



Tajikistan: Borrowing by Individuals

A Review of the Attitudes and Capacity for Indebtedness Summary Issues and Observations

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INTRODUCTION

A survey was undertaken in September / October 2013 to gain insights into the experience of borrowing by individuals in Tajikistan. The principal dimensions were to assess:

- The broad demographic profile of individual borrowers;
- The major characteristics of their financial and budgetary position; and,
- Their attitudes towards borrowing and the lending institutions.

A core objective of the survey was to gain greater insights into the extent, and impact, of over-indebtedness amongst borrowers. The structure of the survey was designed towards this goal. The objective of the survey is not, therefore, primarily to review the commercial and social performances of the lending industry, but only to the extent that such issues impact upon the budget and lifestyle of the individual borrower.

4,000 individuals responded to the survey and spanned borrowers from microfinance and bank institutions, together with some non-borrowers. The methodology of the survey is outlined in Attachment 1 and the survey questionnaire is shown in Attachment 3.

The major focus of the survey is to relate 'over-indebtedness' to the affordability of debt and the adequacy of income to meet expenditure needs. On this basis, lending is undertaken against the capacity of the borrower to meet loan repayments in a timely manner – and not against any 'forced sale' realisation of assets or payments by a guarantor. A key dimension is to gain better insights of the interaction between the quantitative dimensions of the borrowers' financial position and qualitative dimensions of the feelings of the borrower in relation to financial confidence, risk vulnerability and the impact of debt on their lifestyles.

It is understood that this type and range of survey has not been undertaken previously in Tajikistan. The survey provides some dimensions of the financial, demographic and social profiles of borrowers. This will enable stakeholders to relate the survey findings to their respective interests or to the particular portfolio structure of individual lending institutions.

Similar studies have been undertaken in a range of other countries, most recently in Kyrgyzstan and Bosnia and Herzegovina. Whilst it may be inappropriate to undertake detailed comparisons between countries, such research does provide a useful additional perspective by which to consider the findings in Tajikistan.

This paper provides four sections:

1. '**Headlines**' of the principal findings from the survey (Page 3);
2. '**Summary Observations**' to provide some dimensions of the principal findings (Pages 4-8);
3. '**Issues for Consideration**' to identify factors which impact upon over-indebtedness (Pages 9-11);
4. '**Questions and Answers**' to provide some insights and survey response data into a range of issues raised by the survey responses (Pages 12-88);

Attachment 1. Survey methodology and assessment of response validity (Pages 89-92);

Attachment 2. Risk categorisation methodology (Pages 93-94);

Attachment 3. Survey questionnaire (Pages 95-97);

It is intended that the structure of this report, with varying levels of detail, will enable the reader to access more easily the issues which are of particular interest. It is hoped that this research will contribute additional perspectives to the development of financial services and support for individuals in a manner which reflects the diversity of individual characteristics, needs and attitudes amongst the borrower client base.

SURVEY HEADLINES

The following issues are highlighted from the responses to the survey on indebtedness of individuals.

Income and Expenditure

- Overall survey income and expenditure levels were consistent with independent national statistics;
- 35% of borrowers had monthly household income less than TJS 1,800;
- Essential household expenditure was 52% of the lowest household income, compared with 36% for households with income over TJS 2,600;
- 40% of borrowers have reduced food expenditures to make loan repayments.

Borrowing

- Borrowing is primarily (over 90%) undertaken by fixed-rate, fixed-term business and individual loans;
- 27% of loans (40-45% of loan balances) are denominated in foreign currency, with average loan balances significantly higher than loans in local currency (MFI + 140% and banks +55%);
- Additional funding is taken by about 40% of borrowers from informal sources (family and retailers).

Affordability

- Only 3% of borrowers have loan arrears ... but ...
 - 30% consider repayments to be more than can be afforded;
 - A further 40% have committed expenditures more than 75% of income;
- 25% of borrowers have found it difficult to resolve debt problems with their lending institution.

Microfinance Institutions and Banks

- Highly consistent profiles across MFI and bank clients in relation to income / expenditure, demographic structure, trading and income sources, and loan product usage across the MFI and bank clients;
- Banks provide, on average, higher loan amounts and at higher loan leverage (repayments at 61% of net income compared with 54% by MFIs);
- Both MFIs and banks support 'own business' clients at similar levels for males and females.

Impact of Borrowing

- Over 90% consider that loans improve the quality of their life;
- 50% of borrowers need to continue to borrow to maintain the lifestyle of their family;
- Debt is recognised to cause family problems for 22% of borrowers.

Segmentation

- 40% of borrowers have pledged assets as collateral for their loan;

- Collateralised lending represents 59% of outstanding loan value;
- Average loan balances of collateralised lending are more than double those of non-collateralised.
- Low income borrowers (less than TJS 1,800) had no net disposable income after committed expenditures
 - 45% reduced food expenditure to make loan payments and 35% obtained credit from retailers.

Comparison with Kyrgyzstan

- Overall, similar portfolio characteristics in both countries, with similar levels of net disposable income (after committed expenditures);
- Higher levels of debt dependency and informal loan funds in Tajikistan.

SUMMARY REVIEW OF A STUDY OF THE INDEBTEDNESS AND ATTITUDES OF INDIVIDUALS

SUMMARY OBSERVATIONS

Financial Inclusion

Three core dimensions of 'financial inclusion' are often characterised as the provision of loan services to lower income groups, wider inclusion and empowerment of female clients, and respect for the individual by the lending institution.

- The distributions of income profiles of the MFIs and banks are broadly similar with MFIs having a slightly higher proportion of the lowest income clients - and the 'spread' of incomes is similar for MFIs in both Tajikistan and Kyrgyzstan;
- Female clients showed a greater usage of loan funds for domestic purposes, and the average loan size and leverage was slightly less than that of male clients (however, average incomes were also less for females). Usage of loan products (individual, business and foreign currency) was similar for both males and females;
- Loan products by MFIs were consistent with those provided by the banks (over 90% by individual and business loans with fixed regular repayment, over similar loan periods);
- Almost all borrowers of both MFIs and banks considered that the institutions acted with integrity and respect.

However, the financial pressures upon the lowest income segments are significant. Borrowers with incomes up to TJS 1,800 (35% of all borrowers) have negative or minimal net disposable income. This reflects the higher cost, in real terms, of both household essentials and loan repayments. Such low income borrowers also undertake higher levels of informal loans and reductions in food expenditures in order to maintain loan repayments. The financial situation of the large majority of low income borrowers is highly constrained, with minimal capacity for further expenditures without [at least matching] increases in income.

Lender / Borrower Relationship

The relationship between the lending institutions and borrowers was reviewed in two perspectives – first, the 'values' which the institution portrays in the standards by which it acts, and secondly, the operational relationship with the clients.

There was an extremely strong and positive response in relation to the 'values' (integrity, trustworthiness, transparency) of the institutions. However, some dimensions of their experience with operational interface (problem resolution, understanding of financial needs) reflected a somewhat lower level of satisfaction (but still a strong favourable majority). In view of the considerable financial pressures of many borrowers, this change is inevitable and not surprising.

However, there is a strong undercurrent of 'debt dependency' which is recognised by about 50% of borrowers and 40% of borrowers have pledged assets as collateral to support higher loan borrowings. This suggests that the maintenance of a favourable relationship with the lending institution is critical for the lifestyle of a majority of borrowers. Such dependency may be anticipated to affect the motivation and behaviour of borrowers. As such, the lending policy, and continuing support, for such dependencies by borrowers presents a significant strategic dimension for the lending institution reflecting both financial and social implications.

The low level of arrears (about 3%) contrasts with 30% of borrowers who recognise that they have problems making their loan repayment, 40% who have reduced food expenditure to make loan repayments and 25% who have difficulty resolving debt problems with their lending institution. Additionally, there is a relatively high level of informal funding (particularly from retailers).

Such financial pressures on the borrower, together with the dependency upon continued access to loan funds, places particular demands upon the lending institutions in relation to 'financial responsibility', involving both their lending and business development strategies – with direct financial and social implications upon both the borrower (and family), and also the local community and economy.

Impact of Lending

Over 90% of borrowers consider that loans improve the quality of their life, but such strong response must be considered against the high recognition of debt dependency (50%), usage of loan funds for domestic consumption (40%), and the low level of net disposable income (60% of borrowers with expenditures greater than 75% of income). Additionally, over 20% obtain credit from retailers. This reflects a generally strong reliance upon debt by borrowers which, for a majority, supports the lifestyle of the family.

Both MFIs and banks provide loan support to 'own business' borrowers with the greater proportion of such lending being used to support trading needs, rather than asset acquisition. However, in view of the level of credit being provided by retailers to their customers, it should be recognised that some [unquantified] part of lending to 'own business' is effectively de facto lending to consumers.

These dimensions further highlight the importance of the lending policy of institutions and the stability of the flow of loan funds to maintain the cash flow / liquidity of local markets – and thereby highlights the potential consequences of any significant independent action by major individual lending institution.

Client Segmentation

The individual borrower market is not homogenous but, rather, consists of various significant segments with distinct characteristics, and financial needs and capacities. The principal client segments which impact upon structural risk exposure for the lender and financial vulnerability of the client are [i] household income, [ii] the scale of borrowing by the individual (including additional informal borrowings, higher leverage based upon collateral pledged assets), [iii] city, urban and rural locations, [iv] clients who recognise financial difficulties, and those who do not acknowledge their financial constraints, and [v] clients who remain with a single lender, and those who change lenders.

Despite the different characteristics of these various client segments, standard loan products appear to be widely used, rather than aligned to the particular needs of each major segment. 'Individual and Business' loans account for over 90% of loan product delivery, irrespective of its usage for asset acquisition, trading, or domestic consumption – and the residual terms of the loan indicate that there is minimal alignment of the loan term with the purpose of the loan. Differentiated product propositions to reflect the characteristics of different client segments and loan purpose could enable the underlying cash flow and risk dynamics to be consistent with the structure and terms of the loan.

Loan Leverage

The overall level of loan leverage (in relation to household income) is 30% (the same level as in Kyrgyzstan) and 57% in relation to net income (slightly higher than 54% in Kyrgyzstan). Additional informal borrowings are higher in Tajikistan with 38% of borrowers obtaining funding from family and/or retailers (compared with about 17% in Kyrgyzstan). This increases the effective overall level of debt leverage to the borrower.

Average loan leverage (in relation to household income) is slightly lower amongst MFI borrowers (29%) than bank (33%). However, loan leverage is highest amongst the lowest income segments, with loan repayments representing 51% of those with income up to TJS 1,200 (15% of borrowers). Loans secured by collateralised assets (40% of borrowers) have a significantly higher leverage than uncollateralised loans, particularly in relation to net income (MFI 67% against 45%, and Bank 70% against 53%). This is also shown in relation to loans in foreign currency (30% of respondents) in comparison with loans in local currency (again in relation to net income MFI 58% against 52%, and Bank 76% against 54%).

These highlight the different risk vulnerabilities and dynamics of particular borrower segments, and the consequent sensitivity to external cost changes, which result from high leverage of loan repayments.

This situation is exacerbated in Tajikistan, in comparison with Kyrgyzstan, by the higher levels of informal loans, the higher reductions in food expenditure which has already been undertaken, the higher levels of multiple income sources contributing to the household budget, and the higher level of dependent persons within the household - which combine to reduce the opportunities for further improvements to the household budget.

This highlights the challenge and delicacy of any business development strategies and actions to extend balance sheet scale and financial performance, whilst loan leverage to the existing client base is high.

Over-indebtedness

Whilst over-indebtedness may be popularly reflected in the level of loan arrears (only 3% amongst survey respondents), the scale of loan leverage demonstrates the low levels of net disposable income and budget pressures which are experienced by a majority of borrowers after meeting their basic committed expenditures. Over-indebtedness may, therefore, be most appropriately related to the capacity of the borrower to meet financial commitments without undue adverse impacts (financial or social) upon their lives.

In this broader context of 'over-indebtedness', about 25-30% of clients acknowledge the adverse impacts of debt on their lives (such as, difficulty to meet loan repayments, borrowed too much, cause of family problems, cannot resolve debt problems with the lender) whilst 40% have reduced food expenditure to make loan repayments. In addition to such borrowers who 'recognise / acknowledge' that they have repayment problems, a further 40% have expenditures greater than 75% of household income (the average net income after committed expenditures for this segment is about zero).

A risk categorisation assessment indicates that about 60% of borrowers are in an 'exposed' situation in relation to the vulnerability and sensitivity of their financial situation.

Loans Collateralised by Pledged Assets

40% of borrowers have pledged assets to collateralise their loan (MFI 37% and Bank 42%). The average loan size is higher for collateralised loans (MFI +126% and Bank +114%). However, the household income levels are not commensurately higher, with MFI only +3% and Bank +15%. The use of informal loan sources (particularly retailer credit) is also higher amongst the 'collateralised borrowers'. The incidence of asset collateralisation is also greater with foreign currency loans than local currency.

The type of 'pledged asset' was not identified in the survey but the dramatic differences in the levels of loan leverage suggest that the availability of such collateral may result in one or more of the following dynamics:

- Substantive relaxation of normal credit standards. This suggests a greater reliance upon the perceived value of the collateralised asset (either realisable or motivational) rather than the strength of the underlying cash-flow of the borrower;
- Strong motivational lever upon the borrower to maintain repayments in order to retain possession of the asset, which may have high domestic / social use and importance, even if it had minimal residual or realisable value;
- If the lending criteria have been significantly affected by the availability of collateralised assets (with less emphasis on the underlying cash-flow), then this represents a significant portfolio of lending with potentially different risk characteristics.

The high leverage of this borrower segment, and the inherent financial vulnerabilities and sensitivities, appear to create high risk portfolios which require particular portfolio assessment and management.

Loans in Foreign Currency

27% of borrowers have loans denominated in foreign currency (MFI 25% and Bank 32%) – however, such loans represent 44% of the value of MFI loans and 42% of bank loan value. It is apparent, therefore, that the MFIs use foreign currency much more extensively for the higher value loans. (For MFIs, 30% of foreign currency loans had outstanding balances above TJS 10,000 in contrast to only 9% of local currency loans). Based on national statistics, the growth rate of currency lending by MFIs has been extremely strong with average annual growth rates of about 150% over the last three years.

Within the MFIs, foreign currency loans are used by higher income borrowers (average household income TJS 3,400 against TJS 2,400). However, the higher loan repayments absorb such income and the resultant loan leverage on foreign currency loans is higher than that for local currency debt (in relation to loan repayment as a percentage of net income: MFI 58% for foreign loans against 52% for local currency; the comparable figures for bank borrowers are 76% and 54%)

The income sources of such ‘foreign currency’ borrowers do not suggest that there is any substantive foreign currency cash flow within the household to match the repayment commitment. This exchange rate exposure represents, therefore, an additional risk component for the borrower.

The level of foreign currency lending (and its reported substantial expansion in recent years) represents a fundamental change in the structure of the loan portfolio and adds the additional risk dynamic of potential exchange rate movements, particularly for the MFIs.

Location

Respondents are based in five regions and span city, urban and rural locations. The profile of borrowers varies significantly across these segments.

The real net cost-of-living was more favourable in city locations (with higher incomes outweighing the differences in expenditures), whilst urban locations were particularly adversely affected by the costs-of-living rising faster than incomes.

Across each of the city, urban and rural locations, the proportion of net disposable income remaining after committed payments was slightly less than shown by respondents to the recent survey in Kyrgyzstan – and additionally, Tajikistan borrowers had a higher level of informal borrowings in each location.

The levels of income and expenditure varied significantly across the regions and locations, with particular pressure in urban locations. This highlights the need for lending institutions to identify the different budgetary dynamics in each segment and establish appropriate lending guidelines and affordability standards.

Comparison of Microfinance Institutions and Commercial Banks

There is a high level of consistency in the profiles of MFI and bank borrowers (age, household size, regular employment and own business, type of trading activity, receipt of remittances). This consistency also applies to the distribution of the incomes of borrowers (average bank income only 8% higher than MFI), with the MFIs showing only a slightly higher proportion of the lowest income segment (up to TJS 1,200). Average expenditures on household essentials are also highly consistent across the two types of institution. The usage of the types of loan product (primarily fixed-rate, fixed-term individual and business loans) is also similar across both types of institution.

The principal areas of difference between MFIs and bank were shown as :

- Loan amounts and loan leverage are higher amongst bank borrowers, and this results in the average net disposable incomes being slightly higher (8%) for MFI borrowers than for bank;
- Slightly greater proportion of bank borrowers with foreign currency loans than MFIs – but MFI foreign currency loans were, on average, 9% higher;

- Slightly higher incidence of assets being pledged as collateral amongst bank clients – and the average bank collateralised loan was 17% higher than that of the MFIs.

There is no significant indication by the borrowers of any substantive differences in the client-base profiles or the product or service propositions of the MFIs and banks.

Outlook for Lending to Current Borrowers

The outstanding loan amounts and repayment levels shown by borrowers suggest that about 80% should reach maturity during the following 12 months. This highlights the immediacy of the renewal decisions to be faced by both borrowers and lending institutions. The client characteristics have indicated that the dynamics of such decisions are likely to vary significantly across the major borrower segments.

Segments such as [i] repayment difficulty (c.30%), [ii] expenditures over 75% of income (c.40%), and [iii] stronger financial situation (c.30%) have different financial capacities with which to accommodate repayments to current loans, whilst about 50% of all borrowers acknowledge their continuing dependency upon the availability and renewal of loans.

Against the different needs, dependencies, financial capacities and attitudes of these client segments, the lending institutions may need to further develop and explain their product and service propositions to recognise, and respond to, such differentiated positions.

ISSUES FOR CONSIDERATION

The survey responses indicate a range of issues which have significant strategic or operational implications for the lending institutions and other institutional stakeholders. The following comments provide some observations based only on the findings of the survey. Whilst such issues may have been addressed by lending institutions and other stakeholders, it is hoped that these observations, based upon the responses of clients, will provide a useful additional perspective.

Risk Profile and Social Impact

The performance of the lending portfolios of the MFIs and banks appears to be strong, with only about 3% of clients in loan arrears. However, there is a range of indicators which suggest underlying adverse risk dimensions impacting upon the potential vulnerability / sensitivity of loan performance. These include [i] high leverage by both MFIs and [particularly] banks, [ii] the sensitivity of the lowest income segments (up to TJS 1,800) to even a modest increase in the real cost-of-living, [iii] the recognition by about 30% of borrowers that their financial position is under pressure and that debt repayments are more than they can afford, and paradoxically [iv] the 'non-recognition' or non-acknowledgment by many (40%) with minimal net disposable income of their vulnerable financial position.

Many borrowers (40%) have supported increased borrowings by the collateralisation of pledged assets. This has significantly increased their loan leverage and thereby vulnerability to external price changes. Furthermore, there is a wide usage of informal loan sources (primarily family and retailers) which is supporting household budgets and loan repayments.

Despite their budget constraints, a majority of borrowers recognise the beneficial impact of borrowing upon their lives and this applies across all income segments. However, about 50% of borrowers recognise their dependency upon debt in order to maintain the lifestyles of their families. Such dependencies are concentrated (not surprisingly) upon those borrower segments which indicate greatest budget pressure and difficulty to meet loan repayments.

This presents the inevitable challenge to gain an appropriate 'balance' between [i] the capacity to adjust the volume and risk profile of the lending portfolios (as a result of the relatively short-term maturity profiles), and [ii] the social impact of the potential withdrawal of loan availability to those borrowers with greatest financial vulnerability – (a segment of borrowers which include the more marginal 'financially included'). This dynamic impacts both MFIs and banks.

Issue: The lending institutions have a significant role in both the financial and social stability of communities, as well as individual clients. The clients demonstrate a reliance upon, and trust of, a lending institution – together with an [implied] assumption of a continuation of access to funds. However, the financial capacity for increased debt (unless loan terms are extended) appears highly limited, whilst a continuation of existing loan levels (with the erosive effect of interest and loan costs) would result in progressive reductions in living standards. Such colliding influences could create social pressures and strain the relationship between borrowers and lenders (not least if the general cost-of-living continues to increase). This suggests a general need to maintain a 'steady and stable' strategy across industry participants – both to understand market and client dynamics, and also to avoid any destabilising action by any significant individual stakeholder.

