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DEVELOPMENT OF PROPOSALS CONTRIBUTING TO THE DEVELOPMENT OF MICROCREDITING IN THE REPUBLIC OF KAZAKHSTAN

Throughout the world, one of the most difficult problems in the development of entrepreneurship is finding adequate sources of funding. With all the advantages of bank lending, there are drawbacks, including such as a high interest rate, the need to repay a loan in a limited time, making payments on a pre-determined schedule, the end, the provision of collateral. Therefore, the creation of microcredit organizations can partially solve this problem. The analysis of the current state of microcrediting in the Republic of Kazakhstan was carried out. Based on the analysis of financial indicators and evaluation of the activities of MFOs "KMF" and MFO "Yrys", priority areas for reforming the microcredit system in the Republic of Kazakhstan were identified.

Key words: microcredit organization, business, crediting, financing, interest rate

Әлемдегі кәсіпкерліктің дамуының ең күрделі мәселелердің бірі қаржыландыру көздерін табу болып табылады. Банктік несиелеудің артықшылықтарымен қатар оның жоғары пайыздық мөлшерлеме, несиені өтеу үшін шектеулі уақыт, алдын ала анықталған кесте бойынша төлемдерді өтеу, кепілдікті қамтамасыз ету секілді кемшіліктері бар. Сондықтан, микрокредиттік ұйымдарды құру осы мәселені ішінара шеше алады. Жұмыста Қазақстандағы кішігірім кредиттеудің ағымдағы жағдайы талданды. МҚҰ «КМФ» және МҚҰ «Ырыс» қаржылық көрсеткіштері және қызметінің талдауы негізінде Қазақстандағы микрокредиттік жүйенің реформаларының басым бағыттары анықталды.

Түйін сөздер: микрокредит ұйымы, кәсіпкерлік, несиелеу, қаржыландыру, пайыз мөлшері

Во всем мире одной из самых сложных проблем развития предпринимательства является наличие адекватных источников финансирования. При всех преимуществах банковского кредитования есть и недостатки, в том числе такие, как высокая процентная ставка, необходимость возврата кредита в ограниченный срок, осуществление выплат по заранее определенному графику, наконец, предоставление залогового имущества. Поэтому создание микрокредитных организаций может частично решить данную проблему. В работе проведен анализ современного состояния микрокредитования в РК. На основе анализа финансовых показателей и оценки деятельности МФО «КМФ» и МФО «Ырыс» были выявлены приоритетные направления реформирования системы микрокредитования в РК.

Ключевые слова: микрокредитная организация, предпринимательство, кредитование, финансирование, процентная ставка.

Poverty is an actual economic problem of mankind. According to recent World Bank studies, every second of the world's six billion people live on less than \$ 2 a day and 20% of the total population live on less than \$ 1 a day [1]. Poverty is not only about having low income, but also limited access to healthy food, education, medical services, natural resources, drinking water, land, work, financial services, and information. The growth of poverty in Kazakhstan was due to economic reforms that led to a decline in production, inflation and unemployment.

Great attention is paid to the problem of poverty by the international community. Different efforts are being made to solve it. An effective tool against poverty is microfinance.

Originating in 1970, microfinance, as the industry began to develop intensively in the 1980s in developing countries in response to the dubious outcome of government programs of grant subsidies to the poor [2].

In the 1970s, poor people in developing countries could not get loans from banks, and therefore had to turn to financial services for users, while paying huge interest. The governments of these countries and international donors have decided to change the current situation by providing low-interest loans to the poor at special government programs. Despite the efforts made, the programs not only did not bring the desired results in the fight against poverty, but also led to the loss of most of the funds given by the state due to non-payment of loans. And only in the mid-1980s the world began a rapid spread and a mass movement in support of microfinance. The reason for this was the exceptional effectiveness of the new loan technology for improving the financial situation of the poor. It is no coincidence that the main regions for the spread of microcrediting are Central Asia, Africa, South and Latin America, where the highest level of poverty in the world is observed.

