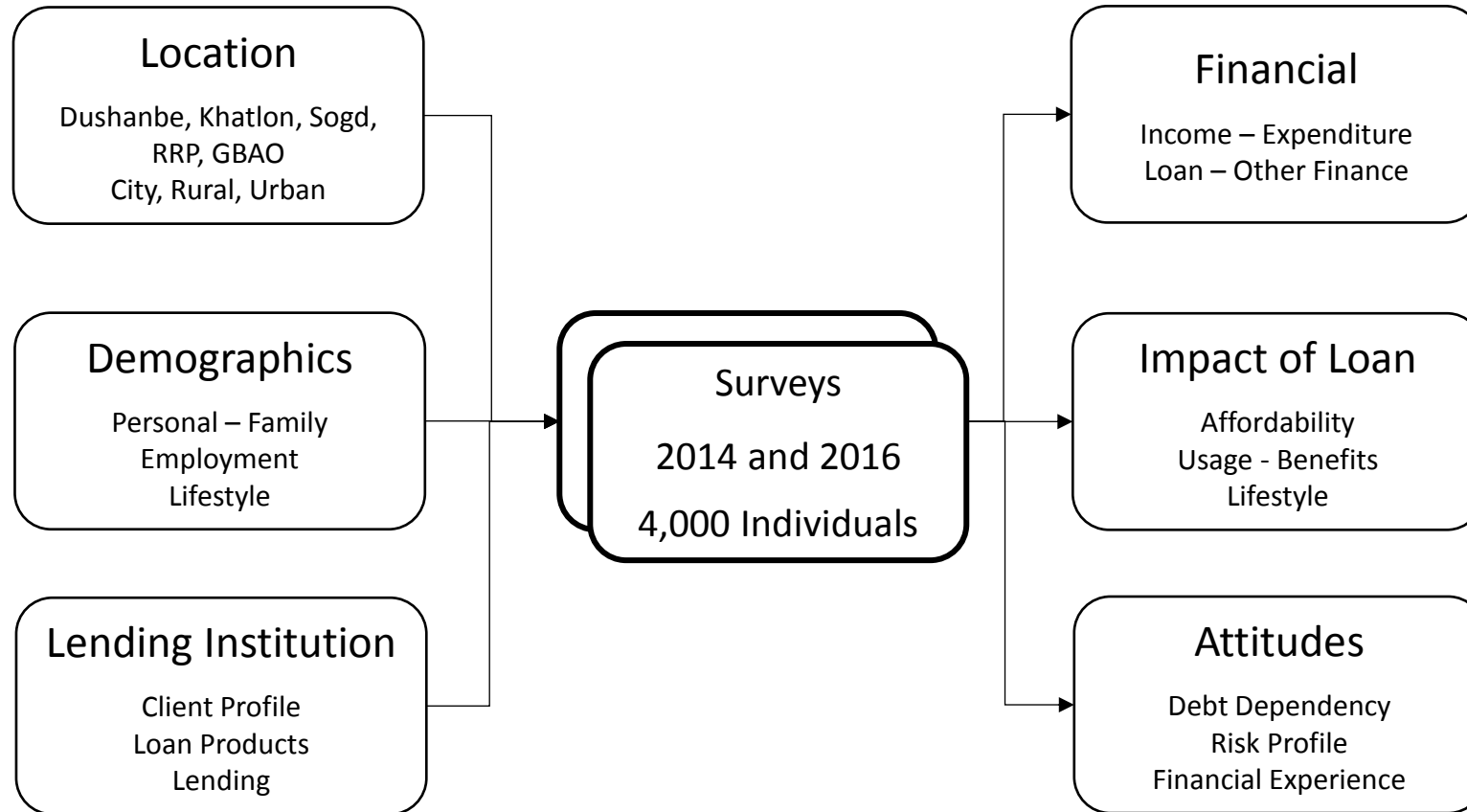# Tajikistan

Indebtedness of Individuals

Roy Pratt

September 2016
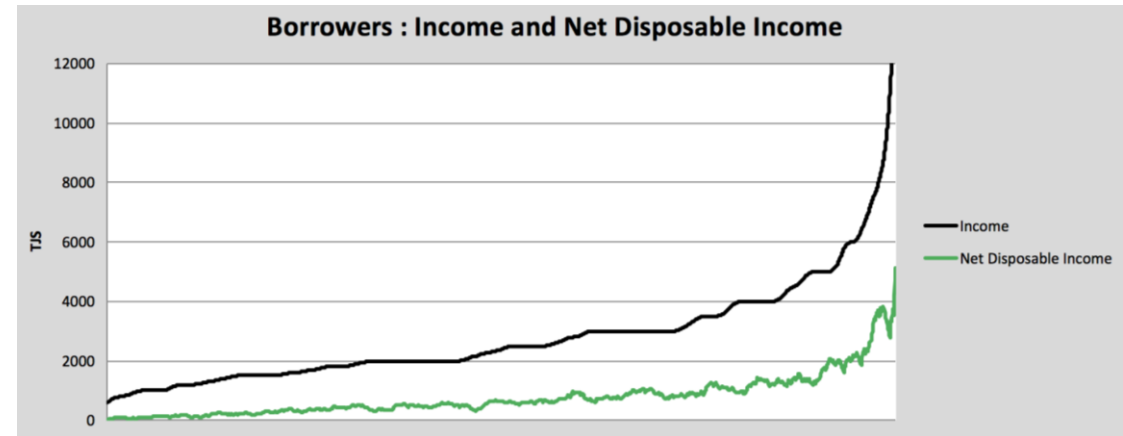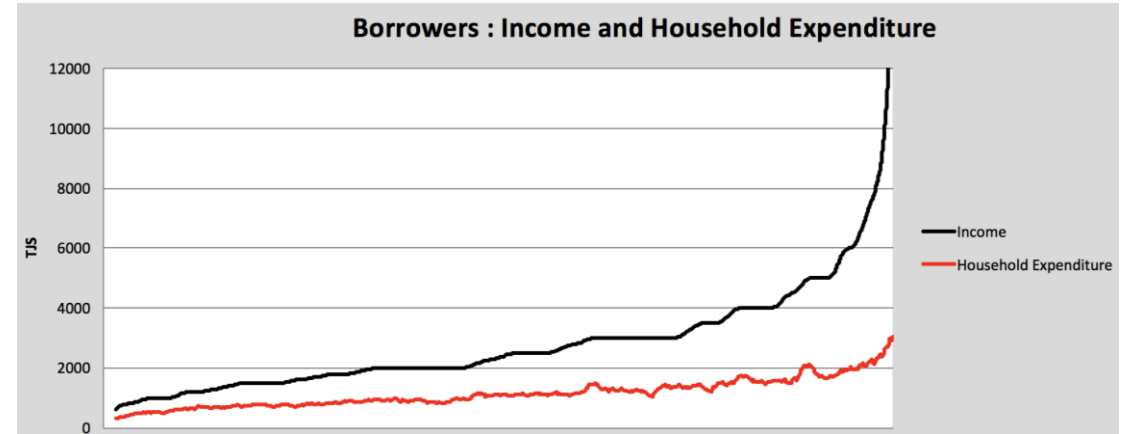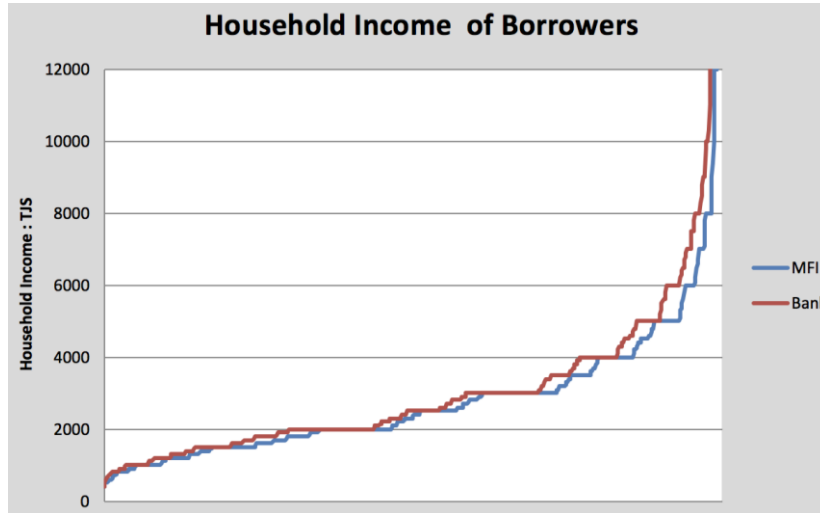
Survey Framework

Some Headlines …

- **Increased pressure on domestic budgets and continuing austerity**

- **Structural redistribution of loan portfolios towards higher incomes**

- **Slow-down in lending in January-June 2016**

- **Increased arrears, despite strengthened operational credit**

- **Structural portfolio risk increased in major client segments**

- **Strong increase in recognition of debt problems by borrowers**

- **Increased debt dependency**

- **Increased social pressures as a result of problem debt**

Net Income – little margin for error for how many borrowers ?