Client Segmentation

The survey has identified certain major client segments, which display some distinctive financial (quantitative) and attitudinal (qualitative) characteristics. Some principal dimensions of segmentation have included [i] income ranges, [ii] recognition, and non-recognition, of financial pressures, [iii] collateralisation of assets, and [iv] regional and locational conditions.

The relative composition / mix of such client segments will vary between the loan portfolios of individual lending institutions. However, the structure and dynamics of these client segments will not only impact the financial performance of the institutions, but also impact the marketing, product and service delivery strategies of each institution.

The survey demonstrates the different financial and behavioural dynamics which occur across the client segments. Such segmentation identifies the need for, and demands of:

- Recognition of the implications of financial constraints – and the need to balance the “expediency of immediate solutions” with the progressive development of longer-term stable financial structures;
- Debt problem resolution mechanisms;
- Loan structure and budget management guidelines for the lowest income segments;
- Alignment of product structure and cash flow with the purpose of the loan and the borrowers’ cash flow;
- The identification of the financial services for those with greater financial capacity and confidence.

The responses indicate that this is a general market challenge which must be faced by both the MFIs and banks.

Issue: The extent to which the capacity, needs and impact of the major client segments can be identified and addressed by lending institutions. In addition, the extent to which marketing strategy aligns such variations in capacity and needs to a differentiation in product and service propositions – together with the particular responsibilities (both social and financial) of the lending institution to a highly debt-dependent client base.

Financial and Social Inter-Dependencies within the Market

The survey provides some insights into the range of interactions and interdependencies which appear to impact the Tajikistan market. These involve:

- The strong dependency of borrowers for the on-going stability and availability of loan funds to maintain the life-style of their family;
- The liquidity generated by such loan funds supports the range of local economies, particularly in urban and rural communities and thereby the trading activity of ‘own business clients’;
- However, incomes and loan funds are widely supplemented by the provision of additional credit by retailers to their customers (who include the borrowers of the MFIs and banks);
- The credit stability of the ‘own business’ clients is clearly dependent upon:
 - the continuing availability of loan funds to support trading finance;
 - the purchasing capacity of the community, which is affected, in part, by the flow of loan funds to individual borrowers and used for consumption;
 - the financial capacity of the customers of the ‘own business’ clients to repay any retailer credit, without which the ‘own business’ sector would become increasingly illiquid.
- The borrowing capacity of existing borrowers appears to be increasingly strained and thereby is highly exposed to adverse changes in the economic environment. This may put further strain upon their capacity to repay / reduce any retailer credit. (It is, therefore, extremely important to monitor the pattern of borrowing demand by ‘own business’ clients to determine if it reflects any market liquidity pressures and also for the lending institution to understand the extent to which an ‘own business’ borrower is providing retailer credit and on what terms).

The highly-similar client profiles of the MFIs and banks suggest that if there were to be any substantive change in the availability or terms of lending by any major lending institution (either MFI or bank), this could have a 'ripple effect' upon local economies and communities.

The lender / borrower relationship appears to be highly driven by a recognition of dependency by the borrower, the threat of loss of possession of pledged assets in the event of payment difficulty, the recourse to informal loan sources to supplement the domestic budget, and for the majority, a household budget which is delicately poised and highly vulnerable to adverse external price-changes.

Such a situation suggests that the borrower / lender relationship could be 'brittle' and highly-sensitive to any changes in the availability of loan finance – and that any action could be passed rapidly across a community because of the financial inter-dependencies.

Issue: This situation presents a systemic risk vulnerability to both MFIs and banks. Each institution is exposed not only to the risks of changes in the market, but also to the potential consequences of any independent action by a significant institution (irrespective of MFI or bank status). This suggests a need for a keen assessment of this strategic risk, together with an evaluation of how the overall market situation could be co-ordinated in the event of pressure.

Low Income Households and Budget Management

The survey shows that households with the lowest incomes (up to TJS 1,800 – US\$ 325) represent a significant segment (35%) of all borrowers.

Whilst the nominal amount being spent on basic household expenditures is lower than that by other client segments, such expenditure is the highest, in real terms, when compared with the available household income. Similar financial dynamics apply to borrowings in relation to the amount of loan repayment and the leverage of such payment in relation to income. The residual amount of net disposable income is minimal.

This is a client segment which is targeted to benefit from financial inclusion and the majority of borrowers recognise that the loan has improved the quality of their life. However, for many of these clients, there does not appear to be a full self-recognition of the vulnerability of their financial situation. There is, however, a strong recognition of the need for a continuing availability of loan funds and, thereby, a high level of dependency upon the lender, with an implied 'trust' in the actions and responsibility of that institution.

The particular characteristics of the most financially marginal segment of clients suggest that the 'normal' service and product proposition will not fully address their needs.

- Whilst the assessment of debt 'affordability' is usually primarily related to household income, it is important to recognise that, for the lowest income segment, it is particularly dependent upon the net disposable income, after expenditures on household essentials and utility costs. The level of such expenditures varies considerably. It may be appropriate to consider the establishment of 'expenditure guidelines' to provide a framework of the normal parameters for such costs, and thereby identify opportunities for potential economies. This would enable a standard 'cost basket' to be established for different locations and would thereby enable a regular review of such standard costs. This would identify the scale of any price changes and, thereby, the sensitivity impact upon the budget and debt affordability of this client segment.

Against average expenditure on household essentials of TJS 660 (US\$ 135 equiv.) (for a household of 5.2 persons), 43% of such low income families reduced their household expenditures in order to make loan repayments. The interest cost on the average loan (excluding the capital repayment component) is equivalent to 19 days household expenditure for one person. This may suggest (and this is simply an inference) that the lower levels of household expenditure may have an adverse impact on the nutritional standards of the food expenditure of such low income families. It may be appropriate, therefore, to consider possible guidelines for an optimal nutritional diet, within the limits of the expenditure guidelines for household essentials.

Such budget assessments would enable a closer integration of the particular demands and sensitivities of the lower income clients with the real impact of loan leverage.

Issue: [i] The development of holistic assessments of the particular financial capacities and needs of those lowest incomes segments which are part of the 'financial inclusion' undertaken by the lending institutions – and how these can be incorporated into the product and service proposition for this segment.

[ii] A strategic assessment of the budgetary and social implications of wider financial inclusion, and the determination of appropriate product and service propositions beyond the provision of loan finance.

SOME QUESTIONS AND ANSWERS ...

Some Questions

A range of substantive issues have been raised by the responses of borrowers in the survey conducted during May 2014. The following questions reflect these issues and the related dimensions are set out in the following 'Question and Answer' section. It is not intended that the following comments provide an exhaustive review of the particular issue, but rather enable brief 'cameo' insights. A more detailed review can be undertaken with the relevant data analysis spreadsheets.

It is hoped that the reader will find this list of questions / issues a useful basis by which to select those dimensions which are of particular interest.

The observations in the 'Questions and Answers' section are based entirely upon the responses to the survey. These have not been discussed with lending institutions, and no management information has been obtained from such lenders to provide a comparison with the survey responses. It would be ideal if the survey findings could be reviewed with the lending institutions and other institutional stakeholders in order to identify those areas of consistency and conversely those issues on which there are the greatest 'gaps' between the perceptions and data of borrowers and lenders.

Within the Q & A observations, occasional references are made to the corresponding responses which were shown in the recent surveys¹ of individual indebtedness which was undertaken in Tajikistan and Bosnia and Herzegovina (BiH). Whilst the differences in the markets and cultures of the two countries will limit the opportunities for detailed and strict assessments, such comparisons do provide a useful identification of some core issues which enable consideration to be focused on particular dimensions of financial situation and attitudes of both borrowers and lending institutions.

Survey respondents identified their respective lending institutions. The sample sizes varied and few were sufficiently large to provide a strong basis for detailed comment. However, from the available data, it can be seen that the distribution of borrower segments within the loan portfolio structures varies between lending institutions. As such, individual lending institutions will need to assess the implications of the different segments in relation to the respective compositions of their loan portfolios.

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¹ Survey of indebtedness by individuals was undertaken in BiH in September / October 2013. This involved direct interviews with 3,780 individuals, involving borrowers from MFIs, banks and also non-borrowers. Similar surveys had been undertaken in BiH in 2012 (3,757 respondents) and 2011 (3,856 respondents)

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1. SURVEY RESPONDENT DEMOGRAPHICS

1.1 What is the domestic profile of borrowers?

Consistency of demographic profile across MFIs and banks – household sizes higher than in Kyrgyzstan – household sizes lowest in city locations.

1.2 What are the income profiles of borrowers?

Minimal difference between the average and distribution of household incomes of MFI and bank borrowers – business clients had higher incomes - substantive difference between city and other locations.

1.3 What is the dependency upon multiple incomes to a household budget?

Household income is closely related to the number of income earners – there is a greater diversity in the income sources in Tajikistan than in Kyrgyzstan – individual earners have a higher number of income sources than in Kyrgyzstan.

1.4 What is the level of expenditure on household essentials and utility costs?

Significant differences between city, urban and rural locations – survey household expenditure levels are broadly consistent with national statistics – substantial incidence of reduction in food expenditure to meet loan repayment.

1.5 What are the principal differences between city, urban and rural borrower profiles?

Household size larger in rural locations than in city – real cost-of-living lower in the city, with higher net incomes less costs than in urban and rural locations – loan amounts higher amongst city borrowers – urban borrowers show higher adverse pressures from borrowing.

1.6 Is the loan structure consistent with the income cash flow of the borrower and the usage of the loan funds?

High usage of fixed term, fixed repayment loans with little apparent variation to reflect usage need or underlying cash flow characteristics – similar product usage of business and individual loans by MFIs and banks – low usage of specific ‘agricultural’ loans and group loans.

2. FINANCIAL PROFILE OF BORROWERS

2.1 What is the impact of loan repayments on net disposable income?

Loan repayments show high leverage by borrowers – loan repayments account for over 80% of net disposable incomes of lowest income segment – lowest income segment shows average expenditures greater than income – higher income bank borrowers have higher leverage than MFI borrowers – level of loan repayments in Tajikistan are broadly comparable to Kyrgyzstan, and much higher than in Bosnia and Herzegovina – significant level of borrowings from ‘informal sources’ outside the lending institutions.

2.2 How does the frequency and regularity of income impact upon borrower performance and attitude?

Borrowers with ‘regular monthly income’ and ‘own business’ represent 75% of all borrowers – minimal difference in risk characteristics across types of income – wide usage of informal loan sources (family and retailers) – about 50% of all income types recognise need to continue to borrow to maintain family lifestyle.

2.3 What proportion of borrowers reflect some recognition of debt repayment pressures?

About 30% of borrowers recognise financial pressure and difficulty in making loan repayments – a further 40% have committed basic expenditures more than 75% of income but do not acknowledge financial pressures – retailer credit is widely taken across all borrower segments.

2.4 To what extent do borrowers use more than one lender, and do these clients show different characteristics?

About 90% of borrowers have used only one lender in the last two years – about 20-30% of former clients of MFIs and banks subsequently take loans from the other type of institution (such borrowers show higher risk profiles) - only 2% of borrowers have multiple concurrent loans.

2.5 How often are debt repayment problems caused by exceptional adverse events?

Business failure and major illness were the most frequent events, but only affected about 10-15% - business failure more frequent in city locations – similar level of occurrence across income segments – broadly similar levels to Kyrgyzstan.

2.6 How does the profile of ‘employed’ borrowers compare with that of ‘own business’ borrowers?

‘Own business’ clients have higher income than ‘employed’ clients – borrowing by ‘own business’ is significantly higher than that by those in ‘regular employment’ – ‘own business’ show lower recognition of problems with loan repayment and debt, despite financial situation being more constrained – many ‘own business’ retailers provide credit to their customers.

2.7 To what extent are loans used to support basic domestic expenditure needs?

About 40% of loan usage is for domestic consumption purposes – informal credit from retailers is also used by about 20-25% of borrowers – about 45-50% recognise the need to continue to borrow to maintain lifestyle.

2.8 What do former borrowers do after they leave an institution?

70-80% of clients leaving either MFIs or banks cease to borrow – those who switch from MFI to bank, or vice versa, and continue to borrow show higher risk performance after changing – both former MFI and bank borrowers increase their indebtedness with the new lender – those who have never borrowed have lower household incomes, but higher net disposable incomes.

3. LENDING INSTITUTIONS AND LENDING PORTFOLIOS

3.1 What are the principal demographic characteristics of borrowers?

Major traditional demographic segments relate to [i] trade activity; [ii] region; [iii] age; and [iv] loan amount – some substantial variations in financial capacity and pressure across the regions.

3.2 What are the principal similarities and differences between the loan portfolios of the MFIs and banks?

Loan amounts are consistently higher amongst bank clients, in comparison with MFI clients with similar demographic and financial characteristics – similar usage of the fixed-term business and individual loan products by both MFIs and banks – loan leverage is very high for the lowest income segments of both MFIs and banks – higher loan levels to ‘own business’ customers by banks – loan leverage is greater for higher income bank clients than MFI borrowers – similar levels of problem lending across both MFIs and banks – high stability of borrowers with a single lender.

3.3 Do the survey responses indicate credit standards or criteria?

Overall, banks provide higher loans and higher leverage ratios than those taken by MFI borrowers – the leverage ratios are highest amongst the lowest income groups – leverage ratios appear driven by household income – significant pressure on low income household when loan repayment is related to disposable income (after household essentials) – significant financial constraints on lowest income segments results in usage of additional informal loan sources – leverage rates comparable with Kyrgyzstan, but additional informal loans and family dependencies are higher.

3.4 Does the loan process adequately reflect the impact of basic cost-of-living expenditures?

Household expenditures increase in relation to increasing incomes (but at a lesser growth rate) – the proportionate cost of basic household needs is much higher for low income households – together with higher proportionate loan costs, the low income clients are left with negative average net disposable income – expenditure levels on utility costs appear to be relatively low – credit assessment needs to reflect the different ‘real costs’ of basic expenditures for different income segments.

3.5 How does lending to ‘own business’ clients compare between MFIs and banks?

Similar distribution across trade sectors by both MFIs and banks – significant overlap of MFIs and banks in relation to income levels, although MFIs have a slightly higher support of lower income clients – banks provide larger loan amounts than MFIs and allow higher leverage in repayment levels.

3.6 Collateral Security – does it affect lending?

Collateral is provided by about 40% of clients – loan balances with collateral are, on average, about twice those of non-collateral – loans in foreign currency have much higher levels of collateralisation – income levels of ‘collateralised borrowers’ are not substantially higher, suggesting that availability of collateral, rather than cash flow, is a major determinant in the loan assessment process – ‘collateral borrowers’ have higher arrears and informal borrowings.

3.7 What is the scope of lending in foreign currency?

About 40-45% of loan balances are in foreign currency – average loan balances in foreign currency are substantially higher than those in local currency – foreign currency loans are taken by all income segments – higher incidence of collateralised assets to support foreign currency loans – greatest usage of foreign currency loans in Dushanbe and GBAO regions.

4. RISK PROFILE AND PERFORMANCE

4.1 What proportion of borrowers are over-indebted?

About 30-35% of borrowers recognise that they have debt repayment problems – a significant proportion of other borrowers (a further 40+%) have committed expenditure of more than 75% of income and thereby with a low capacity to meet other expenditure needs and exceptional payments – additional financial support is obtained by a significant minority (about 40%) by loans from family, friends and/or retailer credit – about 40% of borrowers reduce food expenditures to enable loan repayments – risk categorisation indicates that only about 10% of borrowers are in a strong financial position after loan costs – financial pressures in Tajikistan appear to be slightly higher than those in Kyrgyzstan.

4.2 Which factors contribute to over-indebtedness amongst borrowers?

Leverage of loan repayments for certain borrower segments is high – essential household expenditures represent a high proportion of income in ‘real terms’ for low income households, which is compounded by the amount of loan repayments being high in ‘real terms’ – borrowers have different risk appetites and confidence to manage their financial commitments – only 10% have both strong financial capacity and confidence in their financial situation – debt repayment pressures appear to be slightly higher in Tajikistan than in Kyrgyzstan.

4.3 Why are loan arrears so low?

Strong financial support from informal lending - family / friends and retailer credit – self-help initiatives by the borrower and family by additional work and reductions of food expenditure.

4.4 Do borrowers who move between lenders have a different risk profile?

Only 10% of borrowers have used two or more lenders in the last two years – however, this client segment shows a higher risk profile (both MFIs and banks) than those clients who remain with a single lender.

4.5 Do borrowers with arrears show any particular characteristics?

Loan arrears is only 3% of borrowers – four client sub-segments show higher loan arrears of 5-6% - loan arrears clients have received support from family but recourse to informal lending sources is not significantly different from that of other borrower segments.

4.6 Do borrowers who undertake loan refinance have particular characteristics?

Refinance of debt relates to only about 6% of borrowers – refinance occurs a range of client segments and is not focused upon those borrowers who recognise that they have debt problems – an extension of repayment periods would have significant and favourable impact upon the budget position of many households which have repayment pressures.

4.7 What is the extent of informal lending beyond that undertaken by the MFIs and banks?

Informal lending sources are used more frequently in Tajikistan than in Kyrgyzstan – credit from retailers is taken by over 20% of borrowers – retailer credit is more prevalent amongst lower income segments, but financial support from family occurs across all income segments – such informal credit sources appear to be an important financial support in the short-term, but represent a significant challenge / risk to the on-going credit quality of the loan portfolios of the lending institutions.

4.8 Are there differences in the credit profiles of those borrowers who have savings balances and those who do not?

About 70% of borrowers have no savings with a financial or informal savings organisation – savings with an informal savings institutions are used more extensively than with a formal financial institution – the risk profile is higher amongst those with no savings and those with savings with a financial institution – non-savers have lower levels of outstanding loan indebtedness.

5. OUTLOOK FOR BORROWING

5.1 What is the outlook for borrowing demand?

Over 90% of borrowers have positive attitudes towards borrowing and their loan experience – 45-50% recognise that they need to continue to borrow to maintain their family lifestyle - decisions upon future borrowing are taken at, or about, the maturity of the current loan – certain borrowers segments (i] repayment difficulty (32%), [ii] expenditure over 75% of income (40%), [iii] financially confident (28%) are likely to have different needs and attitudes as loans mature – product and service propositions will need to recognise, and respond, to such differentiated positions – financial stability (including loan repayments) in local economies is highly dependent upon the continuing role of informal credit sources and a stable environment of loan renewals, but a significant proportion of borrowers appear to have little, or no, margin for additional debt repayments.

5.2 What is the sensitivity of the borrowers' financial / budgetary position?

Overall, about 75% of income is committed to expenditures on household essential, utilities and loan repayments – 80% of lowest income clients (35% of all borrowers) have committed expenditures in

excess of 75% of income – a 5% net increase in household expenditure would cause a significant and disproportionate erosion of the net disposable incomes of such low income households.

6. IMPACT OF BORROWING

6.1 What proportion of borrowers appear to have benefitted, or been adversely affected, by the loan experience?

Over 90% of borrowers feel positively about the impact of borrowing on their lives (somewhat lower amongst bank group clients) – a dependency upon debt to maintain lifestyle which is widely recognised – the perceptions of ‘benefit’ from may be confused with the realities of ‘dependency’ upon debt and may reflect a more ‘survivalist’ approach towards financial management – greater financial pressures in Tajikistan than Kyrgyzstan, but a lesser recognition of the financial stringencies being experienced.

6.2 Do microfinance institutions stimulate greater ‘financial inclusion’?

Client profiles of MFIs and banks are similar – no substantive difference in the scale of financial inclusion between banks and MFIs (excluding the levels of male / female clients in each institution) – the amount and leverage of loans to male borrowers is greater than that to females.

6.3 What impact does the loan have upon basic household expenditures (including food)?

Lower income borrowers have high leverage as a result of the real cost of basic essentials and loan repayments – average monthly expenditure on household essentials (including food) for one person is TJS 203 (US\$ 42) – 40% of borrowers reduce food expenditure to meet loan repayments – monthly loan interest (not the total monthly payment) is equivalent to about 20 days household expenditure for one person – majority of borrowers identify household costs rising faster than income (and thereby pressuring repayment capacity).