In the 1970s in Bangladesh, professor, economist, Mohammed Yunus developed a scheme of lending for people with low incomes. In those years, Bangladesh was completely devastated, most of the population was below the poverty line. Covered with the desire to help people, Muhammad Yunus is conducting the first pilot project on issuing loans to 42 borrowers from among poor people. They had successful credit history and they began with only \$ 27. Subsequently, he developed a microfinance system that enabled the poor to obtain a loan without having to issue numerous documents and on the basis of a group guarantee without making a pledge. Up to date, this project has grown into one of the largest banks - "Grameen Bank", a model that is used in fifty countries around the world. "Grameen Bank" provides low-income people with small loans without collateral. Loan repayment is 97%. The recipients of these loans are mainly women and they become founders of new enterprises in trade and in agriculture.

At the same time, microfinance is one of the mobile ways of lending to small businesses. The main advantage of microcrediting is the ability to receive money without collateral and without issuing a large package of documents. An important point is that microcredit organizations that only provide loans at the expense of their capital, grants and contributions from program participants for small entrepreneurs represent the least regulated by the state level of credit relations. In addition to issuing loans, microcredit organizations are also engaged in providing consulting services. Therefore, in connection with the solution of economic problems, microcredit and microfinance organizations are simultaneously involved in solving social problems aimed at developing the entrepreneurial initiative, providing self-employment to the population. The main advantage of developing the microfinance sector is the legalization and withdrawal of small financial intermediaries from the informal sector of the economy.

Taking into account current development, the availability of financial resources is an important factor in the survival and development of domestic small business. In the activities of microcredit organizations, rural and small towns people are particularly in desperate need, who rely on the availability of microcredits provided to the population. In this regard,

the President of the country, N.Nazarbayev, in his message to the people of Kazakhstan, “The Third Modernization of Kazakhstan: Global Competitiveness,” said: “One of our strategic goals is to ensure that by 2050 the contribution of small and medium-sized businesses in the country’s GDP is at least 50%. On my instructions, the Government has since this year launched the Program for Productive Employment and the Development of Mass Entrepreneurship. Now, citizens of Kazakhstan in the countryside or in the city can get a micro loan of up to KZT16 million for their business. It is important to expand the geography of microfinance, actively use the tools of guarantee and service support for entrepreneurs. These measures must be accompanied by the organization of business training and financial literacy. [3]”

The modern financial world almost daily generates new horizons in the field of start-up, generates streams of venture investments, which in most cases are aimed at the development of new technologies. According to experts, the catalysts for the emergence of financial and technological trends were two main factors:

1. World financial crisis in 2008;

2. The emergence of a new generation of young people, more competitive, open to innovation, appreciating the convenience and comfort of making money transactions online.

Currently, there is a variety of institutions and instruments on the micro-loan market, which certainly give a great chance for the development of microfinance organizations. For 2016, the online loan market in Kazakhstan grew by 330%. The reasons for such a dynamic growth of the sector analysts identify to be the increase in under banked audience, which does not have access to bank loans and the development of new information technologies that simplify the issuance of credit at times. Sources of financing of microcredit organizations providing online loans are foreign citizens and financial institutions, which are attracted by high interest rates on loans. The lion’s share of profits is received by foreign investors. And the population of Kazakhstan is more and more involved in credit slavery. At the same time, due to short-term payment and high cost, these microloans do not contribute to the development of the real sector of the economy. As a result microcredit in the country has a high demand and the microcredit market is underdeveloped. In this regard, it is necessary to develop organizational and economic mechanisms that promote intensive and effective development of microcredit system in Kazakhstan.

Microfinance is the operational delivery of financial services to people with low incomes.

Main objectives of microfinance institutions (MFOs):

- assisting in accessing financial services,
- Providing financial services to those who are not considered by banks as reliable customers (small business).

Entrepreneurial activity is subject to high risks of financial losses, therefore, the priority task of entrepreneurs and founders is to find available sources for starting and expanding their own business, where second-tier banks are not always convenient for this sector for some reasons:

1. high payment for a loan;
2. the need to provide collateral for obtaining a loan;
3. a long period of processing of documents and approval procedures;
4. high risk, which is simultaneously exposed to own business and property;

5. high interest rates for loan repayment;
6. Lack of standard interest rates to support active segments of the population.

Nowadays, the international practice of microfinance for small and medium-sized businesses has long been successfully applied by developed countries in various continents of the world. This regulation tool provides targeted loans to small businesses under certain conditions at a reduced price. Therefore, many experts emphasize its benefits to the state, and the banking sector, and the borrower, because it:

1. gives an opportunity to develop priority sectors of the economy of the country and the region;
2. Provides increased demand for banking product, attracting customers, development of the money sector;
3. Positively influences the creation and successful development of new industries, organizations, contributes to the formation of new jobs, the growth of the quality of life of the population, contributes to the growth of tax revenues.