Household Income of Borrowers

- MFI
- Bank

Borrowers : Income and Household Expenditure

- Income
- Household Expenditure

Borrowers : Income and Net Disposable Income

- Income
- Net Disposable Income

| Total Expenditures as % of Income					
	<25%	26-50%	51-75%	76-100%	>100%
MFI : 2016	2 %	13 %	31 %	42 %	13 %
MFI : 2014	2 %	11 %	29 %	33 %	25 %
Bank : 2016	2 %	10 %	33 %	41 %	13 %
Bank : 2014	1 %	11 %	29 %	34 %	25 %

Structural Redistribution of Lending across Income Ranges

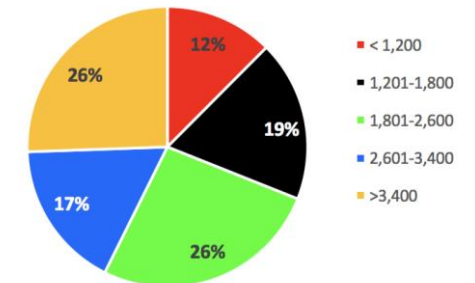| Household Income	Distribution of Borrowers		Distribution of Outstanding Loans	
	2014	2016	2014	2016
< 1,200	17 %	12 %	10 %	4 %
1,201 – 1,800	18 %	19 %	13 %	7 %
1,801 – 2,600	28 %	26 %	23 %	13 %
2,601 – 3,400	14 %	17 %	13 %	15 %
> 3,400	23 %	26 %	41 %	61 %

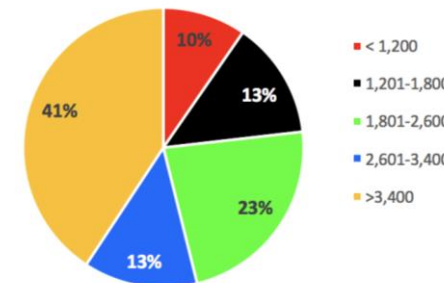**2014** **2016**

Distribution of Clients : 2014

Distribution of Clients : 2016

- < 1,200
- 1,201-1,800
- 1,801-2,600
- 2,601-3,400
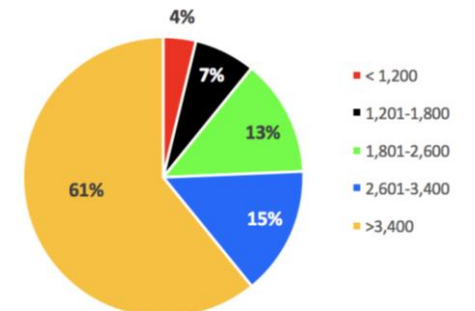- >3,400
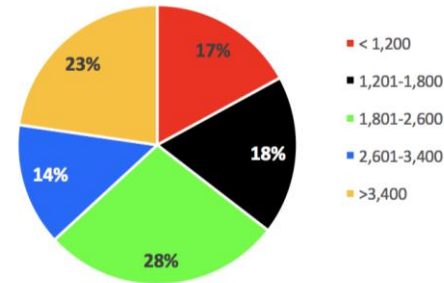
Distributions of Loans : 2014

Distributions of Loans : 2016

- < 1,200
- 1,201-1,800
- 1,801-2,600
- 2,601-3,400
- >3,400

Increased problems for higher income households

Household Income	Loan Arrears		Utility Arrears		Repayments more than can afford		Food expenditure reduced to make loan payments	
	2014	2016	2014	2016	2014	2016	2014	2016
< 1,200	4 %	9 %	7 %	13 %	25 %	52 %	38 %	51 %
1,201 – 1,800	3 %	12 %	7 %	15 %	30 %	50 %	48 %	42 %
1,801 – 2,600	4 %	17 %	6 %	12 %	33 %	49 %	50 %	39 %
2,601 – 3,400	4 %	16 %	8 %	11 %	32 %	51 %	39 %	39 %
> 3,400	3 %	17 %	8 %	9 %	25 %	48 %	28 %	36 %

Foreign Currency loans : a severe higher risk concentration

	Household Income		Net Disposable Income (after loan)		Average Loan		Loan Arrears	
	2014	2016	2014	2016	2014	2016	2014	2016
MFI : TJS Currency	2,400	2,700	600	800	5,100	5,500	2 %	12 %
MFI : Foreign Currency	3,400	4,300	850	700	12,400	33,700	5 %	42 %
Bank : TJS Currency	2,800	2,900	700	750	7,400	7,800	4 %	14 %
Bank : Foreign Currency	3,100	5,200	400	750	11,400	27,900	5 %	42 %