7. LENDER / BORROWER RELATIONSHIP

7.1 What is the reputation of the lending institutions?

The cultural ‘mores’ of MFIs and banks is reported with overwhelming strength by clients – the large majority of clients believe that the lending institutions understand and support client needs – the lending institutions can be seen to have been accommodating of the loan requirements of borrowers – however, the responses are so favourable, yet seemingly inconsistent with the underlying pressured financial situation of a majority of borrowers, that behavioural factors affecting such responses to very direct questions must be considered with great care – the high levels of debt dependency and continuation of loan availability may be an influencing factor.

7.2 Do borrowers feel that the lender is providing clear information about the loan?

Strong acknowledgment that the terms of the loan are explained.

7.3 Do lenders understand the borrower’s financial position?

There is a strong recognition of ‘loan explanation’ by the lending institutions – however, there is a significant minority (25-30%) of clients for whom the loan was either too large or the repayment too onerous – about 20% of borrowers considered that the lender did not know what could be afforded.

7.4 Can borrowers adequately resolve their financial problems with lending institutions?

About 25% borrowers find it difficult to resolve debt problems – similar levels in both MFIs and banks – significant differences across the regions – lower income borrowers identified greater difficulty of problems resolution and this is consistent with the underlying constrained budgetary positions of many borrowers - little difference across the trade sectors.

7.5 Do borrowers want support to address problem debt repayment situations?

About 30% wanted assistance with debt resolution – substantial differences between regions – but little difference across the income segments – those borrower who recognise that they have financial pressures show a much higher desire for some form of assistance.

QUESTIONS AND ANSWERS

1 Survey Respondent Demographics

1.1 What is the domestic profile of borrowers?

Consistency of demographic profile across MFIs and banks – household sizes higher than in Kyrgyzstan – household sizes lowest in city locations

- The principal characteristics of the regional profiles of households were:

	Average Age	Number in Household	Number of Dependents	Number of Wage Earners	Married
Dushanbe	37.1	5.1	2.8	2.3	77%
Khatlon	38.4	5.5	2.7	2.8	81%
Sogd	38.3	5.7	3.2	2.5	90%
RRP	40.1	6.5	4.2	2.3	91%
GBAO	39.6	5.3	3.2	2.2	85%

- This profile varied in relation to the location of the borrower, and the following factors may be noted:
 - The larger household size and number of dependents in urban and rural locations;
 - The similar profiles of both MFI and bank clients in each type of location. (There appears to be no market differentiation at this basic level of segmentation).

	Average Age	Number in Household	Number of Dependents	Number of Wage Earners	Married
City - MFI	38.2	5.3	3.0	2.3	83%
City - Bank	37.6	5.3	2.9	2.4	82%
Urban - MFI	39.7	5.8	3.4	2.4	89%
Urban - Bank	39.0	6.0	3.5	2.5	88%
Rural - MFI	38.9	6.0	3.5	2.4	85%
Rural - Bank	39.8	6.1	3.5	2.6	88%

- The similarity of the comparative market positions of MFIs and banks may be further reviewed in relation to the trade sector sources of the borrowers' income.
 - There is no substantive difference in the range of income sources between MFIs and banks;
 - There is a strong concentration of activity in the retail and public sectors in all locations;
 - The distribution of retail, public sector and agriculture in these locations is consistent with that identified in the recent survey of borrowers in Kyrgyzstan².

	Agriculture	Retail	Service	Public Sector	Other
City - MFI	7%	35%	17%	35%	13%
City - Bank	8%	30%	21%	37%	14%
Urban - MFI	25%	29%	15%	35%	12%
Urban - Bank	24%	36%	12%	31%	11%
Rural - MFI	45%	26%	11%	21%	11%
Rural - Bank	48%	22%	14%	17%	9%

² Survey of 'Borrowing by Individuals' undertaken in Kyrgyzstan in September / October 2013 involving 4,000 respondents, of which 3,241 had loans with MFIs or banks

- The comparative demographic profiles across Tajikistan, Kyrgyzstan and Bosnia and Herzegovina (BiH)³ are :

MFI Borrowers	Average Age	Number in Household	Number of Dependents	Number of Wage Earners	Married
Tajikistan	38.8	5.6	3.2	2.4	85%
Kyrgyzstan	38.4	4.4	2.3	2.1	75%
BiH	40.9	3.4	1.5	2.1	72%

1.2 What are the income profiles of borrowers?

Minimal difference between the average and distribution of household incomes of MFI and bank borrowers – business clients had higher incomes - substantive difference between city and other locations.

- The overall average household of all respondent borrowers was TJS 2,739. With an average of 2.4 income earners per household, this represents an average individual income of TJS 1,141⁴.
 - Average income of MFI clients (TJS 2,678) was only 8% lower than that of bank clients (TJS 2,892) – average individual incomes were TJS 1,133 (MFI) and TJS 1,178 (bank). This indicates a high level of overlap across the MFI and bank client profiles.
 - Income differentials were wider in comparisons of locations

Income TJS	City		Rural		Urban	
	MFI	Bank	MFI	Bank	MFI	Bank
Household	3,101	3,304	2,265	2,708	2,211	2,456
Individual	1,350	1,401	936	1,080	904	962

- Within MFI rural clients, 44% had household income less than TJS 1,800 (US\$375) (compared with 38% of bank clients) – the comparable urban MFI level was 45%, whilst in cities, banks had 32% of clients with household incomes over TJS 3,400 (US\$ 700), a broadly similar level to that of 28% of MFI clients;
- The distribution of borrowers across the income ranges showed that the MFIs and banks had a broadly similar distribution of borrowers across the range of household incomes

Income Range : TJS	< 1,200	1,201-1,800	1,801-2,600	2,601-3,400	>3,400
MFI	19%	19%	27%	14%	21%
Bank	13%	18%	28%	15%	26%

- There is, therefore, a significant level of overlap across the client portfolios. The basis of the strategic goals of the MFIs towards market differentiation and positioning is,

³ Each survey is based upon about 4,000 randomly-selected respondents. However, these surveys do not seek to provide a nationally weighted average of the population.

⁴ National statistics indicate that the average monthly income was about TJS 676. Income earners reported an average of 1.75 earnings per person, which equates to TJS 1,183 (based on the national statistics) and compares closely with the survey average of TJS 1,141. This provides a high level of confidence in the survey response.

therefore, an issue for further and more focused review. This will be considered later in relation to loan size, net income and product differentiation;

- This strong similarity in the income profiles of the MFIs and banks is shown in the following graph:



- The average household incomes varied substantially across the regions:

Income TJS	Income Segment : Distribution					Average Income
	< 1,200	1,201-1,800	1,801-2,600	2,601-3,400	>3,400	
Dushanbe	4%	9%	23%	17%	47%	4,200
Khatlon	25%	21%	16%	12%	26%	2,600
Sogd	23%	20%	27%	13%	17%	2,400
RRP	6%	20%	48%	17%	10%	2,400
GBAO	31%	23%	23%	11%	13%	2,100

- A comparison of household incomes in relation to loan products is shown below:

Average Income TJS	Group Loan	Business Loan	Individual Loan	Agricultural Loan
MFI	2,714	3,247	2,352	2,452
Bank	3,481	3,263	2,657	2,690
Difference %	28 %	1 %	13 %	10 %

- This comparison of income levels shows an interesting differentiation between business and individual loans;
- The following table shows that the loan products have a similar distribution within both MFIs and banks:

Distribution of clients	Group Loan	Business Loan	Individual Loan	Agricultural Loan
MFI	5 %	35 %	54 %	7 %
Bank	3 %	38 %	50 %	9 %

- The low usage of Group loans in Tajikistan contrasts with the extensive use (43%) of this product by MFI in Kyrgyzstan.
- The difference between average household incomes of MFI and bank clients is substantially less in Tajikistan than in Kyrgyzstan.

- Tajikistan: MFI US\$ 556 Bank US\$ 600 Difference : 8%
- Kyrgyzstan: MFI US\$ 456 Bank US\$ 573 Difference : 23%
- BiH: MFI US\$ 1,122 Bank US\$ 1,253 Difference : 12%

1.3 What is the dependency upon multiple incomes to a household budget?

Household income is closely related to the number of income earners – there is a greater diversity in the income sources in Tajikistan than in Kyrgyzstan – individual earners have a higher number of income sources than in Kyrgyzstan.

- The levels of multiple earnings are higher in Tajikistan than in either Kyrgyzstan or BiH. This relates to both the number of income sources by individual borrowers, and also the number of income earners within a household.

Average number	Income Sources of Borrower		Income Earners in Household	
	MFI	Bank	MFI	Bank
Tajikistan	1.75	1.83	2.36	2.44
Kyrgyzstan	1.11	1.12	2.06	2.09
BiH	1.16	1.14	2.06	2.08

- This may suggest that either the Tajikistan borrower is more industrious, or that the primary income is neither adequate nor requiring as much time;
- Additionally, there is a much higher level of remittance income as an additional revenue source.
- Whilst there is minimal difference between the multiple earning profiles of MFIs and banks, there are some interesting differences in relation to various client segments:
 - The level of household income relates directly to the level of multiple together with the average individual income:

Income Range	< 1,200	1,201 – 1,800	1,801 – 2,600	2,601 – 3,400	> 3,400
Multiple	2.01	2.39	2.31	2.48	2.74
Ave. Individual Income TJS	476	656	953	1,201	2,013
Clients : 1 earner	32 %	19 %	16 %	14 %	15 %
Clients : 2 earners	43 %	46 %	51 %	46 %	35 %
Clients >2 earners	25 %	35 %	33 %	40 %	50 %

- The agriculture trade segment has the highest multiple (with 50% of households with more than 2 incomes). The retail and manufacture sectors have the lowest at 30%;
- Rural locations have the highest levels of multiple incomes (more than 2) – 39% of MFI clients and 44% of bank clients.
- The level of household income is shown throughout this review and Q & As to be a significant differentiating dimension of borrower performance, together with the particular financial constraints upon the lowest income segments. The following table provides some insights of the impact of the number of income-earners.

% of clients in the income multiple	Income <TJS 1,200	Income >TJS 2,600	My loan repayments are more than I can afford	I need to continue to borrow to maintain how my family and I live	Loan repayment as % of Net Income	Net Disposable Income (after Loan Payment)
One income	32 %	14 %	37%	51%	66%	490
Two income	43 %	39 %	31%	53%	62%	510
Over 2 incomes	25 %	47 %	23%	40%	48%	850

- There is a clear concentration of lowest incomes amongst the single earners;
- However, it does not appear that 'single earner' is, in itself, a major discriminating factor in the risk performance of the borrower or the feeling of well-being in the client.

1.4 What is the level of expenditure on household essentials and utility costs?

Significant differences between city, urban and rural locations – survey household expenditure levels are broadly consistent with national statistics – substantial incidence of reduction in food expenditure to meet loan repayment.

- The overall monthly expenditure by borrowing households on domestic needs (food, family and domestic essentials, but excluding utilities) was TJS 1,145 (US\$ 238), equivalent to an average of TJS 203 (US\$ 42) per household person. Average utility costs amounted to TJS 126.
 - This compares reasonably with formal national statistics which indicate an average household expenditure of TJS 1,220;
 - 59% of respondents identified household expenditures of less than TJS 1,000 (US\$210);
 - The above national statistic (TJS 1,220) excludes service / utility costs of TJS 206 – the survey showed such costs at TJS 126.
- The cost-of-living varied significantly between city (38% of income), rural locations (42% of income) and urban (48% of income).
 - It is somewhat surprising that urban and rural expenditures should absorb such higher shares of available incomes. However, it may be noted that household sizes are larger in these locations;
 - The level of 'own food produce' in rural locations is not known, but it may be noted that only about 45-50% of respondents in these locations reported that their income is based upon agriculture;

Household Expenditure TJS	City		Rural		Urban	
	MFI	Bank	MFI	Bank	MFI	Bank
Household	1,187	1,257	970	1,007	1,130	1,276
Individual	224	237	163	166	195	214

- Additionally, food expenditures had been reduced in urban and rural locations by about 40-45% of clients in order to afford loan repayments.
- There were significant variations in the levels of expenditure in the major trade sectors, which were also shown in the range of utility costs:

Ave. Household Expenditure TJS	Service	Retail	Public Sector	Agriculture
Household	1,123	1,325	1,152	1,066
Utility	204	225	214	168

- The levels of domestic expenditure increased as household incomes increased, but at a slower rate. The proportion of such domestic costs was greater, therefore for lower income segments.

Ave. Household Expenditure TJS	Income Segments : TJS				
	< 1,200	1,201 – 1,800	1,801 – 2,600	2,601 – 3,400	> 3,400
Household	523	787	1,134	1,336	1,805
Per capita	107	145	199	231	291
Household as % of income	54 %	50 %	51 %	45 %	33 %

- Such expenditure levels are broadly consistent with (slightly higher) than those identified in the recent survey of Kyrgyzstan borrowers.
- The levels of household expenditure were similar for both MFI and bank clients, although the particular financial pressures upon the lowest income segment of bank borrowers (8% of bank borrowers) appear to be reflected in lower expenditure levels.

Tajikistan : Income Segments	Average Monthly Household Expenditure : Total : TJS		Average Monthly Household Expenditure : Per Capita : TJS		Average Monthly per capita : US \$ equiv.	
	MFI	Bank	MFI	Bank	Tajikistan	Kyrgyzstan
< 1,200	541	490	112	99	22	28
1,201-1,800	787	789	149	140	30	38
1,801-2,600	1,125	1,135	199	196	41	45
2,601-3,400	1,349	1,315	229	236	48	61
>3,400	1,803	1,828	290	296	60	87

Reductions in food expenditure had been undertaken by 41% MFI clients and 40% bank clients in order to make their loan repayments. However, the impact of such reductions reflects a potentially more complex situations in which the lowest income groups may not (an inference by the writer) have been able to reduce expenditures any further.

Reduction in food expenditure to meet loan repayments	Income Segments : TJS				
	< 1,200	1,201 – 1,800	1,801 – 2,600	2,601 – 3,400	> 3,400
MFI	36 %	49 %	49 %	41 %	28 %
Bank	43 %	45 %	50 %	35 %	28 %
Kyrgyzstan					
All borrowers	26%	21%	27%	26%	21%

- Such expenditure reductions represent a significant social cost in relation to the real overall impact of loan repayments upon the family;
- With such reductions having been already undertaken, there may inevitably be less capacity for future reductions in the event of continuing debt pressures.

1.5 What are the principal differences between city, urban and rural borrower profiles?

Household size larger in rural locations than in city – real cost-of-living lower in the city, with higher net incomes less costs than in urban and rural locations – loan amounts higher amongst city borrowers – urban borrowers show higher adverse pressures from borrowing.

- The average household sizes showed some significant differences:
 - Rural were larger (average 6.0 persons) compared with urban (average 5.9 persons) and city (average 5.3 persons);
 - The number of dependents was also higher (rural 3.5 – urban 3.4 – city 3.0);
 - Slightly more borrowers were single in the city (21% of all borrowers) – rural 11%.
- Income levels (see above) were, on average, higher in city locations – 29% above urban and 37% above rural - whilst the differences in the costs of expenditure on domestic household essentials (such as food and cleaning) were less – urban +5 % and rural + 25%:
 - The basic budget in city locations was, therefore, stronger (before the costs of loan repayment);
 - Recent increases in the cost-of-living of household essentials (greater than income increases) was widely recognised by 65-75% of respondents, but particularly amongst those in urban locations.
- The range of trading activities⁵ was diverse in all locations, even in rural areas despite the dominance of agriculture

	Retail	Agriculture	Service	Public Sector	Other
City - MFI	35%	7%	17%	35%	19%
City - Bank	30%	8%	21%	37%	22%
Urban - MFI	29%	25%	15%	35%	18%
Urban - Bank	36%	24%	12%	31%	17%
Rural - MFI	26%	45%	11%	21%	16%
Rural - Bank	22%	48%	14%	17%	15%

- A comparison of lending between city and rural provides some significant dynamics and shows the extent of overlap across microfinance and bank portfolios
 - Overall average loan balances of all borrowers varied significantly

TJS	City		Urban		Rural	
	MFI	Bank	MFI	Bank	MFI	Bank
Ave. Loan	7,604	9,206	6,754	8,959	5,690	7,671

- The profile of the loan amounts also showed significant differences (which are also consistent with that seen in other countries)

Loan Amount : Distribution of Borrowers	< 1,500	1,501-3,000	3,001-5,000	5,001-10,000	> 10,000
City - MFI	21%	23%	24%	16%	17%
City - Bank	14%	17%	24%	24%	21%
Urban - MFI	19%	30%	23%	14%	14%
Urban - Bank	10%	22%	23%	27%	18%
Rural - MFI	24%	31%	22%	13%	10%
Rural - Bank	15%	23%	23%	22%	17%

- Borrowing from informal lenders (family, retailers and moneylenders) showed varying profiles in the different locations:

⁵ Trading activities : the total exceeds 100% because some respondents identified more than more trading activity as a source of income

- City and urban locations showed the highest level of borrowing (15-20%) from family and friends;
- Urban and rural locations showed the highest levels of borrowing (about 25%) from retailers.
- Whilst all respondents showed an almost ‘unnaturally positive’ opinion that ‘loans improved the quality of life’, this was somewhat contrasted by a range of responses in relation to pressures on repayment capacity which appear to be stronger amongst rural borrowers than those in the city locations.

Expenditures as % of Income	Household expenditure as % of Income	Utility expenditure as % of Income	Loan repayment as % of Income	Net Monthly Disposable Income as % Income	Kyrgyzstan : Comparison : NDI as % Income
City - MFI	38%	5%	28%	28%	30%
City - Bank	38%	5%	33%	24%	21%
Urban - MFI	50%	4%	32%	14%	21%
Urban - Bank	47%	4%	32%	17%	
Rural - MFI	44%	4%	28%	24%	30%
Rural - Bank	41%	4%	35%	21%	28%

- This table identifies that the basic budget structure in Tajikistan is slightly more constrained than was seen in Kyrgyzstan in almost all location segments.
- Whilst there was a general strong and positive response that ‘loans improved the quality of life’, this was contrasted by a range of responses in relation to pressures on repayment capacity which appear to be stronger amongst rural borrowers than those in the city locations.

% of respondents who agree with the statement	MFI			Bank		
	City	Urban	Rural	City	Urban	Rural
I borrowed too much	24 %	29 %	27 %	23 %	31 %	22 %
It is / was difficult to resolve debt problems with my lender	24 %	25 %	21 %	26 %	24 %	26 %
Debt repayments cause problems within my family	25 %	22 %	19 %	24 %	21 %	19 %
My loan repayments are / were more than I can afford	30 %	34 %	23 %	26 %	36 %	24 %
I would like help to resolve debt problems with my lending institution	22 %	39 %	31 %	22 %	41 %	32 %

- Whilst the pressures can be seen across all locations, these are slightly stronger amongst bank clients and in urban locations;
- Such recognition of budget and loan pressures contrast the relatively low levels of loan arrears (about 3-4%). However, they are consistent with the national statistics which show that about 23% of bank lending is adversely categorised.

1.6 Is the loan structure consistent with the income cash flow of the borrower and the usage of the loan funds?

High usage of fixed term, fixed repayment loans with little apparent variation to reflect usage need or underlying cash flow characteristics – similar product usage of business and individual loans by MFIs and banks – low usage of specific ‘agricultural’ loans and group loans.

- The distribution of the principal loan products reflects a strong emphasis towards the business and individual loans, with minimal usage of the Group Loan product.

Tajikistan	Group Loan	Business Loan	Individual Loan	Agricultural Loan
MFI	3%	43%	47%	7%
Bank	3%	40%	53%	9%

- This product structure by the MFIs contrasts with the profile in Kyrgyzstan – and suggests that the average operating costs for loan delivery and management may be higher in Tajikistan for the MFIs.

Kyrgyzstan	Group Loan	Business Loan	Individual Loan	Agricultural Loan
MFI	43 %	9 %	43 %	5 %
Bank	9 %	17 %	70 %	4 %

- The principal loan products reflect similar delivery practices by the MFIs and the banks. There was a high level of overlap between the overall demographic characteristics of ‘business’ and ‘individual’ clients, but there were significant contrasts between the loan leverage of such products provided by the banks.

TJS	Business Loan		Individual Loan	
	Average Income	Average Outstanding Loan	Average Income	Average Outstanding Loan
MFI	3,247	10,810	2,352	5,131
Bank	3,263	12,209	2,657	6,950

- However, the pattern of loan usage may be set against this profile of product distribution. This shows that fixed-term, fixed repayment loans were widely used for purposes in which the underlying cash flow was unlikely to be consistent with that of the loan structure.