The main agents of the microfinance market are microfinance institutions (MFOs). Main characteristics of MFOs:

- Regulated and unregulated;
- Forms of ownership;
- Goals and objectives;
- Types of services offered.

In world practice, three main models of microcredit organizations are singled out:

- Institutions that issue microcredits do not have the legislative right to attract savings;
- Institutions that carry out microcrediting, as well as attract obligatory savings of borrowers;
- Institutions that issue microcredits and can attract mandatory and voluntary savings to deposits. [4]

In international practice, there are two main methods of issuing microcredits: group and individual.

- The individual method is a method of issuing a loan to a borrower based on its ability to provide an MFO with a guarantee of credit repayment and some level of protection.

A group method is the issuance of loans to group members, where each guarantees repayment of each other's credit, or the issuance of a loan to one member of the group (the group leader), who then distributes loans to the other members of the group.

The determining factor in choosing the optimal methodology, as well as the range of services provided by microcredit programs, is the scale of their economic activities. The classification of the target group by the scale of economic activity is one of the decisive factors in the choice of microcredit methods.

In recent years, microfinance has been intensively developed in the countries of Eastern Europe, the CIS and Russia. In developed countries, microcredit solves a whole range of problems. The level of social and economic development of these countries allows for a broad program of assistance to the poor. Along with this, two methods of combating poverty are combined: subsidized financial support for the poor and the provision of opportunities to do business and provide themselves with earnings sufficient for a normal existence. In the

second case, there is broad support in the areas of training, financial management, management and marketing, and specialized technical assistance.

In countries with transitional economies, microcredit is not only social, but also political, as it helps to form a class of owners by supporting the development of small business.

Microfinance programs in countries with economies in transition are not so large, and the main objective is not to fight poverty, but to support entrepreneurship. The main target segment is poor people, the most vulnerable from the point of view of risk management, but at the same time has a certain potential for creating its business.

The main feature of the distinguishing microcredit program in the countries with transitional economy is the high educational level of the representatives of targeted target groups. Therefore, financial services are intertwined with various consulting services, which helps to ensure the success of novice borrowers.

Microcredit is widely spread as a form of financial activity in developing countries. It was carried out by granting microcredits at preferential interest. But the low interest rate did not cover even inflation, so microcredit organizations were forced to switch to financing at fixed rates.

World experience has shown that the provision of short-term loans with a non-standard form of support contributes to the growth of living standards, stimulates the development of entrepreneurial skills among the population, accelerates the creation of new jobs, increases labor productivity, leads to a reduction in unemployment, and helps to mitigate the social consequences of the transition period. All in all this is very relevant for Kazakhstan.

In Kazakhstan, microfinance, as a branch of the economy, appeared in the mid-1990s, but, despite its “youth”, is actively developing. Microfinance projects began to develop through state support and international development institutions (USAID, UNDP, etc.). According to their status, these were organizations that carry out certain types of banking operations in accordance with the license of the authorized body. In 2003, the law “On Microcredit Organizations” was adopted in the Republic of Kazakhstan, restricting microfinance in the republic solely by providing loans, i. microcrediting. The Law of the Republic of Kazakhstan “On Microcredit Organizations” contains the main provisions on the procedure for the establishment and operation of microcredit organizations (MCOs), defining the main responsibilities of the lender and the borrower [5].

In accordance with this law, a microcredit organization is a legal entity that carries out activities to provide microcredit. MCOs can be either commercial (created in the form of an economic partnership) or non-profit (created in the form of public funds) organizations [6]. Creation and registration of MCOs are regulated by the Civil Code of the Republic of Kazakhstan.

For the first time in the domestic legislation, the official definition of the term “microcredit” was given as the main criterion for classifying an organization as an MCO category. Currently, the market operates several types of institutions that provide microcredit services: non-government microcredit organizations, public funds; commercial banks. Thus, we can state that the market is developing alternately. But not so everything is smooth. The main problem is the poor awareness of the population, the demand for microfinance services is not met. This is explained by the fact that Kazakh microfinance organizations have

insufficient funding. In this regard, the Government faces a new challenge - to develop a flexible strategy to help microfinance organizations.