# Collateralised loans : a strong higher risk concentration

	Household Income		Net Disposable Income (after loan)		Average Loan		Loan Arrears	
	2014	2016	2014	2016	2014	2016	2014	2016
MFI : Collateral	2,700	3,300	500	700	10,700	14,400	4 %	20 %
MFI : Non-Collateral	2,600	2,600	750	800	4,700	4,200	2 %	11 %
Bank : Collateral	3,100	3,400	600	750	12,500	14,000	5 %	21 %
Bank : Non-Collateral	2,700	2,800	600	750	5,900	6,200	3 %	13 %
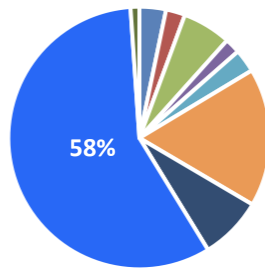
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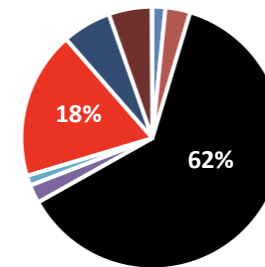
'Own Business'

	Microfinance Institution			Bank		
	2014	**2016**	**Change**	**2014**	**2016**	**Change**
Household Income : TJS	3,200	3,600	+ 12 %	3,300	4,200	+ 24 %
Net Disposable Income (after loan payments) : TJS	750	900	+16 %	600	900	+ 56 %
Average Loan : TJS	9,900	13,100	+ 33 %	12,100	16,700	+ 39 %
Loan Arrears	3 %	20 %	+ 17 %	3 %	23 %	+ 20 %
Loan repayments as % of net disposable income	59 %	57 %	- 2 %	70 %	65 %	- 5 %
Borrowers with foreign currency loan	27 %	8 %	- 19 %	37 %	13 %	- 24 %

'Own Business'

	Microfinance Institution			Bank		
	2014	**2016**	**Change**	**2014**	**2016**	**Change**
Retail and Service Trade Sectors	77 %	93 %	+ 16 %	72 %	92 %	+ 20 %
Business failure in last 6 months	20 %	37 %	+ 17 %	15 %	43 %	+ 28 %
Loans improve the quality of life	96 %	66 %	- 30 %	96 %	65 %	- 31 %
Borrowers with informal credit from retailers	22 %	22 %	-	23 %	22 %	- 1 %
Loan repayments more than can afford	24 %	51 %	+ 27 %	23 %	55 %	+ 32 %
Need assistance to resolve problems with lenders	23 %	51 %	+ 28 %	26 %	55 %	+ 29 %

Stronger recognition of debt problems

Distribution : Clients

2016

- Arrears
- Lender Refusal
- Repayment Difficulty
- Expenditure > 75%
- Remainder

15% Arrears, 10% Lender Refusal, 33% Repayment Difficulty, 21% Expenditure > 75%, 21% Remainder

2014: 3%, 4%, 25%, 40%, 28%
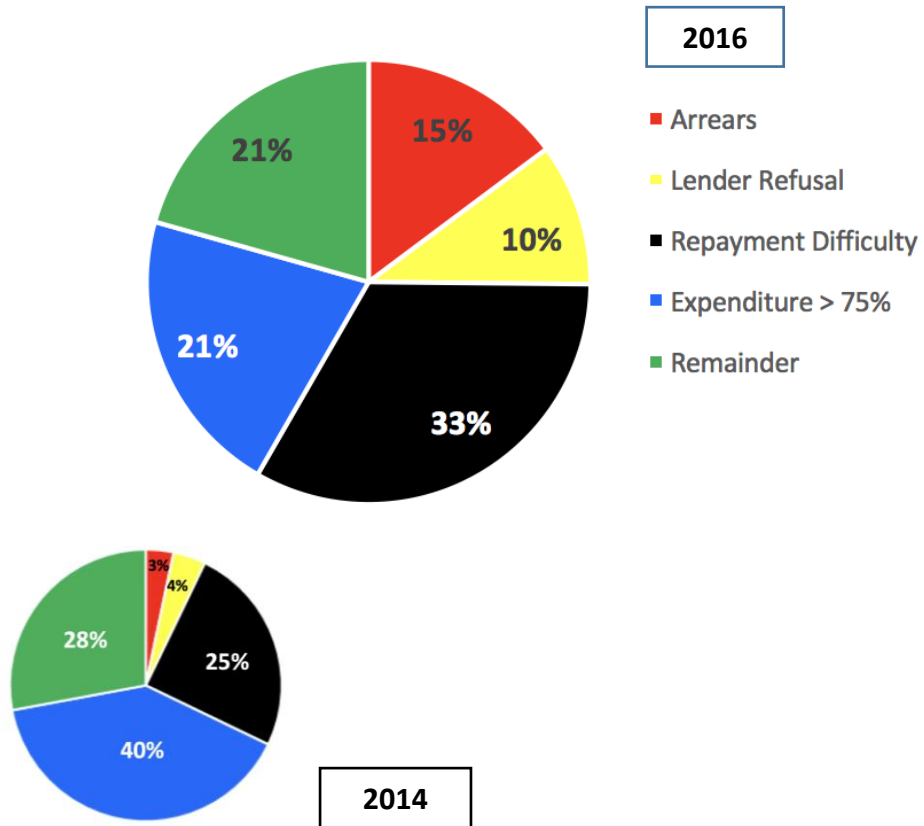
Distribution : Loan Value