	Asset acquisition : Business	Other Business needs	Asset acquisition : Domestic	Other Domestic	Property
Microfinance Institutions					
Group	27%	22%	22%	44%	7%
Business	44%	60%	2%	4%	1%
Individual	5%	3%	30%	58%	12%
Agricultural	10%	22%	14%	63%	8%
Banks					
Group	13%	33%	17%	33%	21%
Business	44%	63%	1%	3%	1%
Individual	4%	4%	26%	64%	13%
Agricultural	13%	42%	9%	45%	4%

- The use of business and individual loans appears to be closely related to the usage;
- However, fixed-term loans appear to be widely used for business trading (with its shorter-term and more fluctuating cash flow) and also for ‘other domestic’ which implies usage for consumption purposes. This has significant implications and may be related also to the relatively high levels of clients who recognise the need to continue to borrow to ‘maintain the lifestyles of their family’.
- This apparent inconsistency between the types of loan, the implicit period of the loan term and the underlying cash flow dynamics of the different major trade sectors is further illustrated in relation to certain principal trading activities in the table below.

	Retail	Service	Agriculture	Public Sector	Implied Ave. Loan Term (months)
Microfinance Institutions					
Group	26%	32%	14%	27%	20
Business	58%	12%	17%	14%	19
Individual	18%	16%	16%	44%	17
Agricultural	15%	5%	88%	9%	14
Banks					
Group	23%	21%	21%	31%	16
Business	53%	13%	19%	15%	18
Individual	17%	19%	17%	42%	18
Agricultural	6%	11%	96%	7%	19

2 FINANCIAL PROFILE OF BORROWERS

2.1 What is the impact of loan repayments on net disposable income?

Loan repayments show high leverage by borrowers – loan repayments account for over 80% of net disposable incomes of lowest income segment – lowest income segment shows average expenditures greater than income – higher income bank borrowers have higher leverage than MFI borrowers – level of loan repayments in Tajikistan are broadly comparable to Kyrgyzstan, and much higher than in Bosnia and Herzegovina – significant level of borrowings from ‘informal sources’ outside the lending institutions.

- The overall average household income of all respondents was TJS 2,739⁶. With an average of 2.4 income earners per household, this represents an average individual income of TJS 1,141.
 - Average incomes of bank clients (TJS 2,897) were 8% higher than that of MFI clients (TJS 2,678) – average individual incomes were TJS 1,178(bank) and TJS 1,133 (MFI)
 - Such income differentials were stretched further in comparisons of locations

Income TJS	City		Urban		Rural	
	MFI	Bank	MFI	Bank	MFI	Bank
Household	3,101	3,304	2,265	2,708	2,211	2,456
Individual	1,350	1,401	936	1,080	904	962

- The overall average net disposable incomes for MFI and bank clients were similar and reflect the much higher average loan repayments being undertaken by bank clients:

Net Disposable Income TJS	Income	Household costs	Utility costs	Loan Repayments	Net Disposable Income (after Loan)
MFI	2,678	1,120	128	771	659
Bank	2,892	1,190	126	966	609
Never Borrowed	2,341	1,081	129		1,132

- However, among the lower income segments, the impact of committed expenditures was particularly strong. The table below highlights the delicate vulnerability of the financial position of a significant proportion of borrowers.

⁶ National statistics indicate that the average monthly income was about TJS 676. Income earners reported an average of 1.75 earnings per person, which equates to TJS 1,183 (based on the national statistics) and compares closely with the survey average of TJS 1,141. This provides a high level of confidence in the survey response.

Household Income Segments	Household and Utility costs	Loan Repayments	Net Disposable Income NDI (after Loan)	Distribution of Loans : Value	Distribution of Borrowers
< 1,200	615	492	(147)	10%	17%
1,201-1,800	892	593	85	14%	18%
1,801-2,600	1,251	689	267	23%	28%
2,601-3,400	1,469	756	756	13%	14%
>3,400	1,980	1,521	2,025	41%	23%

- This table highlights the particular vulnerability of about 35% of borrowers to only modest increases in the real cost-of-living (see also Q & A 5.2). The costs in this table reflect only the committed essential expenditures – other costs such a clothing, medical, transport, education are not included.
 - Within the income segment up to TJS 1,200, 85% of borrowers reported committed expenditures in excess of 75% of income;
 - Within the income segment up to TJS 1,201-1,800, 76% of borrowers reported committed expenditures in excess of 75% of income.
- Whilst the amount of loan repayments in relation to household income appears reasonable and relatively consistent across the range of incomes, the real cost of loan repayments is sharply different in relation to net disposable income after domestic costs (in which the cost of food and essentials is proportionately higher for low income households).

Household Income Segments	MFI		Bank	
	Loan repayment as % of household income	Loan repayment as % of Net Disposable Income (pre loan)	Loan repayment as % of household income	Loan repayment as % of Net Disposable Income (pre loan)
< 1,200	49%	145% ⁷	59%	150%
1,201-1,800	38%	88%	39%	89%
1,801-2,600	29%	67%	35%	82%
2,601-3,400	23%	46%	28%	55%
>3,400	25%	39%	31%	49%

- This highlights the significantly different credit risk characteristics across the range of income segments, and also between the MFIs and the banks
 - The extreme position of the lowest income segment reflects 25% of respondents (both MFI and bank in this segment) with basic expenditures (household, utility and loan repayment) in excess of household income. This compares with Kyrgyzstan (MFI 15% and bank 20%) and BiH (MFI 11% and bank 10%);
 - The overall income and expenditure data shown in responses is consistent with national data and other independent research data. The comparison with other countries shows that this is a dimension to be expected – but it is the scale of this dimension of Tajikistan which causes particular consideration. However, responses to other questions in this survey suggest that respondents are aware of what may be ‘politically-correct’ responses – this may suggest that financial information provided to lenders for loan application may be a difficult dimension for lenders to validate, particularly in view of the diverse range of income sources for both the individual and the household. This appears to be an extremely vulnerable dimension of the credit quality and stability of this portfolio;
 - The structural risk profiles of the loan portfolios of individual MFIs and banks will clearly be affected by the particular distribution of their respective loan portfolios;

⁷ This response data has been reviewed / validated by the research agency.

- The potential vulnerability resulting from the impact of the amount of loan repayments on the lower income segments is further increased by the level of borrowing from informal lenders by these segments.

% of Borrowers re : Informal Loans	Family and Friends		Retail Shop	
	MFI	Bank	MFI	Bank
< 1,200	11%	14%	36%	48%
1,201-1,800	13%	11%	25%	35%
1,801-2,600	17%	13%	15%	15%
2,601-3,400	20%	21%	19%	16%
>3,400	13%	13%	16%	12%

- These responses highlight two additional and significant dimensions
 - The substantive level of additional 'informal' support being obtained across all borrowers, and particularly the lowest income segment;
 - The significant inter-dependency in local economies of informal credit. This is heightened by the recognition by over 50% of the need for continued borrowing to maintain the family lifestyle. With so much informal trade credit, the quality of lending to the 'own business' segment appears to be critically inter-linked with the continuing purchasing capacity (and thereby access to loans) of the wider local community.
- This situation appears to present a substantive strategic and structural risk to both MFIs and banks.
- Whilst the markets and cultures are, of course, different, it may be useful to consider these positions of Tajikistan borrowers in comparison with those in Kyrgyzstan and Bosnia and Herzegovina (BiH)
 - The impact of expenditures as a percentage of household may be compared:

Average of all borrowers	Household expenditure as % of Income			Loan repayment as % of Income			Total expenditures as % of Income		
	Tajik	Kyrgyz	BiH	Tajik	Kyrgyz	BiH	Tajik	Kyrgyz	BiH
MFI	42%	40%	33%	29%	26%	13%	75%	71%	60%
Bank	41%	38%	32%	33%	34%	16%	79%	77%	61%

- This comparison suggests that the Tajikistan loan portfolio credit quality is delicately balanced and particularly sensitive to both external economic changes and also the lending strategy and standards of MFIs and banks. The actions of even a single major institution (with a significant market share) could have a substantive 'ripple effect' across the market;
- These lower levels of net disposable income (after loan costs) may suggest a greater incidence of loan arrears in Tajikistan and Kyrgyzstan than BiH. This is not the situation. (Loan arrears in Tajikistan are 3-4% and Kyrgyzstan are 2%, compared with about 8-10% in BiH);
- Utility costs (as identified by respondents) are higher in BiH than Kyrgyzstan.

2.2 How does the frequency and regularity of income impact upon borrower performance and attitude?

Borrowers with 'regular monthly income' and 'own business' represent 75% of all borrowers – minimal difference in risk characteristics across types of income – wide usage of informal loan sources (family and retailers) – about 50% of all income types recognise need to continue to borrow to maintain family lifestyle.

- The distribution of borrowers is broadly similar in MFIs and banks across the different income characteristics: 'regular monthly income' 35%; 'own business' 40%; and 'other [less regular] income' 25%⁸.
- The average level of net disposable income may be shown in relation to those with regular monthly income, self-employed and those with other, less regular frequency of income. The resultant net disposable incomes are reasonably similar which highlights:
 - The importance of the 'added-value' dimension of the loan which should be recognised by those higher-income, higher-loan clients in view of the higher risk which they incur;
 - The greater vulnerability of those clients with higher leverage.

Net Disposable Income TJS	Income	Household costs	Utility costs	Loan Repayments	Net Disposable Income (after Loan)
Microfinance Institutions					
Regular Monthly	2,437	1,116	124	541	656
Own Business	3,175	1,207	142	1,080	747
Other	2,162	971	109	586	496
Bank					
Regular Monthly	2,688	1,168	126	702	692
Own Business	3,345	1,259	140	1,369	578
Other	2,444	1,109	105	685	544

- Although average direct loan arrears are low across these income segments, informal borrowings are relatively substantial (compared with Kyrgyzstan and BiH) and highlight the apparent and significant inter-dependencies which occur within this market.

% of borrowers who take informal loans	Loans from Family and Friends		Loan Repayments by Family and Friends		Loans from Retailers	
	Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan
MFI						
Regular Monthly	18%	11%	14%	10%	23%	6%
Own Business	10%	7%	11%	12%	21%	6%
Other	18%	15%	18%	13%	21%	12%
Bank						
Regular Monthly	15%	13%	14%	9%	22%	7%
Own Business	14%	12%	12%	10%	22%	6%
Other	14%	17%	15%	15%	24%	13%

- This highlights the consistently higher levels of financial inter-dependencies in Tajikistan;
 - The strategic implications of such financial inter-connections appear to be significant and emphasise the need for a strategic assessment of the impact and consequences of macro and micro-economic changes and lending actions (even on relatively local implementations);
- The above table indicated the potential importance of the 'added-value' being created by the loan, either directly financial or its impact on lifestyle. The following table shows that the range of borrowers had adverse attitudes towards the loan repayment capacity and wider loan experience.

⁸ Some borrowers report more than one source of income

% of respondents who agreed with the following statement	Regular Monthly		Own Business		Other Income	
	MFI	Bank	MFI	Bank	MFI	Bank
Loans [do not] improve the quality of life	10%	7%	4%	4%	7%	11%
I borrowed too much	27%	25%	26%	28%	25%	20%
My loan repayments are more than I can afford	34%	30%	24%	23%	31%	34%
Debt repayments cause problems within my family	25%	24%	19%	18%	25%	24%
It is / was difficult to resolve debt problems with my lender	26%	25%	23%	25%	21%	27%
I need to continue to borrow to maintain how my family and I live	50%	45%	47%	44%	53%	48%

- This indicates that beneath the ‘superficiality’ of the immediate benefit of the loan, there is a recognition of the debt pressures by a substantive minority of borrowers;
- The earlier financial figures suggest that this recognition of problems is likely to be an under-statement of the situation.

2.3 What proportion of borrowers reflect some recognition of debt repayment pressures?

About 30% of borrowers recognise financial pressure and difficulty in making loan repayments – a further 40% have committed basic expenditures more than 75% of income but do not acknowledge financial pressures – retailer credit is widely taken across all borrower segments.

- The level of direct loan arrears is low (measured in the survey as any loan arrears, not simply over 30 days). However, other surrogate measures may be used to provide some indication of the possible levels of repayment pressures which borrowers may be experiencing. These are summarised in the following table in which each segment is exclusive (no borrower is included in more than one segment).

Repayment Characteristic	Household Income TJS	Average Outstanding Loan Balance	Net Disposable Income NDI (after Loan)	Distribution of Loans : Value	Distribution of Borrowers
Arrears	2,546	7,662	365	3%	3%
Lender Refusal	3,007	7,318	830	4%	4%
Repayment Difficulty ⁹	2,560	7,552	515	25%	25%
Expenditure >75% Income	2,166	8,707	(85)	46%	40%
Remainder	3,717	5,778	1,784	21%	28%

- This table indicates that there is a significant level of pressure being experienced by borrowers which is not transparent in lending performance reporting;
 - There is very significant financial pressure upon those (40%) with committed expenditures in excess of 75% of household income – but this segment have not acknowledged their vulnerable financial situation;
 - The ‘remainder’ segment may be compared with a similar situation in Kyrgyzstan in which the respective segments were 22% (value) and 31% (borrowers).
- These characteristics of repayment pressure are further demonstrated in the following additional dimensions of borrower profile.

⁹ ‘Repayment Difficulty’: Based upon those borrowers who agreed (Question 68) that “my loan repayments are more than I can afford”, and excluding those who have loan arrears or had been refused a loan by a lender in the last 12 months.

Repayment Characteristic	Food expenditure has been reduced to make loan repayments	I (or my spouse) have taken additional work to make loan repayments	Friends or family provided money to repay my loan	Loan from Family and Friends	Loan from Retailer	Loan from Moneylender or Pawnbroker
Arrears	39%	36%	18%	27%	19%	0%
Lender Refusal	54%	40%	38%	17%	28%	1%
Repayment Difficulty	46%	22%	15%	23%	19%	2%
Expenditure >75% Income	45%	21%	13%	10%	26%	1%
Remainder	28%	15%	9%	12%	20%	1%

- The above characteristics demonstrate the range of actions which have been taken not only by those borrowers who have recognised the financial pressures which they must address, but also those under particular financial constraint;
- The level of reduction of monthly food expenditure may be particularly significant. Current expenditures on food across all these segment is only about TJS 205 per person. If these borrowers are experiencing repayment problems, and many have already taken the actions indicated above, there may be minimal scope for further domestic budget economies or external borrowing;
- It may be suggested that the amount, or continuation, of support from family is likely to be limited for many of these problem debt situations. As 'problem debt' is such a sizeable segment, it is appropriate to seek to identify and address such problems, either by a review of budget expenditures, or possible refinance / restructure of the debt;
- The level of informal credit from retailers also presents a potentially significant dimension (much lower in Kyrgyzstan at about 5-7%) which the level of liquidity in local economies may be critical for the stability of those societies.
- The impact of problem lending extends across all income segments, but impacts particularly upon the lowest income groups.

Income Range	< 1,200	1,201 – 1,800	1,801 – 2,600	2,601 – 3,400	> 3,400
Arrears	4%	3%	4%	4%	3%
Lender Refusal	2%	3%	4%	5%	5%
Repayment Difficulty	22%	26%	28%	27%	21%
Expenditure >75% Income	61%	52%	43%	26%	21%
Remainder	11%	16%	22%	39%	50%

These figures show the total share of clients in each income segment for each 'problem' category.

This table indicates that the recognition / acknowledgement of financial difficulties may be a general 'human characteristic', rather than particular to certain income segments.

However, the greater pressures upon the lower income groups are clearly apparent – nevertheless, from a credit management perspective, it is important to consider the extent to which such 'non-recognition' of financial constraint is simply a reflection of the reality and self-rationalisation of the situation.

2.4 To what extent do borrowers use more than one lender, and do these clients show different characteristics?

About 90% of borrowers have used only one lender in the last two years – about 20-30% of former clients of MFIs and banks subsequently take loans from the other type of institution (such borrowers show higher risk profiles) - only 2% of borrowers have multiple concurrent loans.

- This issue can be considered in three principal dimensions:
 - The extent to which borrowers leave an MFI institution and move to a bank (or vice versa);
 - The extent to which borrowers hold more than one loan at any single time;
 - The extent to which borrowers move between lending institutions when they renew their loan.

- The movement between MFIs and banks occurs both ways at similar levels (see also Q & A 2.8):
 - 30% of former bank borrowers now have a loan with an MFI and an additional 8% have borrowed from an MFI in the last 2 years;
 - 21% of former MFI borrowers now have a loan with a bank, and an additional 2% have borrowed from a bank in the last two years;
 - The value of outstanding loans differs considerably. This suggests that the motivation for the change in lender was driven by different factors, in which:
 - Former bank borrowers now have an average outstanding debt of about TJS 11,300 with an MFI, compared to an overall average MFI debt of TJS 6,900;
 - These borrowers show a higher risk profile with 7% of borrowers in loan arrears with the MFI and 14% with a loan application refusal in the last 12 months;
 - Former MFI borrowers now have an average debt of TJS 9,900 with a bank (average bank loan TJS 8,900);
 - These borrowers show a higher risk profile with 6% of borrowers in loan arrears with the MFI and 15% with a loan application refusal in the last 12 months.
 - Note: the survey did not seek to determine the overall scale of client attrition within either MFIs or banks. It identified former borrowers in order to determine their profile characteristics for comparison with current borrowers and their borrowing actions after leaving either an MFI or bank.

- The level of borrowers with multiple concurrent loans is low and relates to only 2% of borrowers in both MFIs and banks.

The level of movement between lenders during the preceding two-year period identified a low level of client movement. [The writer is unaware of the ease with which borrowers can change lenders. The average loan periods appear to be relatively short and would thereby enable opportunities for such institutional movement].

Number of Lenders	One	Two	Three	More than three
MFI	90 %	9 %	1 %	0
Bank	90 %	9 %	1 %	0

- In response to a separate, direct question, almost 90% of both MFI and bank clients agreed that “It is better to borrow from only one institution, rather than to change lenders”.

2.5 How often are debt repayment problems caused by exceptional adverse events?

Business failure and major illness were the most frequent events, but only affected about 10-15% - business failure more frequent in city locations – similar level of occurrence across income segments – broadly similar levels to Kyrgyzstan.

- The incidence of exceptional events upon an individual during the previous six months did not occur consistently across the various client segments
 - The incidence of business failure was greater in Tajikistan than Kyrgyzstan. Does this suggest:
 - Greater rate of start-ups in Tajikistan;
 - Less than adequate experience / resources to undertake such trading activities;
 - A more short-term, opportunistic approach towards business activity.
- Such adverse events occurred somewhat more frequently in city locations (unlike Kyrgyzstan in which rural areas had a greater incidence of such events):

Adverse Events during the previous 6 months	Lifestyle				Financial Action	
	I lost my job	My spouse / partner lost his/her job	My business was not successful	Major illness of self or family	I had to sell a major asset to repay a loan	Friends or family provided money to repay my loan
City – MFI	5%	6%	18%	11%	5%	17%
City – Bank	4%	5%	16%	14%	7%	17%
Urban – MFI	5%	2%	12%	14%	3%	12%
Urban – Bank	4%	3%	12%	22%	2%	9%
Rural – MFI	6%	2%	10%	15%	5%	9%
Rural – Bank	5%	2%	6%	15%	5%	12%

- There was minimal difference between MFI and bank clients:

Adverse Events during the previous 6 months	Lifestyle				Financial Action	
	I lost my job	My spouse / partner lost his/her job	My business was not successful	Major illness of self or family	I had to sell a major asset to repay a loan	Friends or family provided money to repay my loan
MFI	5%	4%	15%	13%	5%	14%
Bank	4%	4%	12%	16%	5%	13%
Never-Borrowed	7%	3%	10%	16%		

- There was surprisingly little difference in the incidence of adverse events across the various income segments. This suggests that the financial profiles and pressures reflect widespread structural attitudes and experience towards debt and budget management across society. This highlights the importance of the financial responsibility of lenders in relation to the basis upon which lending is provided.