The advantage of microcredit organizations (MCOs) to banks is, in fact, initially in lower costs for management content [7]. The new law allows for the creation of an MCO, only by paying in cash the minimum amount of its authorized capital (it should be no more than 1000 times the monthly calculated figure). And this is not so much - for example, for the year 2017, the MCI is set at 2405 tenge, so, for the creation of an MCO, it will not be necessary to order \$ 6000. These requirements for the formation of an authorized capital concern only to the MCO, which is created in the form of an economic partnership. They do not apply to non-commercial MCOs, which can be created as a public fund, without paying statutory capital.

According to the law, MCOs are allowed to issue microcredits per borrower in the amount of not more than a thousand-fold MCI and 25% of the amount of their own capital. But this is already enough that the MCOs could create a worthy competition for banks in the market of crediting housing and consumer goods, especially in the segment of the population that today's bankers are not particularly interested in - this is, before all, young people who do not have a pledge and consistently high incomes, as well as low-income, in the first place, villagers and pensioners.

Moreover, if desired, these groups of the population can now unite and create their own MCOs, especially as the rules for the provision of microcredits are established by the highest body of the MCO and the contract for their provision, as well as the rate of remuneration. So, bureaucratization is minimal here - the licensing of MCOs is not required by law, and the National Bank does not intend to interfere with microcredit activities.

Although MCOs are prohibited from issuing securities, the range of activities of such organizations is quite wide: they can attract loans and grants, including from non-residents of Kazakhstan, place free assets in state and corporate securities, depositors and other instruments, to make transactions with the pledged property granted as a security for microcredit, to participate in the authorized capital of other legal entities, etc. As a last resort, the MCO can always rent out its own property or provide consultancy services on the issues of microcredit activity.

By the way, microcredit can be issued without pledge, which is only for the best, but filling out a credit dossier is mandatory for every borrower. No special documents are required for the dossier of individuals: a statement of the borrower indicating the purpose of using microcredit (if it is a target), property that is provided to ensure fulfillment of obligations; a copy of the identity card; agreement on the provision of microcredit; a certificate of the amount of the salary from the place of work, or a certificate of the state agency on the absence of a permanent or temporary place of work; the contract of pledge, if any. All this information, according to the law, is a new kind of closed information - the secret of the provision of microcredit.

At the moment, there are many difficulties for obtaining a loan in second-tier banks (STB). The interest rate on loans remains high, loans and investments are difficult to access and difficult because of the reluctance of banks to communicate with risky clients. The huge list of documents that the borrower must provide for obtaining a loan, does not at all simplify the procedure for developing microcredit. But entrepreneurs themselves are often

not ready to implement investment projects: there is no property for collateral; there is no credit history and long experience of doing business. In addition, there was an unfavorable economic climate for lending to small businesses: imperfect laws and constant amendments and changes in taxation, a high tax and bureaucratic press, a large share of the shadow economy. All this is just the tip of the iceberg.

The development of microcredit is one of the important directions of development of entrepreneurship in the country at all stages of its development.

The MCO is financed through the state development institutions of JSC “Fund for Financial Support of Agriculture” and JSC “Entrepreneurship Development Fund” Damu “. In general, the amount of public investment in the sector was about \$ 216 million for the period from 2005 to 2009. In 2011, a further 3 billion tenge will be allocated for microcrediting the village. In 2012-2016 the state allocated 1.5 billion tenge. In 2017 the amount of loans issued by the state was 4.4 billion tenge [8].

Table 1 – Attracted sources of financial resources in 2017 in Kazakhstan (thousand tenge)

Total funds raised	Budget resources		Borrowed funds		
	Fund for Financial Support of Agriculture	Small Business Development Fund	Loans from banks	Loans from non-bank legal entities	Loans to individuals
46289,7	4130,1	384,9	13819,1	27850,9	104,7
100%	9%	1%	30%	60	0,2

According to the table, loans of non-bank legal entities account for 60% of the largest share of borrowed resources. Most likely this is an investment or a legalized capital. The loans of second-tier banks account for 30% of borrowed resources from microcredit organizations. The amount of resources raised from the budget is 10%.

Large-scale support from the state gave a significant impetus to the quantitative growth of microcredit organizations. A legislative base was formed, a critical mass of microcredit organizations appeared on the market. So, as of January 1, 2018, according to statistics, 1051 MCOs were registered in Kazakhstan, of which 1375 are operating, and 618 are active (periodically reporting). Over the year, the number of MCOs increased by 395. Most MCOs in the South Kazakhstan region - 299, North Kazakhstan region - 254 and in Almaty - 261, and least of all - in Mangistau (34) and Atyrau (19) regions. The overwhelming majority of microcredit organizations (72 percent) are concentrated in cities.