2016

- Arrears
- Lender Refusal
- Repayment Difficulty
- Expenditure > 75%
- Remainder

28% Arrears, 11% Lender Refusal, 31% Repayment Difficulty, 21% Expenditure > 75%, 9% Remainder

2014: 3%, 4%, 25%, 46%, 22%
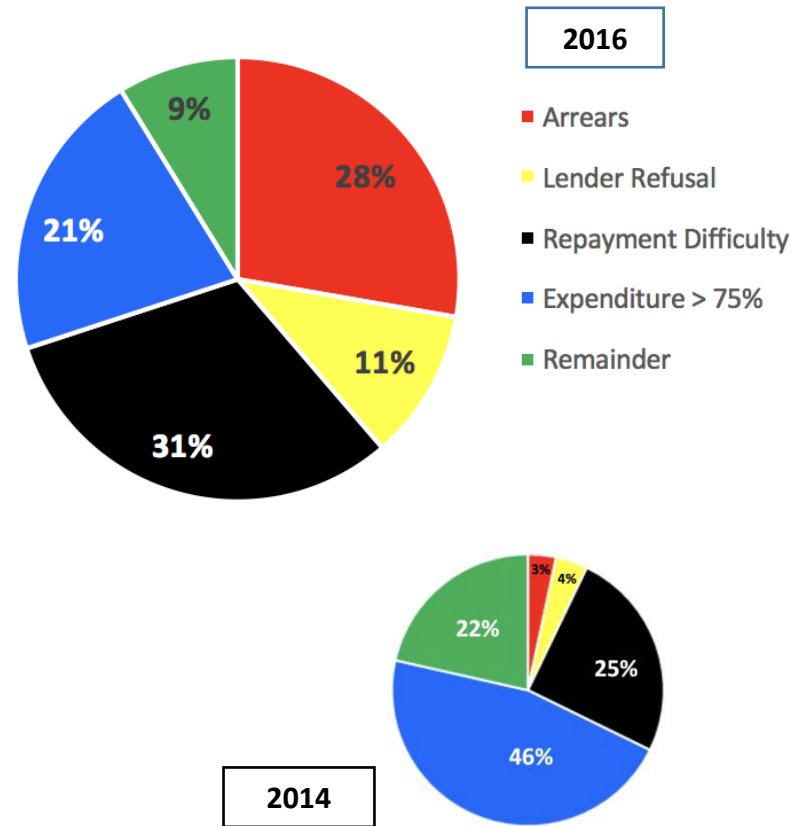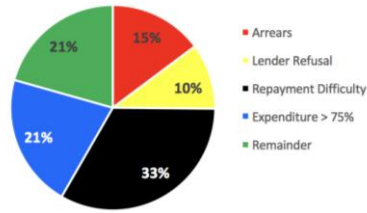
Borrowing Capacity – different segments with different capacities

Distribution : Clients

- Arrears
- Lender Refusal
- Repayment Difficulty
- Expenditure > 75%
- Remainder

	Arrears	Lender Refusal	Repayment Difficulty	Expenditure > 75% Income	Remainder
Loan Repayment as % of Net Income	70 %	45 %	53 %	81 %	23 %
Net Disposable Income (after loan)	600	800	700	250	1,600
Average Outstanding Loan TJS	16,000	9,000	8,000	8,600	3,600
Food Expenditure Reduced to Pay Loan	62 %	48 %	52 %	24 %	19 %
Need to Borrow to Maintain Lifestyle	86 %	82 %	92 %	71 %	64 %
Loan from Friends	27 %	16 %	14 %	10 %	5 %
Retailer Loan : Domestic Needs	21 %	25 %	20 %	11 %	12 %