Adverse Events during the previous 6 months	Lifestyle				Financial Action	
	I lost my job	My spouse / partner lost his/her job	My business was not successful	Major illness of self or family	I had to sell a major asset to repay a loan	Friends or family provided money to repay my loan
< 1,200	5%	5%	11%	10%	7%	14%
1,201-1,800	4%	4%	13%	11%	3%	16%
1,801-2,600	4%	4%	16%	13%	4%	15%
2,601-3,400	5%	5%	11%	21%	7%	14%
>3,400	6%	2%	13%	17%	5%	10%

- Adverse events in the principal trade sectors are shown in the following table

Adverse Events during the previous 6 months	Lifestyle				Financial Action	
	I lost my job	My spouse / partner lost his/her job	My business was not successful	Major illness of self or family	I had to sell a major asset to repay a loan	Friends or family provided money to repay my loan
Agriculture	5 %	3 %	10 %	15 %	6 %	11 %
Building-Property	8 %	4 %	16 %	16 %	7 %	21 %
Retail	4 %	4 %	21 %	14 %	4 %	12 %
Services	6 %	4 %	12 %	12 %	4 %	19 %
Public Sector	3 %	4 %	10 %	15 %	4 %	13 %

- This table highlights :
 - The direct loss of a job is not a significant short-term factor
 - The business failure rate occurs principally in the retail sector which has, of course, low entry / low exit barriers
 - There was low occurrence of a need to sell assets for debt repayment. This contrasts with the levels of asset collateral as loan security which are provided by 37% of MFI clients and 42% of bank clients. This suggests that the intrinsic value of such security is low, but its 'value' may rest primarily from the 'threat of loss of usage'.

2.6 How does the profile of 'employed' borrowers compare with that of 'own business' borrowers?

'Own business' clients have higher income than 'employed' clients – borrowing by 'own business' is significantly higher than that by those in 'regular employment' – 'own business' show lower recognition of problems with loan repayment and debt, despite financial situation being more constrained – many 'own business' retailers provide credit to their customers.

The overall distribution of borrowers is broadly similar in MFIs and banks across the different income characteristics: 'regular monthly income' 37%; 'own business' 40%; and 'other [less regular] income' 25%¹⁰.

¹⁰ The total of income characteristics exceeds 100% because some borrowers report more than one source of income

- The profile of income sources may be summarised in relation to the different locational profiles and MFI / bank involvement. This suggests a broad similarity in the profiles of MFI and bank client portfolios.

Distribution of all Income Sources	Employed : Monthly Income		Own Business		Other Income	
	MFI	Bank	MFI	Bank	MFI	Bank
City	41 %	45 %	41 %	36 %	18 %	20 %
Urban	37 %	32 %	38 %	48 %	25 %	20 %
Rural	26 %	26 %	44 %	40 %	30 %	34 %
Never Borrowed	46 %		19 %		35 %	

- The distribution percentages relate to respondents only in the respective location;
- MFIs have a higher proportion of 'own business' clients in city and rural locations. This should be considered in relation to the higher failure rates of 'own business' clients;
- Average incomes of bank clients are consistently higher than those of MFI clients:

TJS	Employed : Monthly Income		Own Business		Other Income	
	MFI	Bank	MFI	Bank	MFI	Bank
Household Income	2,450	2,700	3,200	3,350	2,200	2,450
Net Income. inc. Loan Repay	650	700	750	600	500	550

- However, the costs of higher levels of bank lending are reflected in the greater similarity of net income levels after loan repayments;
- The impact on net disposable income reflects the different levels of average borrowings and leverage:

TJS	Employed : Monthly Income		Own Business		Other Income	
	MFI	Bank	MFI	Bank	MFI	Bank
Average loan	4,850	6,350	9,850	12,050	5,000	6,550
Ave. repayment	550	700	1,100	1,350	600	700
Leverage ¹¹						
Household Income	22 %	26 %	34 %	41 %	23 %	22 %
Net Disposable Income (pre loan)	45	50 %	59 %	70 %	54 %	56 %

- The leverage of bank borrowers is significantly higher;
- The average loan of 'own business' is significantly higher than that for 'regular employment';
- The revenue streams to bank lending institutions will, therefore, be substantially higher than those for the MFIs. The comparative service and delivery propositions are not known in detail, other than the greater use of group loans, which will favourably impact upon the operating costs for that product;
- These tables suggest quite different business case propositions for the MFIs and banks in relation to the different loan products and client segments.

¹¹ Leverage: 1. Loan repayment as a percentage of household income and 2. Loan repayment as a percentage of net disposable income

- Informal borrowings and budget adjustment initiatives suggest the actions being undertaken by individuals to maintain up-to-date loan repayments:

	Employed : Monthly Income		Own Business		Other Income	
	MFI	Bank	MFI	Bank	MFI	Bank
Loan : Family / Friends	18 % <i>[11 %]</i>	15 % <i>[13 %]</i>	10 % <i>[7 %]</i>	14 % <i>[12 %]</i>	18 % <i>[15 %]</i>	14 % <i>[17 %]</i>
Loan : Retailer	23 % <i>[6 %]</i>	22 % <i>[7 %]</i>	21 % <i>[6 %]</i>	22 % <i>[6 %]</i>	21 % <i>[12 %]</i>	24 % <i>[13 %]</i>
Friends or family provided money to repay my loan	14 % <i>[10 %]</i>	14 % <i>[9 %]</i>	11 % <i>[12 %]</i>	12 % <i>[10 %]</i>	18 % <i>[13 %]</i>	15 % <i>[15 %]</i>
Food expenditure has been reduced to make loan repayments	37 % <i>[21 %]</i>	40 % <i>[23 %]</i>	44 % <i>[24 %]</i>	39 % <i>[26 %]</i>	40 % <i>[32 %]</i>	42 % <i>[37 %]</i>
I (or my spouse) have taken additional work to make loan repayments	24 % <i>[21 %]</i>	21 % <i>[22 %]</i>	16 % <i>[22 %]</i>	21 % <i>[24 %]</i>	25 % <i>[36 %]</i>	23 % <i>[38 %]</i>

- Comparative figures for Kyrgyzstan are shown in italics and brackets;
- These responses show a high level of recourse to informal loan / funding sources in addition to loans from either MFIs and banks;
- The comparative Kyrgyzstan figures are shown to demonstrate the higher levels amongst Tajikistan borrowers and thereby the additional structural pressures which exist in this market;
- Nevertheless, these responses do indicate that these borrowers have been able to maintain the low levels of loan arrears, but as a result of these informal funding sources;
- This does emphasise the attitudinal importance which borrowers attach to maintaining their loan repayment. This is likely to reflect:
 - The recognition (by c.50%) of the need to continue to borrow to meet family needs;
 - The level of collateral security (by c. 35-50% clients) to secure loan borrowings.
- The different levels of loan repayment problems are shown in the following table:

% in sub-segment : 'income source'	Employed : Monthly Income		Own Business		Other Income	
	MFI	Bank	MFI	Bank	MFI	Bank
Arrears	3 %	4 %	3 %	3 %	3 %	5 %
Lender Refusal	6 %	6 %	4 %	7 %	6 %	6 %
Repayment Difficulty	34 %	30 %	24 %	23 %	31 %	34 %
Expenditure >75% Income	52 %	52 %	63 %	63 %	59 %	63 %

These figures show the total responses for each income segment and include some clients in more than one sub-segment. Expenditure (>75%) as % of income includes loan repayments.

- The levels of problem characteristics of clients are broadly similar for both MFIs and banks in each of the segments.

2.7 To what extent are loans used to support basic domestic expenditure needs?

About 40% of loan usage is for domestic consumption purposes – informal credit from retailers is also used by about 20-25% of borrowers – about 45-50% recognise the need to continue to borrow to maintain lifestyle.

The profile of loan funds does not show any excessive overall concentrations of usage / purpose

	Domestic		Business		Property
	Asset Acquisition	Other	Asset Acquisition	Other	
City - MFI	20%	38%	16%	38%	9%
City - Bank	16%	41%	17%	41%	11%
Urban - MFI	23%	39%	17%	39%	6%
Urban - Bank	16%	37%	23%	37%	7%
Rural - MFI	14%	43%	22%	43%	7%
Rural - Bank	13%	39%	20%	39%	5%

- There appears to be a consistent, and relatively strong, usage of loan funds [or at least in part] to support domestic consumption needs. This must be considered also in conjunction with the recognition of continuing loan needs to support the family and the constraints upon domestic expenditures to meet loan repayments;
 - There is a relatively strong use for business trading needs, rather than asset acquisition. The principle loan product is a fixed term, fixed monthly repayment which is unlikely to be consistent with the cash flow of the trading cycle;
 - Comparison with Kyrgyzstan identifies higher levels of usage for ‘consumption’ and ‘trading’ needs in Tajikistan;
 - It is possibly surprising that city, urban and rural profiles are so similar – and again, the profiles of the MFIs and banks are consistent in each location.
- The usage of loan funds changes in relation to the level of household income:

	Domestic		Business		Property
	Asset Acquisition	Other	Asset Acquisition	Other	
< 1,200	21%	43%	13%	21%	10%
1,201-1,800	20%	41%	17%	25%	6%
1,801-2,600	18%	41%	20%	22%	8%
2,601-3,400	18%	45%	19%	22%	8%
>3,400	12%	30%	22%	41%	9%

- The profile of usage for domestic consumption is similar across all income segments (except the highest >TJS 3,400) which suggests that financial / budget pressures are widespread amongst borrowing clients;
- The levels of asset acquisition are relatively low, compared with Kyrgyzstan;
- This presents a clear and significant structural and strategic risk management issue – with additional significant implications for the further development of the loan portfolio to these clients.

- The impact of problem lending clients does not vary greatly in relation to loan usage:

	Domestic		Business		Property
	Asset Acquisition	Other	Asset Acquisition	Other	
Arrears	27%	34%	19%	21%	10%
Lender Refusal	11%	35%	15%	38%	8%
Repayment Difficulty	23%	39%	18%	25%	5%
Expenditure >75% Income	15%	38%	20%	27%	8%
Remainder	16%	44%	16%	28%	9%

- The profile of loan usage by the major trade sector activities is shown below. There are some substantial differences with the usage profile in Kyrgyzstan, and these are shown in italics / brackets.

Distribution by Trade Sector	Domestic		Business		Property
	Asset Acquisition	Other	Asset Acquisition	Other	
Agriculture	16 % [25%]	43% [26%]	17% [24%]	30% [18%]	6% [14%]
Retail	7% [10%]	21% [16%]	33% [49%]	46% [25%]	4% [6%]
Service	16% [23%]	45% [34%]	12% [20%]	25% [11%]	12% [15%]
Public Sector	25% [36%]	53% [43%]	9% [10%]	11% [4%]	11% [11%]

- This highlights the substantial differences between the trade sectors and thereby the different economic dynamics which will affect the underlying credit performances.
 - It also highlights strongly the greater emphasis of usage in Tajikistan towards consumption needs. This has significant implications in relation to:
 - The strategic and structural risk in the lending portfolios;
 - The structure of the lending products (both fixed repayments and period of the loan) in relation to the quite different cash flow dynamics of asset acquisition, trading cash flow, and domestic consumption.
 - This profile of loan usage may be compared also with that shown by borrowers in BiH.
 - Amongst 'own business' borrowers in BiH about 25-30% of loan funds were used for general domestic (non-asset) consumer purposes compared with about 15-20% in Tajikistan;
 - About 70% of 'own business' borrowers' in BiH used loan funds for trading (non-asset) purposes in contrast to 50% in Tajikistan (where there was a greater emphasis towards asset acquisition finance);
 - Amongst those borrowers with 'regular monthly income', the comparable levels of consumer (non-asset) expenditures were about 70% in BiH compared with 55-60% in Tajikistan.

- The recognition of the usage of loan funds to maintain lifestyle is reflected in the following table.

	Average Expenditure per Household Person : TJS	Loan Repayment as % of Net Income	Loan from Retailer		I need / needed to continue to borrow to maintain how my family and I live	
			MFI	Bank	MFI	Bank
< 1,200	107	143%	36%	48%	51%	44%
1,201-1,800	145	87%	25%	35%	55%	45%
1,801-2,600	199	72%	15%	15%	54%	57%
2,601-3,400	231	50%	19%	16%	51%	44%
>3,400	291	43%	16%	12%	36%	34%

2.8 What do former borrowers do after they leave an institution?

70-80% of clients leaving either MFIs or banks cease to borrow – those who switch from MFI to bank, or vice versa, and continue to borrow show higher risk performance after changing – both former MFI and bank borrowers increase their indebtedness with the new lender – those who have never borrowed have lower household incomes, but higher net disposable incomes.

- Former clients of both MFIs and banks were identified (see also Q & A 2.4):
 - 30% of former bank borrowers now have a loan with an MFI and an additional 8% have borrowed from an MFI in the last 2 years;
 - 21% of former MFI borrowers now have a loan with a bank, and an additional 2% have borrowed from a bank in the last two years;
 - The level of outstanding loans differs considerably. This suggests that the motivation for the change in lender was driven by different factors, in which:
 - Former bank borrowers now have an average outstanding debt of about TJS 11,300 with an MFI, compared to an overall average MFI debt of TJS 6,900.
 - These borrowers show a higher risk profile with 7% of borrowers in loan arrears with the MFI and 14% with a loan application refusal in the last 12 months.
 - Former MFI borrowers now have an average debt of TJS 9,900 with a bank, compared to an overall average bank debt of TJS 8,700:
 - These borrowers show a higher risk profile with 6% of borrowers in loan arrears with the MFI and 15% with a loan application refusal in the last 12 months.
 - Note: the survey did not seek to determine the overall scale of client attrition at either MFI or banks. It identified former borrowers in order to determine their borrowing actions after leaving either an MFI or bank.
- The resultant level of ‘former’ borrowers who did not undertake a loan are
 - 62% of former bank borrowers;
 - 77% of former MFI borrowers;

- The financial profiles of the ‘former borrowers’ show the different impacts of loan leverage for MFI and bank borrowers

	Household Income TJS	Household & Utility Costs	Net Disposable Income NDI (pre Loan)	Monthly Loan Repayment	Net Disposable Income NDI (after Loan)
Former MFI	2,856	1,351	1,505	1,085	420
Former Bank	3,145	1,462	1,683	1,308	375
Never Borrowed	2,341	1,210	1,132	-	1,132

- This table also provides some quantification of the ‘challenge’ of the added-value to be derived from loan indebtedness - which is demonstrated by the higher level of net disposable income, despite the lower level of gross household income
- The patterns of savings are similar across these segments

	Former MFI	Former Bank	Never Borrowed
Savings with a financial institution	10 %	11 %	11 %
Other savings	34 %	36 %	31 %
Insurance product(s) from financial institution	3 %	8 %	1 %

3 LENDING INSTITUTIONS AND LENDING PORTFOLIOS

3.1 What are the principal demographic characteristics of borrowers?

Major traditional demographic segments relate to [i] trade activity; [ii] region; [iii] age; and [iv] loan amount – some substantial variations in financial capacity and pressure across the regions (client segments and risk indicators are reviewed in the following Q & A 3.2).

- The following comments relate to the major generic client segments across the borrowing population and thereby span both MFIs and banks. (The following section looks more closely at the major differences between MFI and bank clients within various segments). The tables in this section show the quantitative financial profile and also indications of risk which have been recognised by the borrower.
 - In relation to a more detailed review of income and expenditure, it may be noted that :
 - There is a significant level of overlap between MFI and bank client bases, with MFIs having a greater proportion of only 6% of the lowest income segment (<TJS 1,200) and banks having only 5% more of the highest income segment (>TJS 3,400);
 - The principal dimensions of the income profiles have been shown above (see Q & A 1.2, 2.1 and 2.2) and will be included in the following comparison of bank and MFI;
 - A review of the sources of income is shown in Q & A 2.2.

- **Trade Activity** : Financial : the principal trading activities which underpin the income of borrowers are agriculture, retail, service, and public sector:

	Household Income TJS	Household & Utility Costs	Net Disposable Income NDI (pre Loan)	Average Outstanding Loan Balance	Net Disposable Income NDI (after Loan)
Agriculture	2,400	1,150	1,250	6,000	600
Retail	3,400	1,450	1,950	11,200	700
Service	2,550	1,250	1,300	7,700	400
Public Sector	2,500	1,250	1,250	5,500	600

- The levels of household essential expenditures are broadly similar;
 - The impact of different levels of loan leverage are clearly reflected in the residual net disposable incomes.
- **Trade Activity** : the scale of ‘problem repayment’ borrowers varies between these major sectors and is reflected in the following indicators (see also separate Q & A 4.3 re ‘arrears’):

	My loan repayments are more than I can afford	Friends or family provided money to repay my loan	Loans from Retailers	Debt repayments cause problems within my family	Food expenditure reduced for loan repayments	I (or my spouse) have taken additional work to make loan repayments
Agriculture	29 %	11 %	25 %	19 %	48 %	17 %
Retail	29 %	12 %	14 %	22 %	45 %	16 %
Service	22 %	19 %	24 %	20 %	36 %	23 %
Public Sector	31 %	13 %	24 %	23 %	38 %	20 %

- The financial pressures are being experienced and recognised by borrowers across the major sectors.
- **Region:** Financial

	Household Income TJS	Household & Utility Costs	Net Disposable Income NDI (pre Loan)	Average Outstanding Loan Balance	Net Disposable Income NDI (after Loan)
Dushanbe	4,200	1,600	2,600	9,900	1,400
Khatlon	2,600	1,000	1,600	8,400	700
Sogd	2,350	1,200	1,150	5,500	500
RRP	2,400	1,500	900	4,400	250
GBAO	2,100	1,050	1,050	10,000	200

- Major differences in these regional positions will impact upon the need for differentiated credit assessment processes and budget guidelines. (Separate analyses are available to review locational performance by city, rural and urban).

- **Region : Problem Lending**

	My loan repayments are more than I can afford	Friends or family provided money to repay my loan	Loans from Retailers	Debt repayments cause problems within my family	Food expenditure reduced for loan repay	I (or my spouse) have taken additional work to make loan repayments
Dushanbe	27 %	24 %	18 %	31 %	33 %	27 %
Khatlon	17 %	7 %	48 %	20 %	33 %	6 %
Sogd	28 %	8 %	3 %	21 %	16 %	21 %
RRP	35 %	16 %	10 %	6 %	82 %	27 %
GBAO	40 %	13 %	34 %	37 %	39 %	25 %

- Some significant variations are evident across these regions.
- Substantive differences in the sources of informal finance which may have direct implications for the strategic / structural risk management of the respective portfolios – and the sensitivity of those portfolios to external economic changes

- **Age: Financial**

	Household Income TJS	Household & Utility Costs	Net Disposable Income NDI (pre Loan)	Average Outstanding Loan Balance	Net Disposable Income NDI (after Loan)
16-25	2,600	1,200	1,400	6,100	750
26-35	2,700	1,250	1,450	7,600	650
36-45	2,700	1,250	1,450	8,500	500
46-55	2,850	1,350	1,500	7,400	700
> 55	2,950	1,450	1,500	5,600	800

- Surprisingly little difference between the income levels across the age range. The higher debt levels of 36-45 years appear intuitively to be the appropriate segments to reflect a higher borrowing need. (This is a similar profile to that seen in Kyrgyzstan).

- **Age : Problem Lending**

- The following table shows, again, that there is little substantive difference in attitudes across the age ranges, and continues to show the consistent and pervasive adverse impact of debt upon the domestic situation for a significant minority of borrowers.

	My loan repayments are more than I can afford	Friends or family provided money to repay my loan	Loans from Retailers	Debt repayments cause problems within my family	Food expenditure reduced for loan repay	I (or my spouse) have taken additional work to make loan repayments
16-25	30 %	19 %	24 %	26 %	37%	22%
26-35	29 %	13 %	22 %	20 %	39%	20%
36-45	31 %	13 %	22 %	24 %	40%	22%
46-55	28 %	13 %	23 %	22 %	43%	21%
> 55	26 %	14 %	18 %	20 %	50%	20%

Loan Amount: Financial

Loan Amount	Household Income TJS	Household & Utility Costs	Net Disposable Income NDI (pre Loan)	Average Loan Repayment	Net Disposable Income NDI (after Loan)
< 1,500	2,200	1,100	1,100	350	750
1,501-3,000	2,350	1,200	1,150	400	750

3,001-5,000	2,400	1,250	1,150	600	550
5,001-10,000	2,800	1,300	1,500	850	650
> 10,000	4,300	1,550	2,750	2,300	450

- There is only a minimal increase in the household income across the loan amount segments up to TJS 10,000, but the largest loan segment has distinct characteristics.
- There is an inverse relationship between the residual net disposable income and the loan amount. This increases the inherent risk in the higher loan segment because there is greater potential sensitivity in the exposure to external cost increases. (See also below re 31% of largest loan borrowers recognise that repayments are more than they can afford).
- **Loan Amount : Problem Lending**

Loan Amount	My loan repayments are more than I can afford	Friends or family provided money to repay my loan	Loans from Retailers	Debt repayments cause problems within my family	Food expenditure reduced for loan repay	I (or my spouse) have taken additional work to make loan repayments
< 1,500	30%	12%	21%	20%	31%	22%
1,501-3,000	33%	15%	20%	21%	41%	24%
3,001-5,000	27%	16%	23%	21%	50%	22%
5,001-10,000	25%	12%	28%	21%	43%	16%
> 10,000	31%	12%	18%	30%	37%	20%

- Taken together, these reflect the substantive financial pressures being experienced by borrowers.