The large concentration of microfinance organizations in the southern part is due to the fact that in the southern region more than half of the self-employed population of the Republic of Kazakhstan (50.8%), approximately 1.1 million people, are concentrated. In addition, the largest share of self-employed is concentrated in rural areas.

Statistical analysis of the indicators of the volume of lending to small businesses by microfinance organizations and the banking sector in 2017 revealed the following trend. In 2017, the total volume of micro-loans increased by 67.6% per year, and amounted to KZT150.6 billion. Credits of second-tier banks of the Republic of Kazakhstan to small

businesses grew by 12%. In 2017, the loan portfolio of the microfinance organization showed an annual growth of 54.3%, while loans of second-tier banks to small businesses grew by 50.8%.

Kazakhstan, relying on the successful experience of the developed countries of the world, strengthens its position in the market of the microfinance sector. To stimulate and develop small and medium-sized businesses, the Republic of Kazakhstan has created a program for the development of productive employment and mass entrepreneurship for 2017-2021. Experts are sure that this program will contribute to the broad development of entrepreneurship in the country.

In the Republic of Kazakhstan, in the microfinance sector in 2017, 10 top microfinance institutions were identified. The leader in the microfinance sector in Kazakhstan is the MFO “KMF”, the volume of the microcredit portfolio grew by 54.1%, and the volume of microloans increased by 72.3%, or 81.6 billion tenge. At the second level is the “Toyota Financial”, the specific weight is 16.7 billion tenge, as a percentage of 11.1%. The third place is MFO “Yrys”, the volume of the loan portfolio, which is 10.3 billion tenge.

Analysis of the current state of the microcredit market and evaluation of the activities of large microcredit organizations MCO KMF and MFO “Yrys” revealed the following problems.

1. In Kazakhstan, for the implementation of the program of state support for MCOs, certain errors were made regarding the quantitative development of microcredit organizations, that is, state institutions finance the microcredit market, creating their own MCOs, instead of acting. Direct government support inevitably distorts and breaks the market process, generating dependency among the target group of borrowers. In this connection, according to the Committee on Statistics, 1051 microcredit organizations are registered in Kazakhstan, of which the number of active MCOs is only 45.8%. Most MCOs are operating companies, but they do not support active turnover of funds, which leads to low efficiency of the sector.

2. In recent years there has been a stable trend of lower lending to second-tier banks by small and medium-sized businesses. However, there is no forecast for a global recession in this sector. The devaluation resulted in a change in the conditions for doing business in the whole country. In the first place, psychology changed: there was a transition from a positive perception of development prospects to anxious anticipation. Secondly, there was an increase in the cost of borrowed and own capital. Thirdly, there was a narrowing of the potential for expansion of business, due to emerging problems both in the global economy and within Kazakhstan. Accordingly, the growth rate of the economy of Kazakhstan is slowing, and this affects the activities of small and medium-sized businesses (SMEs), as the decline in rates consumption leads to a decrease in the growth rates of production and trade cycles, which, in turn, affects the speed of capital turnover. Simultaneously with this factor, there is an increase in the cost of financing the activities of small and medium-sized businesses. The volume of SME lending by banks has a downward trend. If earlier lending was carried out on liberal terms, then by now banks have tightened requirements for borrowers. Also, the requirements for collateral for loans are tightened.

At the same time, the support of the state, expressed in reducing the administrative pressure on small and medium-sized businesses, is a positive moment. Reducing the number of controlling bodies, reducing the number of licensing and licensing documents, reducing the tax burden should have a positive impact on SMEs.

An important role in supporting small and medium-sized businesses can be supported by microcredit organizations that work directly with entrepreneurs. Such organizations have more opportunities to develop SMEs without intermediaries and wagering rates.

Despite the fact that MCOs issue small loans, the sector brings profitability due to the fact that money is given for a very short time (mostly up to six months). MCOs give out money to consumers for a very short time and at very high interest rates, which is actually usury. In this regard, we propose the use of the principles of Islamic lending in the activities of the MCO, where it is forbidden to charge loan interest. The undisputed advantage of Islamic lending is the sharing of risks between the participants in the transaction, which ensures that all the obligations are fulfilled by them. The peculiarity is that their profit is formed by investing in various projects. In this case, a partnership agreement is negotiated, according to which partners bear risks and share profits or losses from projects in proportion to the invested funds. Thus, responsibility for the profitability of projects and return on investment are born by both parties to the contract, thereby ensuring its execution.