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Strategic Issue : Quality of Loan Interest Income and Profit Impact

Size of circle reflects share of total outstanding loan exposure for each income segment
Arrears shown in Red

Average Annual Interest Revenue at 35 % per Average Loan per Income Segment

6,000

3,000

1,500

Arrears

100%

28%

Lender Refusal

11 %

21%

Repayment Difficulty

31%

Expenditure >75% Income

9 %

Remainder

50 %

75 %

100 %

Risk Dimension : Committed Expenditures as % of Household Income

Risk Dimension : Committed Expenditures as % of Household Income

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Guarantee Support … What value ? … What effect ?

Distribution : Clients

- Arrears
- Lender Refusal
- Repayment Difficulty
- Expenditure > 75%
- Remainder

		Number of Guarantees given by Borrower				
		0	**1**	**2**	**3**	**> 3**
Arrears	2014	65 %	18 %	14 %	1 %	2 %
	2016	5 %	58 %	32 %	3 %	1 %
Lender Refusal	2014	60 %	28 %	12 %	1 %	-
	2016	19 %	57 %	20 %	3 %	1 %
Repayment Difficulty	2014	66 %	21 %	12 %	1 %	-
	2016	8 %	72 %	20 %	1 %	-
Expenditure > 75 % of Income	2014	64 %	25 %	9 %	1 %	-
	2016	12 %	66 %	21 %	1 %	-
Remainder	2014	65 %	23 %	10 %	2 %	-
	2016	9 %	75 %	15 %	1 %	-

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Social Impact of Loans

Household Income	Loans improve Quality of Life		Debt causes Family Problems		Most of my friends have difficulties meeting their domestic budget needs		Serious illness in last 6 months	
	2014	2016	2014	2016	2014	2016	2014	2016
Arrears	85 %	49 % ↓	53 %	67 % ↑	62 %	75 % ↑	25 %	29 % ↑
Lender Refusal	84 %	65 % ↓	40 %	49 % ↑	77 %	81 % ↑	16 %	20 % ↑
Repayment Difficulty	93 %	61 % ↓	51 %	76 % ↑	56 %	81 % ↑	21 %	20 %
Expenditure >75% Income	95 %	80% ↓	9 %	16 % ↑	57 %	75 % ↑	10 %	11 %
Remainder	93 %	76 % ↓	9 %	13 % ↑	67 %	74 % ↑	13 %	11 % ↓