3.2 What are the principal similarities and differences between the loan portfolios of the MFIs and banks?

This section takes the previous dimensions of borrowers and provides a comparison between MFI and bank clients in relation to location, income, loan type, multiple lenders, and savings. (see also Q & A 3.6 re Security and Q & A 3.7 re Currency Lending).

Loan amounts are consistently higher amongst bank clients, in comparison with MFI clients with similar demographic and financial characteristics – similar usage of the fixed-term business and individual loan products by both MFIs and banks – loan leverage is very high for the lowest income segments of both MFIs and banks – higher loan levels to ‘own business’ customers by banks – loan leverage is greater for higher income bank clients than MFI borrowers – similar levels of problem lending across both MFIs and banks –high stability of borrowers with a single lender.

- **Location : Financial**

	Household Income TJS	Household & Utility Costs	Net Disposable Income NDI (pre Loan)	Average Outstanding Loan Balance	Net Disposable Income NDI (after Loan)
City - MFI	3,100	1,350	1,750	7,600	900
City - Bank	3,300	1,400	1,900	9,200	800
Urban - MFI	2,300	1,250	1,050	6,750	300
Urban - Bank	2,700	1,350	1,350	9,000	450
Rural - MFI	2,200	1,050	1,150	5,700	550
Rural - Bank	2,450	1,100	1,350	7,700	500

- Banks attract clients with slightly higher household and net disposable incomes than the MFIs;

- However, the differentials of net disposable incomes are much changed by the impact of the higher loan amounts and repayment leverage.
- Location : Problem Lending (see also separate Q & A 4.2 and 4.3 re 'over-indebtedness' and 'arrears')

	My loan repayments are more than I can afford	Friends or family provided money to repay my loan	Loans from Retailers	Debt repayments cause problems within my family	Food expenditure reduced for loan repay	I (or my spouse) have taken additional work to make loan repayments
City - MFI	30%	17%	20%	25%	39%	19%
City - Bank	26%	17%	19%	24%	37%	21%
Urban - MFI	34%	12%	22%	22%	41%	21%
Urban - Bank	36%	9%	27%	21%	42%	18%
Rural - MFI	23%	9%	25%	19%	45%	25%
Rural - Bank	24%	12%	24%	19%	43%	25%

- Problem debt levels are similar for MFIs and bank clients in the respective locations;
- The recognition of debt problems is lower in rural areas (the reverse situation applied in Kyrgyzstan);
- This reflects only those clients who recognise the 'problems' – see also risk categorisation for an assessment of the interaction of quantitative financials with qualitative perceptions.

Income: Range : Financial

This segmentation is based upon clients in the various income segments. See also Q & A 1.2 and 1.3 in relation to income and expenditure.

Income Range / TJS	Net Disposable Income NDI (pre Loan)		Average Outstanding Loan Balance		Net Disposable Income NDI (after Loan)	
	MFI	Bank	MFI	Bank	MFI	Bank
< 1,200	325	375	4,100	5,000	(150)	(200)
1,201-1,800	675	675	5,400	5,800	75	75
1,801-2,600	950	900	5,500	7,600	325	175
2,601-3,400	1,500	1,525	5,800	8,500	800	675
>3,400	3,675	3,525	13,400	14,000	2,250	1,800

- The leverage of bank clients is consistently higher than that of MFI clients at all income levels – but the difference in loan leverage is not as great as that identified in Kyrgyzstan;
- Against broadly similar demographic profiles, the MFIs and banks are presenting similar loan product and service propositions – with the banks differentiating by slightly higher loan amounts;
- The previous dimension identified that these differentials are applied throughout the portfolios in both city and rural locations;
- The lowest income segments (up to TJS 1,800) show a highly marginal financial situation. The response data has been shown in earlier Q & As to be consistent with external survey data. This is, therefore, a situation for particular review by the lending institutions to determine the levels of net disposable income across the different client segments – and if the client data in lending applications is based largely upon self-certification of income (both of the individual and the household);

- Such lowest income segments (<TJS 1,800) represent 35% of borrowing clients.
- Income : Range : Leverage of Loan Repayments
 - Lending by banks is undertaken at significantly higher leverage ratios than those undertaken by the MFIs

Income Range / TJS	Net Disposable Income NDI (post Loan)		Loan repayment as % of household income		Loan repayment as % of net disposable income	
	MFI	Bank	MFI	Bank	MFI	Bank
<1,200	(150)	(200)	49%	59%	145%	150%
1,201-1,800	75	75	38%	39%	88%	89%
1,801-2,600	325	175	29%	35%	67%	82%
2,601-3,400	800	675	23%	28%	46%	55%
>3,400	2,250	1,800	25%	31%	39%	49%

- This suggests a somewhat higher risk profile / vulnerability at each of the respective borrower segments in relation to lending by banks.
 - This also suggests that the credit affordability review of the loan applications is undertaken without due consideration of the 'essential expenditure' levels of the different income segments. This appears to be a major issue for consideration and development by the lending institutions.
- Income : Range : Problem Lending (see also separate Q & A 4.2 and 4.3 re 'arrears' and 'over-indebtedness'):

Income Range / TJS	My loan repayments are more than I can afford		Debt repayments cause problems within my family		Food expenditure reduced for loan repay	
	MFI	Bank	MFI	Bank	MFI	Bank
< 1,200	24%	28%	23%	31%	36%	43%
1,201-1,800	29%	30%	23%	21%	49%	45%
1,801-2,600	33%	31%	22%	19%	49%	50%
2,601-3,400	31%	34%	22%	21%	41%	35%
>3,400	28%	21%	22%	20%	28%	28%

- It is surprising that there is not a greater differentiation in the levels of recognition of financial pressures;
- This may suggest:
 - There has been a rationalisation of the continuing existence of financial pressures in the attitudes of the borrowers; and / or;
 - These levels reflect a 'natural' level of concern based upon the personal characteristics of individuals who are disposed to have such 'worries'.
- However, it does suggest a significant majority of borrowers who do not recognise the vulnerability of their financial position – and this has a consequent impact upon the responsibility of lending institutions to establish and maintain appropriate lending standards;
- The scale of exposure to the lower income segments emphasises the significance of these attitudes and financial vulnerability. Again, there is a high level of similarity of the client and loan value distributions.

Income Range / TJS	Distribution : Clients		Distribution : Loan Value	
	MFI	Bank	MFI	Bank
< 1,200	19%	13%	12%	8%
1,201-1,800	19%	18%	15%	12%
1,801-2,600	27%	28%	22%	25%
2,601-3,400	14%	15%	11%	14%
>3,400	21%	26%	41%	41%

- **Income : Source : Financial**

TJS	Net Disposable Income NDI (pre Loan)		Average Outstanding Loan Balance		Net Disposable Income NDI (after Loan)	
	MFI	Bank	MFI	Bank	MFI	Bank
Regular Monthly	1,200	1,400	4,850	6,350	650	700
Own Business	1,800	1,950	9,850	12,050	750	600
Other	1,100	1,250	5,000	6,550	500	550

- The impact of higher loan leverage by bank borrowers is reflected in the similar levels of net disposable income of MFI and bank clients;
- The higher loan leverage amongst bank 'own business' borrowers is particularly substantive;
- However, the leverage of the 'own business' segment is particularly significant – not only as a result of the 'natural' exposure to economic conditions, but also, and perhaps more importantly, as a result of the substantial level of informal 'retailer credit' which is being provided to their customers. This means that the credit quality of the 'own business' segment must be closely aligned to the general credit quality of all borrowers.

- **Income : Source : Problem Lending**

	My loan repayments are more than I can afford		Debt repayments cause problems within my family		Food expenditure reduced for loan repay	
	MFI	Bank	MFI	Bank	MFI	Bank
Regular Monthly	34 %	30 %	25 %	24 %	37 %	40 %
Own Business	24 %	23 %	19 %	18 %	44 %	39 %
Other	31 %	34 %	25 %	24 %	40 %	42 %

'Own Business' appears to fail to fully acknowledge the pressure on repayments when compared with the extent to which reductions to food expenditure are being made.

Loan Type: Financial

Note: Distribution of borrowers by product types:

	Net Disposable Income NDI (pre Loan)		Average Outstanding Loan Balance		Net Disposable Income NDI (after Loan)	
	MFI	Bank	MFI	Bank	MFI	Bank
Group	1,500	2,100	7,900	12,000	750	600
Business	1,900	1,900	10,800	12,200	750	550
Individual	1,150	1,350	5,100	6,900	550	600
Agricultural	1,200	1,450	3,700	6,500	700	750

Note : Distribution of borrowers by largest product types

Product	Distribution : Clients		Distribution : Loan Value	
	MFI	Bank	MFI	Bank
Group	5%	3%	5%	4%
Business	35%	38%	53%	51%
Individual	54%	50%	39%	38%
Agricultural	7%	9%	3%	6%

- Again, there is minimal differentiation between the product distributions of MFIs and banks. The basis of market differentiation and segmentation from the banks appears low, with only loan leverage being a significant difference (other than perhaps the regulatory framework).
- Loan Type : Problem Lending (see also separate Q & A 4.2 re 'arrears')

	My loan repayments are more than I can afford		Debt repayments cause problems within my family		Food expenditure reduced for loan repay	
	MFI	Bank	MFI	Bank	MFI	Bank
Group	29 %	28 %	30 %	19 %	28 %	42 %
Business	27 %	27 %	20 %	20 %	43 %	40 %
Individual	32 %	28 %	25 %	23 %	39 %	39 %
Agricultural	30 %	38 %	18 %	25 %	48 %	40 %

- Despite the higher leverage amongst bank borrowers, these indicators of problem lending again show similar levels between MFI and bank clients in the respective product segment – however, bank agriculture clients reflect higher concerns than MFI clients (who have, in turn, effected greater reductions in food expenditure);
- However, such characteristics relate only to those clients who 'recognise', or admit to, their financial problems. The risk categorisation assessment (see Q & A 4.2 and Attachment 2).

Multiple Lenders : Financial

This relates to the current number of lenders used in the last two years by a borrower. The overwhelming majority remain within either MFIs or banks, rather than using both types of institution. The level of clients with loans concurrently from MFIs and banks is very low, being under 3% of respondents.

The level of borrowers' who use 'multiple lenders' is low at 10% of both the MFI and bank client base. This does not indicate a high client turnover rate. However, it may be noted that:

- The average monthly household incomes for borrowers in these segments are:
 - MFI One lender TJS 2,600 Two or more TJS 3,500
 - Bank TJS 2,800 TJS 3,900

The 'multiple lender' segment has a higher proportion of 'own business' clients who may be either accepting of higher financial risks, or more confident / optimistic of their financial outlook.

Conversely, borrowers in regular employment are more likely to remain with one lender.

The summary financial position is shown in the following table:

TJS	Net Disposable Income NDI (pre Loan)		Average Outstanding Loan Balance		Net Disposable Income NDI (after Loan)	
	MFI	Bank	MFI	Bank	MFI	Bank
One lender	1,350	1,500	6,200	8,200	650	575
Two or more	2,150	2,350	13,400	13,200	800	850

- The use of multiple lenders appears to relate directly to higher outstanding loan balances
- Although incomes (pre loan) are higher, net disposable incomes (after loan costs) result in minimal differences between MFIs and banks
- Again, there appears to be little difference in the service propositions of the MFIs and banks in relation to the average loan amount of those borrowers who move between lenders
- Multiple Lenders : Problem Lending (see also separate Q & A 4.2 re 'arrears' and 2.8 re 'former borrowers'):

	My loan repayments are more than I can afford		Debt repayments cause problems within my family		I borrowed too much		Food expenditure reduced for loan repay	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
One lender	30 %	29 %	22 %	21 %	25 %	24 %	42 %	41 %
Two or more	22 %	22 %	29 %	24 %	35 %	34 %	32 %	31 %

- These responses appear to show some apparent paradoxes
 - Despite higher loans, higher arrears with utility payments and a feeling that they have 'borrowed too much', the 'multiple lender' segment shows a greater confidence in 'affordability' than those borrowers who have remained with a single institution;
 - However, the level of loan arrears is higher amongst the 'two or more' segment (MFI 6% against 3%; and Bank 8% against 3%);
 - There is little difference between these two segments in relation to the levels of informal loans.
- The following table provides further evidence of the apparently paradoxical situation:

	My financial situation has improved in the last 6 months		I need / needed to continue to borrow to maintain how my family and I live		Most of my friends have difficulties meeting their domestic budget needs		I would like help to resolve debt problems with my lending institution	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
One lender	85 %	87 %	51 %	46 %	58 %	60 %	29 %	30 %
Two or more	82 %	83 %	34 %	38 %	78 %	71 %	21 %	26 %

- Multiple Lenders : The Apparent Paradox.
 - Despite the higher levels of loan balances, the 'two or more' segments demonstrate:
 - A more confident / optimistic responses;

- Greater recognition of the financial pressures of other people in their social circle. This may encourage a greater tolerance of financial pressures.
 - This 'two or more' segment may, therefore, represent a more difficult credit management challenge.

Savings : Financial

Note: The level of savings with a financial institution is relatively low (only 8% of all borrowers). The following table relates to other, informal savings. See separate Q & A 4.8 for further review of savings.

TJS	Net Disposable Income NDI (pre Loan)		Average Outstanding Loan Balance		Net Disposable Income NDI (after Loan)	
	MFI	Bank	MFI	Bank	MFI	Bank
'Other' savings	2,250	2,200	9,700	10,300	1,200	1,050
Non-Savers	1,150	1,300	5,900	8,150	475	425

- The proportion of clients undertaking 'informal' savings is similar for MFI clients (26%) and bank (27%), but these are lower than were reported in Kyrgyzstan (being 29% and 32% respectively)
 - Both institutions show that 'savers' have significantly higher levels of net disposable income than 'non-savers'. This differentiation is also reflected in the average outstanding loan amounts.
 - The differences in these segments are reflected in the attitudinal issues shown below.
- Savings : Problem Lending (see also separate Q & A 4.8)

	My loan repayments are more than I can afford		Debt repayments cause problems within my family		Food expenditure reduced for loan repay	
	MFI	Bank	MFI	Bank	MFI	Bank
'Other' savings	19 %	18 %	18 %	17 %	23 %	22 %
Non-Savers	33 %	31 %	24 %	23 %	47 %	47 %

- These responses show substantive differences in the attitudes of these segments and reflect the different levels of debt exposures.

It is interesting that such savings are held outside the formal financial institutions, despite the apparently-strong reputational positions of the banks. (The writer's inference in other Q & As suggests that such strong reputational responses may primarily reflect the debt dependency of borrowers and a possible 'de-linkage' of the institutions' lending and deposit-taking roles).

3.3 Do the survey responses indicate credit standards or criteria?

(See also Q & A 7.3 re "Do lenders understand the borrower's financial position")

Overall, banks provide higher loans and higher leverage ratios than those taken by MFI borrowers – the leverage ratios are highest amongst the lowest income groups – leverage ratios appear driven by household income – significant pressure on low income household when loan repayment is related to disposable income (after household essentials) – significant financial constraints on lowest income segments results in usage of additional informal loan sources – leverage rates comparable with Kyrgyzstan, but additional informal loans and family dependencies are higher.

The survey responses show the differences in the loan leverage between MFI (lower leverage) and bank clients (higher leverage). Such loan leverage ratios are lower than were evident in Kyrgyzstan, although residual net income levels were similar. Whilst other reviews show the recognition by the borrowers of

their capacity to manage their debt levels and loan repayments, the following tables demonstrate some characteristics of the relationship of debt to income.

- The level of debt repayments may be considered in relation to household income
 - Location

Tajikistan	Household and Utility costs as % of Household Income		Loan Repayment as % of Household Income		Total Committed Expenditures as % of Household Income	
	MFI	Bank	MFI	Bank	MFI	Bank
City	43 %	43 %	28 %	33 %	72 %	76 %
Urban	54 %	51 %	32 %	32 %	86 %	83 %
Rural	48 %	45 %	28 %	35 %	76 %	80 %

- These responses show a significant level of committed expenditures in each of the locations, with particular pressure in the urban location;
- Whilst the loan leverage ratios are slightly less than were reported in Kyrgyzstan, the residual levels of committed expenditures are higher in Tajikistan – and show those borrowers to be more sensitive / vulnerable to external changes in the cost-of-living.
- The comparative levels in Kyrgyzstan are shown in the following table:

Kyrgyzstan	Household and Utility costs as % of Household Income		Loan Repayment as % of Household Income		Total Committed Expenditures as % of Household Income	
	MFI	Bank	MFI	Bank	MFI	Bank
City	46%	44%	24%	34%	70%	79%
Rural	41%	38%	29%	35%	70%	72%

- These two comparative tables indicate an important strategic and structural dimension to be addressed in the continuing development of the lending market – and the responsibility for an appropriate balance of the financial and social implications of such highly-committed and sensitive budget positions.
 - This situation is made more acute by the responses which show the high debt dependency of borrowers and their apparent willingness to provide the most appropriate and ‘politically-correct’ responses.
- Income Segment

These aggregate figures reflect a range of committed expenditures across the income ranges

Tajikistan	Household and Utility costs as % of Household Income		Loan Repayment as % of Total Household Income		Loan Repayment as % of Net Disposable Income (pre loan repayments)	
	MFI	Bank	MFI	Bank	MFI	Bank
< 1,200	66 %	60 %	49 %	59 %	145 %	150 %
1,201-1,800	57 %	57 %	38 %	39 %	88 %	89 %
1,801-2,600	56 %	56 %	29 %	35 %	67 %	82 %
2,601-3,400	50 %	48 %	23 %	28 %	46 %	55 %
>3,400	35 %	36 %	25 %	31 %	39 %	49 %

- This table presents some critical perspectives of the credit risk process, based on the quantitative financial positions reported by borrowers¹²;
- The relative cost of basic household essentials is much greater, in real terms, for the lower income households. Whilst the nominal loan amounts to lower incomes are less, the real cost of loan repayments, in relation to available net disposable income, is significantly higher for low income groups (as shown in the final two columns of the above table);
- 38% of MFI clients and 31% of bank clients are in the lowest two income segments;
- This represents such an important and fundamental dimension of both the [i] loan portfolio credit quality and [ii] outlook for lending development that is appropriate to compare this situation in Tajikistan with that shown by the survey in Kyrgyzstan.

Kyrgyzstan	Household and Utility costs as % of Household Income		Loan Repayment as % of Total Household Income		Loan Repayment as % of Net Disposable Income (pre loan repayments)	
	MFI	Bank	MFI	Bank	MFI	Bank
< 15,000	55%	57%	37%	43%	83%	99%
15,001 - 20,000	51%	50%	28%	37%	57%	74%
20,001 - 30,000	44%	45%	22%	30%	40%	56%
30,001 - 40,000	44%	44%	21%	31%	37%	56%
> 40,000	32%	33%	21%	32%	32%	48%

- For reference, the income segments in the two countries are of similar US Dollar equivalents:

Segment Range : US Dollars		Distribution : Clients		Distribution : Loan Value	
Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan
< 250	< 300	17%	28%	10%	12%
250 - 375	300 - 400	18%	25%	14%	16%
375 - 550	400 - 600	28%	27%	23%	23%
550 - 700	600 - 800	14%	9%	13%	13%
> 700	>800	23%	11%	41%	36%

- This table shows that the lowest income segments in Tajikistan represent a lesser proportion of all borrowers than in Kyrgyzstan;
 - Nevertheless, the risk exposure in Tajikistan is slightly greater and is, in itself, substantive;
 - This appears to highlight a strategic and structural challenge for the lending industries in both Tajikistan and Kyrgyzstan.
- There is a wide range in the distribution of the level of repayments as a percentage of household income which show a strong similarity across the portfolios of both MFI and banks:

¹² Data quality was reviewed and validated by the independent research agency which undertook the survey interviews. Additionally, the similarity of responses from different client segments (MFI and bank) and the relationship between responses at different income levels provides support for the appropriateness of these quantitative evaluations.

