soms) the FCSDCU has granted loans worth about 20 million soms and leased office equipment, offices, vehicles and office furniture worth about 1 million soms.

During 2003, the Kochkor-Ata-Nuru and Manzini-Invest-Credit large credit unions of Jalal-Abat oblast, which are located in Kochkor-Ata, Nooken rayon, received loans worth 1,000,000 soms and 560,000 soms respectively and under a lease worth 100,000 soms granted by FCSDCU, managed to find themselves complete sets of office equipment.

In the same period the FCSDCU has granted the Uultai-Credit credit union (Mailuusuu) loans worth 1,800,000 soms and office equipment leases worth over 40,000 soms.

The Kerben-Impex and Tumash-Ata (Kerben village of Aksy rayon) credit unions got loans from the FCSDCU worth 879,000 soms and office equipment leases worth 33,000 soms.

In 2003, the Ataibek credit union was granted loans worth 1,050,000 soms and a vehicle lease worth 115,000 soms and an office equipment lease worth 33,000 soms.

The Iygilik-Shamy credit union (Bazarkorgon rayon) got loans from the FCSDCU worth 176,000 soms.

We should especially mention the Etiat and Hel-Sed credit unions (Kazarman village, Toguztorouz rayon). In 2003 they got loans from the FCSDCU worth 868,600 soms, including 32,600 soms to lease office equipment. Their total credit portfolio is worth 4,600,000 soms.

In Batken oblast there are 22 active credit unions with 1,930 members. Their aggregate capital is about 10

million soms and the credit portfolio – 19 million soms. The FCSDCU has granted them loans for over 8 million soms and 200,000 soms in the form of leases. In 2003, the large credit unions of Batken oblast such as Nijazbek-Alikan, Reni and Dabz from Kyzyl-Kija were granted loans worth 447,000, 890,000 and 477,000 soms respectively. The Reni credit union additionally provided itself with leased office equipment worth 33,400 soms. The Zakovat credit union (Isfana, Ljailjak rayon), despite its remote location and the difficulties of crossing several borders of the neighboring republics, managed to get loans worth 1,058,200 soms including 33,400 soms in the form of leased office equipment. This allowed the credit portfolio to increase to 980,200 soms.

The process of establishing credit unions in Kyrgyzstan includes training their managers. Regular partners of the FCSDCU in this area are the GTZ/DGRV Development of rural financial systems Project, The Tree of Life Human Development Centre and the Soros-Kyrgyzstan Foundation. In the last three years alone over 60 training and informative seminars have been organized for the credit unions and more than 1,670 people have participated in the seminars.

Five regional associations have been created and are active. They represent the interests of credit unions in all institutions, give consultations and provide the credit unions with a full range of other services.

Thus, by the completion of the first, preparatory stage of project implementation, we have the following results:

1) The population of the country now has an idea of the principles of credit unions' activities, their specialization as a financial institution working in the financial market.

2) In rural regions of every oblast a network of credit unions has been established. They provide real assistance to their members and form the practical experience of credit unions' activities in changing situations.

In 2003 a new stage of the project's work began. The decisions, designed to complete the process of forming credit unions as financial credit institutions are being worked out. Practical experience of credit unions' work during the previous five years is being summarized and the final goals of the project determined. During the period of project implementation problem areas also became obvious. Now the requirements of the projects and directions of work, necessary to achieve the goals are being developed. This forms the basis for the concentration of efforts for the next two or three years.

The problems existing in the credit union system are divided in three groups:

1) Problems in legislation – the current legislative basis of credit unions' activities.

2) Problems in organizing supervision and administration – the system of supervision of credit unions' activities and the system of administering it as a financial credit institution.

3) Problems of financial-credit culture – financial discipline, inherent for enterprises working in the financial market and the necessary ethics of relations among the subjects of the financial market.

The problems of the first group are caused by the contradictions in the norms of the current legislation. They create the problem of civil and legal responsibility and the relations with other subjects in the financial market.

In the second group of problems it is necessary to implement a verified approach to organizing supervision of credit unions, which are different by their characteristics. Clear determination of the status of closed or open membership and the appropriate requirements as to the adequacy of their own capital, as well as the system of administering liquidity and the regime of external borrowing are of particular importance. Therefore, while establishing a credit union administration system, the problem of its prevailing orientation to forecasting and controlling financial market risks should be solved first.

The third group of problems requires special consideration. First of all they are the problems of discipline of contract relations and contract legislation, culture and ethics of acting in the financial market and the problem of the verbal and business reputation of the credit union's manager. We should also mention the existing dependence on the state and the parasitical attitude, which are still evident in the behaviour of both administrators and members of credit unions.

Analysis of the situation and the trends specified by this group of problems enables the areas of the financial company that need special attention to be identified.

Firstly, the current legislation, including the need to maximise the regulatory norms and bring the system of regulatory accounting into line with banking requirements.

Secondly, the qualifications and professional experience of the heads of the administrative bodies of credit unions.

Thirdly, the need to bring contract conditions for creating and granting a financial company's credit, as well as the standards and procedures of its relations with the credit unions, to the level of banking practice.

It is clear that professionalism, financial discipline, ethics of working in the financial market, together with full independence of decision making are the basis for establishing strong and stable credit unions.

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