Summary

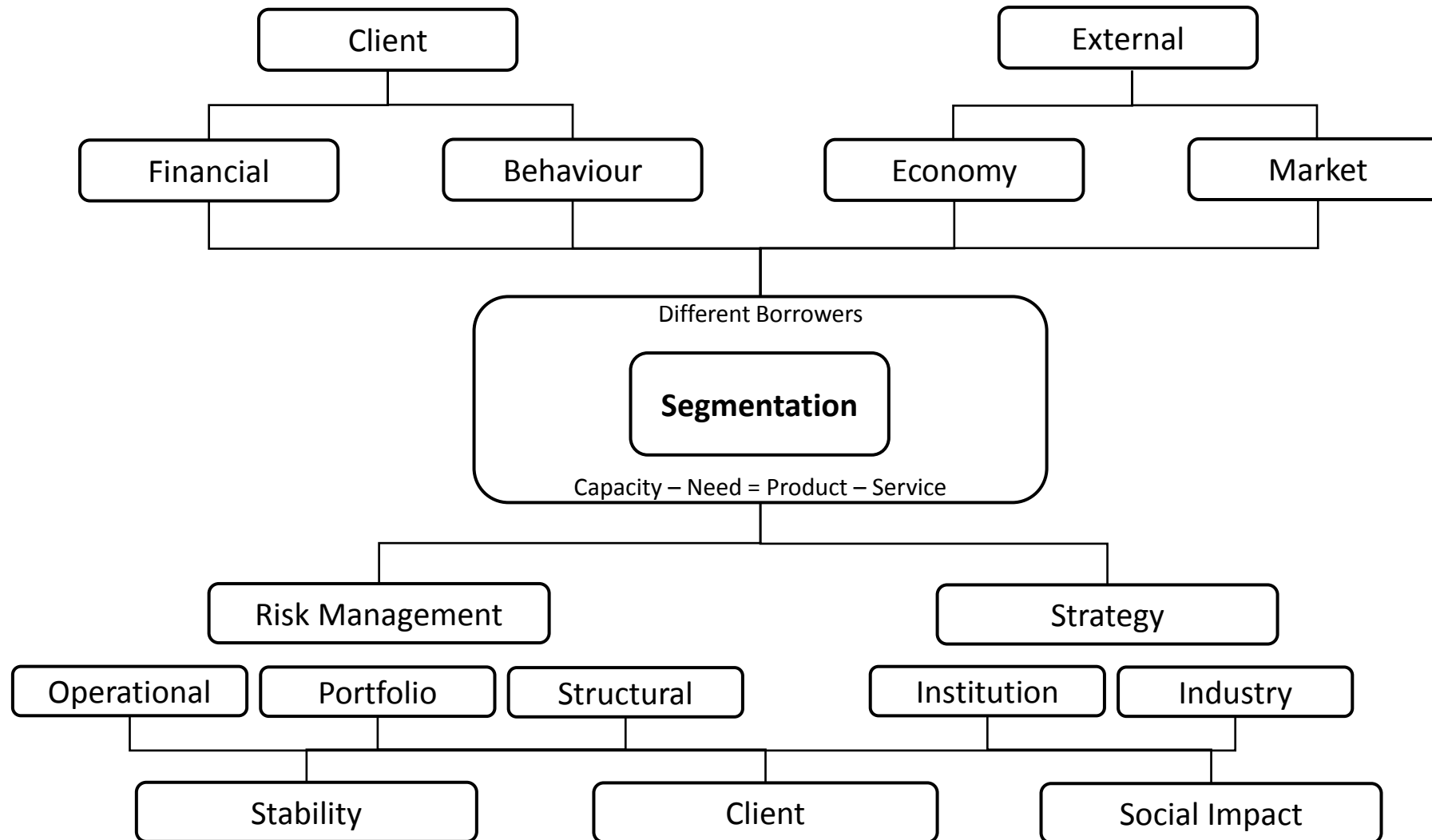| Income / Expenditure	• Redistribution towards higher incomes • Food and essential expenditure unchanged for 2 years • Households under greater pressure across all incomes
Borrowing	• Stronger operational credit management, but portfolio risks • External trends overwhelm actions of individual borrowers • High risk portfolio segments : own business, collateral, currency
Affordability	• 15% with loan arrears … but … • 60 % of borrowers recognise repayment difficulty • Further 20 % with basic expenditure over 75 % of income
Impact of Loan	• Social impact adverse to family, health, quality of life • Debt causes family problems for 50 % of borrowers • 35% of consumer loans used for domestic consumption • 80 % need to borrow to maintain lifestyle

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Strategic Issue : Responsible Finance : "The Management of Hope"

Actions by Lending Institutions	Attitudes of Borrowers
• Reduced level of loan approvals in the last 6 months	• 80% of current and former borrowers consider loans necessary to maintain family lifestyle
• Operational credit 'supported' by collateral for many borrowers (particularly higher debts)	• Borrowers face the repossession / loss of assets, primarily house, and social stigma
• Operational credit 'strengthened' by greater levels of personal guarantees	• Many guarantors are borrowers who are under financial pressure on own debts
• Financial performance sustained by low loan arrears (but much higher than 2014)	• Repayment levels by expenditure reductions, domestic austerity and family problems
• Reputation (trust and integrity) diminished, but remains strong	• Client loyalty based on trust and expectation, but is this trust based on access to loans …
• … the drivers of commercial performance …	• … the drivers of client emotion and reaction …

The risk challenge of the "management of hope" … what is the 'tipping point'

Clients show : "I am struggling … I am trying to deal with it … I need the right sort of help"


```
                    Client                              External

          Financial        Behaviour          Economy        Market


                          Different Borrowers

                              Segmentation

                      Capacity – Need = Product – Service


                  Risk Management                    Strategy

        Operational    Portfolio    Structural    Institution    Industry


                Stability              Client            Social Impact
```

Segmentation : What strategies … what differentiation … what outlook ?