% of borrowers	Loan Repayments as % of Household Income				
	<10%	11-20%	21-30%	31-40%	>40%
MFI : Total	16%	27%	19%	15%	23%
Bank : Total	13%	23%	20%	14%	30%
% of borrowers	Total Expenditures (inc. Loan Repayments) as % of Household Income				
	<25%	26-50%	51-75%	76-100%	>100%
MFI : Total	2%	11%	29%	33%	25%
Bank : Total	1%	11%	29%	34%	25%

- It is not known if the lending institutions relate affordability to total household income, or net disposable income (after application of standard expenditure guidelines) – or if the borrowers provide the lending institutions with other [‘more acceptable’] budgetary figures. Survey respondents were asked “When I drew my last loan, the lender knew what I could afford”.
 - 84% of MFI clients and 83% of bank clients agreed with the question;
 - The highest level of ‘agreed’ (90%) occurred with the lowest income segment (<TJS1,200), whilst the lowest (78%) occurred with the mid-segment (TJS 1,801-2,600);
 - Of those who recognised loan repayment difficulties, only 78% agreed.
- These responses suggest that the lending process was transparent for the large majority of borrowers and that relevant information was provided.
- These tables emphasise the strategic challenge facing the lending industry (both MFIs and banks) and the continuing importance of maintaining a stable approach to the borrowing market.

3.4 Does the loan process adequately reflect the impact of basic cost-of-living expenditures?

Household expenditures increase in relation to increasing incomes (but at a lesser growth rate) – the proportionate cost of basic household needs is much higher for low income households – together with higher proportionate loan costs, the low income clients are left with negative average net disposable income – expenditure levels on utility costs appear to be relatively low – credit assessment needs to reflect the different ‘real costs’ of basic expenditures for different income segments.

The above responses demonstrate the range of leverage ratios which are dominated by the cost of household essentials and the loan repayments in relation to income.

National Statistics indicate that the average cost-of-living per household (excluding utilities) is estimated at TJS 1,220 per month. This compares closely with the survey responses¹³ which indicate an overall average expenditure of TJS 1,145 (excluding utilities) per household. The cost of utilities was also similar with national statistics TJS 206 and the survey responses TJS 126.

- Such relationships of income and expenditure vary significantly in relation to different client segments:

¹³ CARE : The survey seeks to identify different client segments and sub-portfolios. The sampling basis was not intended, not designed, to provide a weighted national sample of either the population or borrowers. However, such close alignment between national statistics and survey responses for both levels of household expenditure, individual incomes, loan amounts, and household sizes does provide additional confidence to directional validity of the survey findings.

Region :			Income :		
	Household Income	Expenditure and Utilities		Household Income	Expenditure and Utilities
Dushanbe	4,200	1,600	<1,200	950	600
Khatlon	2,600	1,000	1,201-1,800	1,600	900
Sogd	2,350	1,200	1,801-2,600	2,200	1,250
RRP	2,350	1,500	2,601-3,400	3,000	1,450
GBAO	2,100	1,000	>3,400	5,500	2,000

Location			Trade Sector : Source of Income		
	Household Income	Expenditure and Utilities		Household Income	Expenditure and Utilities
City - MFI	3,100	1,350	MFI : Monthly	2,400	1,250
City - Bank	3,300	1,400	MFI : Own Business	3,200	1,350
Urban - MFI	2,250	1,200	MFI : Other	2,150	1,100
Urban - Bank	2,700	1,400	Bank : Monthly	2,700	1,300
Rural - MFI	2,200	1,050	Bank : Own Business	3,350	1,400
Rural - Bank	2,450	1,100	Bank : Other	2,450	1,200

- Significantly different income and expenditure profiles for the different client segments. Such dynamics need to be reflected in the credit risk assessments and also the business development strategies of each institution;
- Each institution will have its individual 'client mix' in relation to the segment profile of its current client base and also the profile of its target client. It is appropriate, therefore, that each institution should identify its own risk profile of the loan portfolios;
- The regions and locations show substantive variations. This suggests that the lending institutions will maintain different lending and credit risk guidelines to reflect the different dynamics which are applicable.

3.5 How does lending to 'own business' clients compare between MFIs and banks?

Similar distribution across trade sectors by both MFIs and banks – significant overlap of MFIs and banks in relation to income levels, although MFIs have a slightly higher support of lower income clients – banks provide larger loan amounts than MFIs and allow higher leverage in repayment levels.

- A significant proportion of lending by both MFIs and banks is undertaken to 'own business' clients:
 - MFI: 40% in city locations; 45% in rural locations; about 50% in urban locations;
 - Bank: 35% in city locations; 40% in rural locations; about 50% in urban locations.
- There is also a great similarity in the trade sectors which are supported:

Total Loan Portfolio	Manufacture	Food Production	Retail	Engineering	Building - Property	Service	Agriculture
MFI	2 %	4 %	31 %	5 %	6 %	15 %	20 %
Bank	3 %	3 %	29 %	4 %	7 %	16 %	24 %
'Own Business' Loan Portfolio							
MFI	2%	6%	63%	4%	3%	14%	17%
Bank	2%	5%	59%	3%	6%	13%	21%

- The two dominant trade segments, agriculture and retail, are characterised by quite different trading characteristics – the seasonal cash flow dynamics of agriculture – and the lower entry-barriers and generally shorter-term trading cycles of the retail sector;
- The above table reflects the survey responses and thereby provides a comparative profile of MFIs and banks – rather than seek to reflect a nationally-weighted sample.
- There is also a significant level of ‘overlap’ across the clients of MFIs and banks in relation to the level of household income (as a general proxy for the scale of the underlying business activity).

% of borrowers	Household Income of ‘Own Business’ Borrowers : TJS				
	< 1,200	1,201-1,800	1,801-2,600	2,601-3,400	>3,400
MFI	16%	18%	27%	11%	29%
Bank	9%	18%	29%	13%	32%

- The average incomes for these ‘own business’ clients are broadly similar [a] MFI TJS 3,175 and [b] Bank TJS 3,350;
- The MFIs do not show a significantly higher share of the lowest income ‘own business’ clients.
- The product structure for the ‘own business’ segment is also similar across the MFIs and banks, as shown in the following table:

Type of Loan to ‘Own Business’	Group	Business	Individual	Agricultural
MFI	5%	73%	26%	4%
Bank	3%	75%	24%	4%

- These represent highly similar service and delivery propositions by the lender with minimal levels of flexibility to the borrower. The inflexibility of the fixed repayment cash-flow structures of these loans is unlikely to be consistent with trading cash flows and business cycles of many ‘own business’ clients;
- The underlying business case structures for each product will have different dynamics and impact the performance, skill base and flexibility of the different types of institution.
- However, the major difference between the lending propositions of MFIs and banks is in the scale of loan balance / loan leverage, and these are shown in the levels of outstanding loan balance reported by survey respondents

% of borrowers	Outstanding Loan Balance of ‘Own Business’ Borrowers : TJS				
	< 1,500	1,501-3,000	3,001-5,000	5,001-10,000	> 10,000
MFI	13%	23%	25%	17%	22%
Bank	7%	14%	20%	32%	27%

- This results in a difference in the average outstanding loan balances : MFI average of TJS 9,900 and Bank average of TJS 12,100;
- However, such difference is much less than was shown in Kyrgyzstan;
- There is again an ‘overlap’ of mid-range loan amounts.

- The higher level of lending by the banks is directly reflected in the higher leverage of loan repayments in relation to income

% of borrowers	Loan Repayment as % of Household Income : 'Own Business' Borrowers				
	<10%	11-20%	21-30%	31-40%	>40%
MFI	12%	21%	19%	18%	30%
Bank	9%	16%	18%	17%	39%

- This appears to represent some differences (at the extreme) in the market position and trading practices of the MFIs and banks;
- Nevertheless, there remains a significant level of overlap in the portfolio structures of the two types of institution;
- The average loan repayment as % of net disposable income (after loan repayment) was MFI 59% and bank 70%.

3.6 Collateral Security – does it affect lending?

Collateral is provided by about 40% of clients – loan balances with collateral are, on average, about twice those of non-collateral – loans in foreign currency have much higher levels of collateralisation - income levels of 'collateralised borrowers' are not substantially higher, suggesting that availability of collateral, rather than cash flow, is a major determinant in the loan assessment process – 'collateral borrowers' have higher arrears and informal borrowings.

- The extent of assets pledged as security is:
 - MFI 37% of borrowers Bank 42% of borrowers;
 - Within these levels, the incidence of asset collateralisation is higher amongst those borrowers who have moved between MFIs and banks:
 - Former MFI clients, now with bank loans 51%
 - Former bank clients, now with MFI loans 46%
- The financial profile of the collateral segments is shown in the following table:

TJS	Household Income	Household & Utility Costs	Loan Repayment	Net Disposable Income NDI (after Loan)	Average Outstanding Loan Balance
MFI : Collateral	2,700	1,150	1,050	500	10,700
MFI : No Collateral	2,650	1,300	600	750	4,700
Bank : Collateral	3,150	1,200	1,350	600	12,500
Bank : No Collateral	2,700	1,400	700	600	5,900

- The higher loan leverage of those borrowers with collateral, and this should be considered in conjunction with various other dimensions

	Loan repayment as % household income	Loan repayment as % net income	Loans from Retailers	Utility Arrears	Loan in Foreign Currency	Food expenditure has been reduced to make loan repayments
MFI : Collateral	38%	67%	28%	11%	39%	38%
MFI : No Collateral	23%	45%	18%	6%	16%	42%
Bank : Collateral	43%	70%	27%	9%	38%	39%
Bank : No Collateral	26%	53%	19%	5%	28%	41%

- These tables suggest that the 'collateral' segment demonstrate a higher vulnerability profile

- The fundamental issue is whether the provision of the collateral enabled the higher loan leverage (essentially pawn-broking of the asset collateral), or if the collateral was taken to support a perceived credit vulnerability
- Although there appears to be a direct linkage between the availability of collateral and higher outstanding loans, the following table shows that the distribution and levels of household income are broadly similar for collateral and non-collateral borrowers

Household Income TJS	< 1,200	1,201-1,800	1,801-2,600	2,601-3,400	>3,400	Average Income
MFI : Collateral	21%	20%	24%	12%	22%	2,700
MFI : No Collateral	19%	18%	29%	14%	20%	2,650
Bank : Collateral	12%	20%	26%	13%	29%	3,150
Bank : No Collateral	14%	16%	30%	16%	23%	2,700

- This distribution of incomes reflects the higher loan leverage against net disposable income shown in the earlier table
- This suggests further that credit loan decisions may be [strongly] influenced by the availability of collateral, rather than against the underlying cash flow / income of the client.
- If this suggestion is correct, and if the asset collateral does not have a readily marketable value, then this may increase significantly the risk profile of the portfolio and its sensitivity to external changes in the cost-of-living / net income.
- The higher levels of leverage amongst collateralised loans has direct implications for the potential growth / business development of this segment

Total Expenditures as % Income	<25%	26-50%	51-75%	76-100%	>100%	Household expenditure as % of Income	Loan Repayment as % of Household Income
MFI : Collateral	2%	10%	28%	30%	29%	38%	38%
MFI : No Collateral	2%	12%	29%	35%	23%	44%	23%
Bank : Collateral	2%	12%	26%	36%	24%	35%	43%
Bank : No Collateral	1%	10%	32%	32%	25%	47%	26%

- This table shows that the more highly-leveraged 'collateralised' borrowers have lower expenditures on food and household essentials.
- The earlier table shows the such 'collateralised' borrowers also have a higher incidence of loans / credit from retailers
- The incidence of collateral is widely spread across most borrower segments and may be evidenced below
 - This table shows some broadly similar segments:

% of clients in segment with collateral	Household Income		Location		Loan Type	
	MFI	Bank	City - MFI	37%	MFI Business	41%
<1,200	39%	38%	City - Bank	44%	MFI Individual	38%
1,201-1,800	40%	47%	Urban - MFI	37%	MFI Agricultural	28%
1,801-2,600	33%	39%	Urban - Bank	35%	Bank Business	46%
2,601-3,400	34%	38%	Rural - MFI	37%	Bank Individual	40%
>3,400	39%	48%	Rural - Bank	47%	Bank Agricultural	36%

- This table shows some greater differences between various borrower segments:

% of clients in segment with collateral					
Repayment Difficulty		Loan Purpose		Region	
Arrears	50%	Asset acquisition : Business	44%	Dushanbe	38%
Lender Refusal	57%	Asset acquisition : Domestic	46%	Khatlon	16%
Repayment Difficulty	39%	Other Domestic	33%	Sogd	20%
Expenditure >75% Income	37%	Property	38%	RRP	24%
Remainder	37%	Other Business needs	41%	GBAO	42%

- The type of underlying asset being pledged as collateral was not identified in the survey. However, the following dimensions may be noted:
 - The incidence of collateral is spread broadly across the income segments and it may be unlikely, therefore, that these are primarily highly-marketable, 'investment-type' assets;
 - Less than 50% of 'asset acquisition' loan usage was supported by asset collateralisation;
 - Only 8% of those with collateral had needed to sell an asset to repay a loan;
 - 'Collateral' borrowers indicate a higher level of financial transparency at the time of the loan approval, than those with no collateral.
- This diversity of factors suggests that the collateralisation of assets may be primarily a motivational factor to support loan repayment, rather than a source of potential realisable value for any shortfall in loan repayment:
 - Unless these are marketable investments, or property, then the intrinsic realisable value of each item of collateral may be limited;
 - Conversely, the asset may have considerable 'lifestyle' importance to the lender, and any loss of this would represent a significant deprivation to the quality of life;
 - The existence, and occasional enforcement, of such collateral assets may also be perceived by lending institutions as a wider market motivation to maintain repayment – particularly against the financial profile of constrained net disposable income and the extensive usage of informal loan sources;
 - It may be noted that experience of the banking sector in BiH showed the extreme difficulty of realising domestic assets held as security. It was found that people were reluctant to buy the collateralised assets of other community members / neighbours.
- The interaction of factors shown within this review suggests that the 'collateralised borrower' segment presents a relatively higher-risk profile within the lending portfolio.

3.7 What is the scope of lending in foreign currency?

About 40-45% of loan balances are in foreign currency – average loan balances in foreign currency are substantially higher than those in local currency – foreign currency loans are taken by all income segments – higher incidence of collateralised assets to support foreign currency loans – greatest usage of foreign currency loans in Dushanbe and GBAO regions.

- The extent of lending in foreign currency (non-local TJS) is MFI : 25% of borrowers and Bank : 32% of borrowers¹⁴ (based on number of borrowers) and MFI : 44% of loans and Bank : 42% of loans (based on value of loans);
- The financial profile of the different currency denominations of lending is shown in the following table:

TJS	Household Income	Household & Utility Costs	Loan Repayment	Net Disposable Income NDI (after Loan)	Average Outstanding Loan Balance
MFI – TJS currency	2,450	1,200	650	600	5,100
MFI – Foreign Currency	3,450	1,400	1,200	850	12,400
Bank – TJS currency	2,800	1,300	800	700	7,400
Bank – Foreign Currency	3,050	1,400	1,250	400	11,400

- The comparative levels of loan leverage is shown in the following table :

	Loan repayment as % household income	Loan repayment as % net income	Loans from Family and Friends	Loans from Retailers	% of loans with assets pledged as collateral	Food expenditure has been reduced to make loan repayments
MFI – TJS currency	26%	52%	13%	23%	30%	42%
MFI – Foreign Currency	34%	58%	18%	17%	58%	37%
Bank – TJS currency	29%	54%	14%	23%	39%	37%
Bank – Foreign Currency	41%	76%	14%	22%	50%	46%

- This table suggests that there is some differentiation by lending institutions in the terms applicable to foreign currency lending, particularly in relation to collateral and the leverage ratio against household income;
- Although there appears to be a direct linkage between the provision of foreign currency loans and higher outstanding balances, the following table shows that the distribution and levels of household income are broadly similar for collateral and non-collateral borrowers:

Household Income TJS	< 1,200	1,201-1,800	1,801-2,600	2,601-3,400	>3,400	Average Income
MFI – TJS currency	20%	20%	27%	14%	18%	2,400
MFI – Foreign Currency	16%	14%	27%	12%	31%	3,400
Bank – TJS currency	14%	17%	27%	15%	26%	2,800
Bank – Foreign Currency	12%	19%	32%	13%	24%	3,100

- This distribution of incomes reflects the higher loan leverage against net disposable income shown in the earlier table:
- The higher leverage of foreign currency loans should also be considered in conjunction with the dynamics of collateralised lending (which is reviewed in the preceding Q & A).

¹⁴ The national levels for lending in foreign currency in 2013 are 35% for MFIs and 65% for banks (based on loan balances for all lending including businesses, not only individuals). Source: National Bank, Tajikistan. The recent annual growth rates for foreign currency lending have been substantial: 2011/10 MFI +162%, Banks +44%; 2012/11 MFI +85%, Banks +19%, 2013/12 MFI +165%, Banks 31%. These growth rates suggest that the survey responses provide a reasonable reflection of the borrowing currency structure.

- The incidence of foreign currency lending is widely spread across most borrower segments and may be evidenced below:
 - This table shows some different levels of foreign currency loans within borrower segments:

% of clients in segment with foreign currency loan	Household Income		Location		Loan Type	
	MFI	Bank	City - MFI	30%	MFI Business	27%
< 1,200	21%	28%	City - Bank	35%	MFI Individual	24%
1,201-1,800	18%	34%	Urban - MFI	24%	MFI Agricultural	16%
1,801-2,600	25%	36%	Urban - Bank	37%	Bank Business	36%
2,601-3,400	21%	29%	Rural - MFI	15%	Bank Individual	33%
>3,400	36%	30%	Rural - Bank	23%	Bank Agricultural	19%

- MFI and Bank : banks show a consistently higher exposure to foreign currency debt, although earlier reviews have shown that there is no substantive difference in the demographic profiles of MFI and bank borrowers;
 - Income: there appears to be no clear pattern in the usage of foreign currency loan;
 - Location: city and rural locations show a clear contrast;
 - Loan type: it is somewhat surprising that there is little difference between business and individual usage.
- The source of income also shows some differences for the currency of the loan:

Trading Activity	Source of Income			Source of Income	
	% with Fgn Ccy Loan	% with collateral assets		% with Fgn Ccy Loan	% with collateral assets
Agriculture	21%	34%	MFI : Monthly	22%	37%
Building - Property	27%	34%	MFI : Own Business	27%	35%
Engineering	27%	34%	MFI : Other	24%	39%
Retail	34%	39%	Bank : Monthly	32%	38%
Services	28%	33%	Bank : Own Business	37%	48%
Public Sector	29%	39%	Bank : Other	25%	39%

- Trade Activity: whilst there are variations between the trade sectors, the incidence of foreign currency lending does not appear to have any direct relationship to either the nature of the trading activity nor the assumed currency of the underlying cash flow. This is, of course, most clearly shown in relation to the Public Sector.
 - Source of Income: again, there is little apparent pattern to the incidence of foreign currency lending.
- The following table shows further that foreign currency lending is not restricted to the characteristics of the underlying cash flow of the borrower.

Source of Income	Regular work	Irregular work	Own business	Remittance	Other
MFI – TJS currency	48%	41%	46%	29%	14%
MFI – Foreign Currency	45%	37%	49%	25%	9%
Bank – TJS currency	45%	47%	45%	32%	16%
Bank – Foreign Currency	50%	36%	53%	30%	11%

- Remittances: this table shows that there is no apparent direct correlation between remittances and the currency of the loan – and indeed, other research has shown that most remittances are sourced in Russian Roubles, whilst currency lending is in US Dollars. This would have implied a double exchange rate risk ; Rouble : TJS and TJS : US\$
- The following additional table shows further differences between various borrower segments:

% of clients in segment with foreign currency loan					
Repayment Difficulty		Loan Purpose		Region	
Arrears	41%	Asset acquisition : Business	27%	Dushanbe	38%
Lender Refusal	19%	Asset acquisition : Domestic	29%	Khatlon	16%
Repayment Difficulty	28%	Other Domestic	25%	Sogd	20%
Expenditure >75% Income	28%	Property	23%	RRP	24%
Remainder	26%	Other Business needs	30%	GBAO	42%

- This review suggests that there is no dominant underlying rationale for a loan to be taken in a foreign currency;
- The principal characteristics of foreign currency lending have been:
 - Higher loan amount;
 - Higher incidence of collateralised assets;
 - Higher loan repayment leverage to the borrower and, thereby, the exchange rate presents an additional sensitivity;
 - Greater usage in Dushanbe and GBAO.