3. At the current time, Kazakhstan lacks analytical materials on microfinance. Data provided by MCOs to statistical bodies, as a rule, carry generalized information, do not take into account the specifics of microcrediting. For MCOs, there are no reporting forms that reveal the quality of the portfolio (number of overdue loans, risks, etc.). They are not regulated by the National Bank and the FSA. Partners are alarmed by the lack of public information on the activities of microcredit organizations and the financial non-transparency of these organizations. To form a single database on the current MCOs, it is necessary to implement a number of activities. Currently, the development of a strategy for the effective development of the microfinance sector lacks reliable and publicly available information. To solve this problem, it is necessary to create an effective monitoring system that will allow the successful development of domestic MCOs and high “transparency” of their activities

4. One of the important spheres of the country’s economic development is the process of microcrediting and the activities of microcredit organizations in Kazakhstan, as well as the improvement of its mechanism. Since microcrediting through the development of small and medium-sized businesses directly affects the country’s socio-economic development, a detailed analysis of the activities of microcredit organizations is necessary, a thorough study of problems and contradictions, and the development of proposals and recommendations for improving the microcredit system.

To address the problems identified, we are of the opinion of Mr. G. Marchenko, who in 2005 said that it is necessary to create a three-tier banking system in the country. (Figure 1) The three-tier banking system is one of the effective ways to address the issues of capitalization of microcredit organizations.

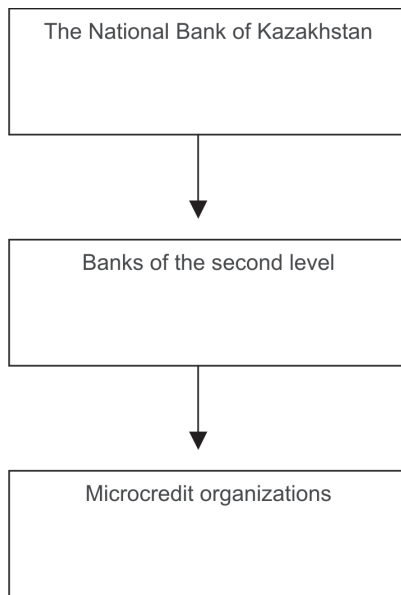


Figure 1 – Three-tier banking system

According to this scheme, the National Bank fulfilling the functions of a bank of all banks performs a number of important functions in regulating the activities of commercial banks. One of the main functions of the National Bank of the Republic of Kazakhstan is to provide lombard loans to second-tier banks at the refinancing rate. By the same analogy, second-tier banks can lend to microcredit organizations, but rates on loans can be much higher. Given the specifics of the lending activities of microcredit organizations, which prefer to issue mostly short-term loans in small amounts, high interest rates will not be a heavy burden on the borrower's shoulders. Thus, the formation of a three-tier banking system is also a kind of solution to the problem of MCO capitalization, although, of course, it is possible that interest rates on loans will increase. But considering that at present part of the financial resources of the MCO are formed from the budget, part of the banking sector, a small part of its own resources and foreign capital, it is necessary to gradually move to the formation of a three-tier banking system. The main advantage of the three-tier banking system is the availability of a branch network of banks throughout the country. In addition, banking activities are regulated and controlled by the NBK. Banks are sufficiently provided with professionals who can assess possible risks. And the banking sector in Kazakhstan causes investor confidence. The main disadvantage is the high interest rates on loans, which is determined by the low capitalization of the banking sector.

In order to solve these problems, we propose to introduce a number of changes in the existing legislation concerning the banking system of the country:

1. Make optimizations in the banking sector. The presence of 20 commercial banks is sufficient on the Kazakhstan market;
2. Remove restrictions on the presence of foreign capital in second-tier banks;
3. Expand the presence on the Kazakhstan market of Islamic finance;

4. To lower the refinancing rate of the NBRK;
5. Reduce interest rates on deposits to the level of inflation;
6. Simplify the issuance and execution of loans and microloans;
7. Ensure the transparency of the activities of banks in assessing collateral.

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