Risk Management	Risk Vulnerability	Financial Capacity	Usage
Operational	Employment Income	Problem Recognition	Business
Portfolio	Own Business	Highly Committed	Consumption
Structural	Collateralised Lending	Affordable	Family Support
	Social Attitude		Development
			Long-term debt repayment

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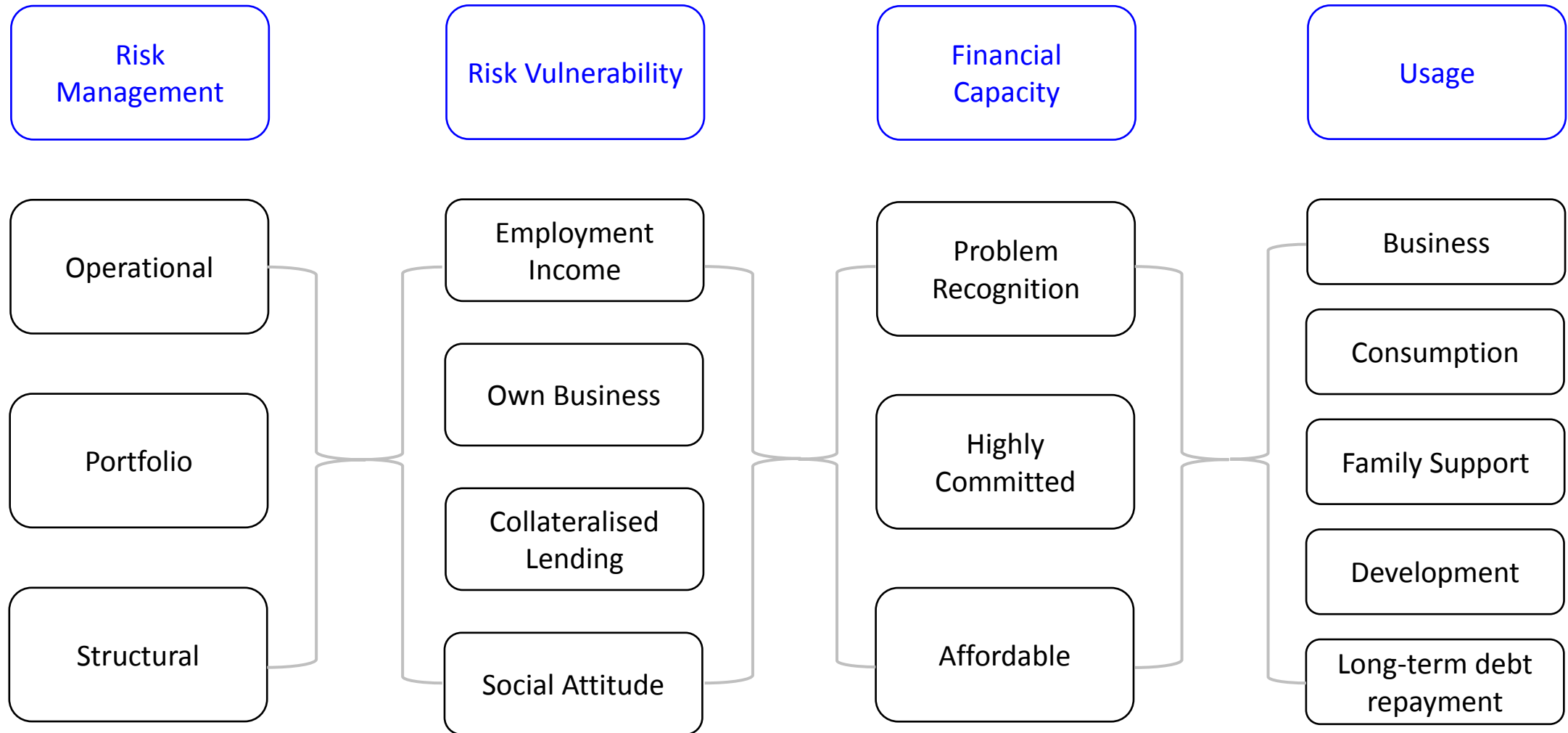
Strategic Considerations

Risk Profile and Social Impact	• Dependency and trust by borrowers – what lender responsibility? • Debt capacity of borrowers – what business outlook? • Stability of lending market – what structure and processes? • "The management of hope"
Segmentation	• Identification of capacities and attitudes – what differentiation? • Risk management and business development – how integrated?
Financial and Social Inter-dependency	• Formal and informal financial dependency – how assessed? • Stability of local economies – what role of the lender? • Social impact of lending strategy – how coordinated?
Own Business	• Core client segment – what governance and operational focus • Operational credit management capacity and skills – what process • 'Low entry – low exit' barriers – what client relationship
Lending to Consumers	• Food purchase – health – education : what differentiation • Monthly loan interest cost equivalent in cost of food per person • Monthly budget monitor and consumer sensitivity

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Tajikistan

Indebtedness of Individuals

Roy Pratt

September 2016