4. RISK PROFILE AND PERFORMANCE

4.1 What proportion of borrowers are over-indebted?

About 30-35% of borrowers recognise that they have debt repayment problems – a significant proportion of other borrowers (a further 40+%) have committed expenditure of more than 75% of income and thereby with a low capacity to meet other expenditure needs and exceptional payments – additional financial support is obtained by a significant minority (about 40%) by loans from family, friends and/or retailer credit – about 40% of borrowers reduce food expenditures to enable loan repayments - risk categorisation indicates that only about 10% of borrowers are in a strong financial position after loan costs – financial pressures in Tajikistan appear to be slightly higher than those in Kyrgyzstan.

- Loan arrears are low (about 3%) and 95% of borrowers respond that they “feel in control of their financial situation”. It is necessary, therefore, to consider alternative indicators of ‘over-indebtedness’ which may include:
 - Actions by the borrower to enable loan repayments which would be unlikely to be part of the original credit proposition;

- Acknowledgement / recognition by the borrower that debt repayment problems exist;
- Financial constraints which indicate that the borrower has minimal capacity to meet living costs beyond household essentials, utilities and loan repayment.

‘Actions by the borrower to enable loan repayments which would be unlikely to be part of the original credit proposition’ may be considered in relation to certain major borrower segments

Household Income	Loan from family or friends	Friends or family provided money to repay loan	Debt Refinance	Loans from Retailers	Reduced food expenditure to make loan repayments	Additional work to make loan repayments
< 1,200	12%	14%	7%	40%	38%	19%
1,201-1,800	12%	16%	6%	29%	48%	21%
1,801-2,600	15%	15%	7%	15%	50%	23%
2,601-3,400	20%	14%	6%	18%	39%	23%
>3,400	14%	10%	6%	14%	28%	20%

- The involvement of family to make payments suggests the pressure on the borrower. However, it may be suggested that the scale of such support may be limited as those other family members need also to meet their own expenditure;
- Actions such as reduced food expenditure or additional work are relatively easy actions for ‘self-help’ by the borrower and reflect the financial constraints being experienced;
- The high scale of purchasing credit being provided by retailers highlights the essential inter-dependencies within local economies and society – which in the event of lending constraints would cause an immediate ‘ripple effect’ across all borrowers;
- The significant differences between different regions should also be noted:

Region	Loan from family or friends	Friends or family provided money to repay loan	Debt Refinance	Loans from Retailers	Reduced food expenditure to make loan repayments	Additional work to make loan repayments
Dushanbe	19%	24%	8%	18%	33%	27%
Khatlon	8%	7%	2%	48%	33%	6%
Sogd	11%	8%	6%	3%	16%	21%
RRP	18%	16%	5%	10%	82%	27%
GBAO	16%	13%	13%	34%	39%	25%

- This table shows some starkly different situations across the regional segments;
- Such segmentation (regional + income + source of income) highlights the need for the lending institutions to maintain a keen awareness of the varying dynamics affecting the major segments within their client base.

‘Acknowledgement / recognition by the borrower that debt repayment problems exist’

Household Income	I borrowed too much	My loan repayments are more than I can afford	Debt repayments cause problems within my family	It is difficult to resolve debt problems with my lender	I would like help to resolve debt problems with my lending institution
< 1,200	22%	25%	26%	34%	26%
1,201-1,800	21%	30%	23%	29%	29%
1,801-2,600	25%	33%	21%	21%	30%
2,601-3,400	24%	32%	21%	17%	31%
>3,400	32%	25%	21%	21%	28%

- These responses suggest an underlying acknowledgement of financial / budget constraints by about 25% of borrowers and that the debt repayment commitments are having an adverse impact upon lifestyle;
- The levels of concern are shown consistently across the income segments, and not limited to the lower incomes. This suggests that these respondents are displaying personal characteristics of caution / risk aversion ... and other borrowers may simply not recognise the financial vulnerabilities which they face;
- The recognition of the need for external support in resolving repayment difficulties also reflects an inability to identify a constructive way forward from current financial pressures;
- The regional differences should again be noted:

Region	I borrowed too much	My loan repayments are more than I can afford	Debt repayments cause problems within my family	It is difficult to resolve debt problems with my lender	I would like help to resolve debt problems with my lending institution
Dushanbe	26%	27%	31%	23%	20%
Khatlon	18%	17%	20%	40%	20%
Sogd	22%	28%	21%	14%	22%
RRP	15%	35%	6%	4%	38%
GBAO	50%	40%	37%	44%	47%

- This regional comparison shows some stark differences, with the situation in GBAO appearing to be particularly acute;
- These responses, together with the indications of the ease of obtaining a loan (over 80% of respondents in Sogd, Khatlon and GBAO), suggest that there are different lending practices being undertaken across the country.

‘Financial constraints which indicate that the borrower has minimal capacity to meet living costs beyond household essentials, utilities and loan repayment’

Household Income	Household and Utility Expenditure	Net monthly disposable income (pre loan)	Loan Repayment	Net monthly disposable Income (post loan)	Net monthly disposable income per person
< 1,200	600	350	500	(150)	(30)
1,201-1,800	900	700	600	100	15
1,801-2,600	1,250	950	690	260	50
2,601-3,400	1,500	1,500	750	750	130
>3,400	2,000	3,550	1,500	2,050	325

- The available net disposable income is negative / minimal at the lower income levels;
- The average loan term for the lower income segments is about 18 months;
- The net disposable income for the two lowest income segments is highly sensitive to any changes in the real cost of household essentials and the repayment period of the loan;

- The dependency on a continuing availability of loan finance is recognised by 50-55% of respondents in the lower income segments. This extremely constrained situation must also be considered in conjunction with the levels of informal finance which is being obtained : 30-40% taking credit from retailers, and 40-50% reducing food expenditures to make loan repayments.
- The recognition of debt repayment difficulties is shown in the following segments.

	Income TJS	Net Disposable Income (after Loan) TJS	Outstanding Loan TJS	Distribution of Loans : Value	Distribution of Loans : Clients
Arrears	2,550	350	7,700	3%	3%
Lender Refusal	3,000	825	7,300	4%	4%
Repayment Difficulty	2,550	525	7,600	25%	25%
Expenditure >75% Income	2,150	(100)	8,700	46%	40%
Remainder	3,700	1,775	5,800	21%	28%

- The first three segments recognise that they have debt repayment problems and should, therefore, be considered to be 'over-indebted';
- Those other borrowers whose committed expenditures (household, utilities and loan) are greater than 75% have not directly acknowledged repayment pressures. Against such high levels of committed income, and consequent low (and even negative) levels of net disposable income (particularly amongst the lower income segments), it may be suggested that a proportion of these borrowers will also be 'over-indebted' but have not acknowledged this - and would be unable to respond to exceptional payment needs or adverse events in their lives.
- Attachment 2 outlines a process of risk categorisation which identifies the integration of the quantitative dimensions of expenditure as a % of income with the qualitative attitudes of individual borrowers to a range of factors of the impact of debt. This suggests that, after loan repayments, only 9% of all borrowers demonstrate a basis for confidence of their financial situation. (see also Q & A 4.4 for a comparison of risk categorisation additionally with Kyrgyzstan and Bosnia and Herzegovina).
- The risk categorisation shows the dramatic impact of the level of loan repayments / leverage upon the risk profile of borrowers:

Tajikistan Distribution of Borrowers (see Attachment 2)		Affordable	Concerned	Vulnerable	Exposed
MFI	Pre loan payment	29%	15%	38%	19%
	Post loan payment	9%	4%	27%	59%
Bank	Pre loan payment	34%	14%	37%	16%
	Post loan payment	9%	3%	28%	60%

- The impact of the loan repayments is to increase significantly the level of committed expenditures as a percentage of income, thereby leaving less budgetary surplus to meet other payment needs and other irregular (and unexpected) costs;
- The higher levels of loan leverage by the banks causes the greater adverse movement through the categories than occurs with the MFIs – however, both institutions demonstrate a highly vulnerable loan portfolio;
- This assessment shows a slightly higher risk profile in Tajikistan (above table) than that in Kyrgyzstan (table below), and it should also be noted that the levels of informal borrowings are higher in Tajikistan:

Kyrgyzstan Distribution of Borrowers (see Attachment 2.)		Affordable	Concerned	Vulnerable	Exposed
MFI	Pre loan payment	33 %	21 %	35 %	11 %
	Post loan payment	10 %	5 %	34 %	51 %
Bank	Pre loan payment	33 %	24 %	32 %	11 %
	Post loan payment	9 %	5 %	27 %	59 %

- However, the risk categorisation profiles of the two countries (and also the MFIs and banks respectively) are very similar. This provides further support for the strength of the underlying ‘message’ of the opinions of about 7,000 borrowers.
- Because of the particularly high leverage ratios on the lower income borrowers, the risk categorisation (based on income segments) highlights the greater delicacy of their financial situation:

Distribution of Borrowers (see Attachment 2.)	Affordable	Concerned	Vulnerable	Exposed
Pre Loan Repayment				
< 1,200	18%	7%	42%	33%
1,201-1,800	26%	11%	45%	17%
1,801-2,600	25%	12%	39%	24%
2,601-3,400	34%	18%	41%	7%
>3,400	50%	21%	25%	4%
Post Loan Repayment				
< 1,200	1%	1%	13%	86%
1,201-1,800	3%	1%	19%	77%
1,801-2,600	5%	2%	27%	65%
2,601-3,400	11%	6%	40%	43%
>3,400	21%	8%	40%	31%

- The impact of high loan repayment leverage is demonstrated by the transition levels of the risk categorisation of loan portfolios before, and after, the cost of loan repayment;
- This is most starkly shown in the lowest income segments (<TJS 1,800 representing 35% of borrowers);
- This highlights the significant social implications which arise from the indebtedness of this sector and the potential impact of, even modest, changes in the strategy and practice of lenders to these clients.

4.2 Which factors contribute to over-indebtedness amongst borrowers?

Leverage of loan repayments for certain borrower segments is high – essential household expenditures represent a high proportion of income in ‘real terms’ for low income households, which is compounded by the amount of loan repayments being high in ‘real terms’ – borrowers have different risk appetites and confidence to manage their financial commitments – only 10% have both strong financial capacity and confidence in their financial situation – debt repayment pressures appear to be slightly higher in Tajikistan than in Kyrgyzstan.

- The levels of spending on domestic essentials (excluding utilities) is slightly below 50% of income, and is similar for borrowers of both MFIs (42%) and banks (41%):

Distribution of Borrowers	Household expenditure as % of Income : MFI			Household expenditure as % of Income : Bank		
	< 25%	26-50%	> 50%	< 25%	26-50%	> 50%
< 1,200	5%	42%	53%	14%	41%	45%
1,201-1,800	9%	40%	51%	6%	47%	47%
1,801-2,600	11%	48%	41%	10%	46%	54%
2,601-3,400	10%	55%	35%	13%	55%	32%
>3,400	29%	55%	16%	32%	51%	17%

- This table demonstrates the different impact of basic household essential costs (including food) upon the different income segments and again the greater expenditure commitment by the lower income segments – even though the nominal amounts being spent are less;
 - This emphasises further their vulnerability to any adverse changes in the real cost-of-living;
 - This further limits the potential for further budget economies by the lowest income group;
 - This table suggests that there may be some opportunity for budgetary economies to be achieved by the mid-range income segments.
- This commitment of basic regular expenditures is further reflected in the range of loan payments in relation to income.

Distribution of Borrowers	Loan repayments as % of Income : MFI			Loan repayments as % of Income : Bank		
	< 20%	21-30%	> 30%	< 20%	21-30%	> 30%
< 1,200	20%	16%	64%	14%	18%	68%
1,201-1,800	29%	23%	47%	23%	16%	61%
1,801-2,600	44%	22%	35%	29%	28%	43%
2,601-3,400	63%	15%	22%	50%	20%	29%
>3,400	59%	17%	24%	54%	16%	30%

- Credit assessment of loan application is usually undertaken by lending institutions against the gross household income. The following factors should be considered :
 - The extent to which the lending institution provides guidelines for household expenditure levels and how these should be dis-aggregated to reflect the different expenditure characteristics of client segments which have been demonstrated in earlier Q & As;
 - The frequency with which such expenditure guidelines are reviewed to reflect local and inflationary changes;
 - The extent to which the credit assessment incorporates some capacity for adverse changes in expenditure levels during the period of the loan.
- This table highlights the higher financial exposure of the loan support being provided to lower income segments;
- Together with the underlying greater proportion of income required for basic living needs, these two tables highlight the challenges and pressures of financial inclusion of marginal income / credit clients;

- The relative scale of loan repayments is shown strongly in relation to net disposable income and the residual levels of net disposable income:

	MFI			Bank		
	Net Income (pre loan) TJS	Loan repayment as % of net income	Net income (post loan) TJS	Net Income (pre loan) TJS	Loan repayment as % of net income	Net income (post loan) TJS
< 1,200	325	145%	(150)	375	150%	(200)
1,201-1,800	675	88%	75	675	89%	75
1,801-2,600	950	67%	325	950	82%	175
2,601-3,400	1,500	46%	800	1,525	55%	675
>3,400	3,700	39%	2,250	3,525	49%	1,800

- By contrast with the previous comparison of repayments with household income (the normal credit assessment methodology), this table highlights the disproportionate impact of basic household expenditures upon the lowest income segment – and thereby, the dramatically different impact of loan repayments upon those clients (which is otherwise somewhat distorted if considered only against household income);
- The survey responses on the quantitative financial data of borrowers correspond largely with other national and independent surveys. The extension of financial inclusion by lending to the lower income segments necessarily involves the more marginal credit quality propositions – however, it would be of great interest to determine the basis of income / expenditure levels provided by borrowers to lending institutions and also how such data is assessed and validated.
- However, ‘Problem Lending’ cannot be linked exclusively to quantitative financial characteristics. Borrowers have a range of individual and different risk appetites, together with varying concerns about their capacity to manage debt;
- A process of risk categorisation is outlined in Attachment 2 which integrates the quantitative dimensions of financial capacity (expenditures (pre and post loan payments) as a percentage of income, with the qualitative dimensions of risk (based upon the responses to a range of questions reflecting the level of pressure being experienced by the borrower);
- The risk categorisation and the expenditure tables (above) highlight the interaction of factors in any assessment of ‘over-indebtedness’;
- As shown in Q & A 4.1 (above), the risk categorisation framework shows the dramatic impact of the level of loan repayments upon the risk profile of borrowers:

Distribution of Borrowers (see Attachment 2.)		Affordable	Concerned	Vulnerable	Exposed
MFI	Pre loan payment	29%	15%	38%	19%
	Post loan payment	9%	4%	27%	59%
Bank	Pre loan payment	34%	14%	37%	16%
	Post loan payment	9%	3%	28%	60%

- The impact of the loan repayments is to increase significantly the level of committed expenditures as a percentage of income, thereby leaving less budgetary surplus to meet other payment needs and other periodic (and unexpected) costs;

- This distribution may be compared with that identified by borrowers in Bosnia and Herzegovina 15:

Distribution of Borrowers (see Attachment 2.)		Affordable	Concerned	Vulnerable	Exposed
MFI Pre loan	Tajikistan	29 %	15 %	38 %	19 %
	Kyrgyzstan	33 %	21 %	35 %	11 %
	B i H	36 %	15 %	26 %	23 %
Bank Pre loan	Tajikistan	34 %	14 %	37 %	16 %
	Kyrgyzstan	33 %	24 %	32 %	11 %
	B i H	39 %	14 %	26 %	21 %

- The comparison of the risk structures suggests a slightly adverse position of the MFI portfolios compared with the other two countries – however, these profiles may be considered to be broadly similar in Tajikistan and Kyrgyzstan and somewhat stronger in BiH (which has a larger economy);
- The comparison of the bank portfolios again shows BiH with the strongest risk profile, whilst there is minimal difference between Tajikistan and Kyrgyzstan.
- However, the levels of loan repayments as a percentage of gross and net income are broadly similar in Tajikistan and Kyrgyzstan, and higher than was reported in Bosnia and Herzegovina:

Distribution of Borrowers	Loan repayment as % of Household Income			Loan Repayment as % of Net Income		
	Tajikistan	Kyrgyzstan	BiH	Tajikistan	Kyrgyzstan	BiH
MFI	29 %	26 %	13 %	54 %	60 %	29 %
Bank	33 %	34 %	16 %	61 %	60 %	29 %

- This shows the similarity between Tajikistan and Kyrgyzstan, but the substantively lower leverage levels in BiH;
- This suggests that Tajikistan and Kyrgyzstan need to address similar strategic and structural issues.
- The effect of these higher leverage ratios within Tajikistan and Kyrgyzstan lending has a direct and substantive impact upon the structure and distribution of the comparative risk profiles.

Distribution of Borrowers (see Attachment 2.)		Affordable	Concerned	Vulnerable	Exposed
MFI Post loan	Tajikistan	9 %	4 %	27 %	59 %
	Kyrgyzstan	10 %	5 %	34 %	51 %
	B i H	20 %	16 %	24 %	41 %
Bank Post loan	Tajikistan	9 %	3 %	28 %	60 %
	Kyrgyzstan	9 %	5 %	27 %	59 %
	B i H	24 %	11 %	20 %	44 %

- The level of repayments in both Tajikistan and Kyrgyzstan has caused a greater increase in the risk profile of the loan portfolios of both MFIs and banks;
- The average repayment periods in Bosnia are longer and there has been a greater level of refinance / restructure of loan indebtedness;

¹⁵ Risk Categorisation: Comparison of Tajikistan, Kyrgyzstan and Bosnia and Herzegovina. The calculation of the quantitative assessment (expenditures as a percentage of income) were fully consistent in the risk analyses of the three countries. There were some differences in the structure of the qualitative assessment. However, the core of this assessment was similar and it is not considered to have a material impact upon the conclusions being drawn in this review.

- Whilst it is inappropriate to make disproportionate comparisons between quite different countries (with different economies, purchasing powers and different histories of the lending industries), it may be interesting to compare the impact of household essential and utility costs, and loan costs, in relation to available income.

Income Range TJS ¹⁶	Household & Utility Costs as % Income			Loan Repayment as % Income			Distribution of Clients		
	Tajik	Kyrgyz	BiH	Tajik	Kyrgyz	BiH	Tajik	Kyrgyz	BiH
< 1,200	64%	56%	67%	51%	39%	23%	17%	28%	26%
1,201-1,800	57%	51%	59%	38%	32%	17%	18%	25%	24%
1,801-2,600	57%	45%	46%	31%	26%	14%	28%	27%	24%
2,601-3,400	49%	44%	41%	25%	26%	12%	14%	9%	14%
>3,400	36%	33%	34%	28%	28%	11%	23%	11%	12%

- Whilst it is inappropriate to draw strong conclusions from three different countries, it is interesting, nonetheless, to note:
 - The similarity in household expenditures, as a percentage of available income;
 - The significantly higher financial pressure upon the lowest income segment in Tajikistan (albeit the proportion of the total client population is smaller);
 - The broad similarity between Tajikistan and Kyrgyzstan, and the substantive structural differences with BiH.

4.3 Why are loan arrears so low?

Strong financial support from informal lending - family/ friends and retailer credit – self-help initiatives by the borrower and family by additional work and reductions of food expenditure

- Loan arrears relate to about 3 % of clients (see also Q & A 4.5)
 - The highest levels of loan arrears occur amongst clients in the following borrower sub-segments (note : some of these segments have low sample size)

Segment :	Sub-Segment :	arrears % of sub-segment
○ Region	Sogd	6 %
○ Region	Dushanbe	5 %
○ Former Clients	MFI	6 %
○ Former Clients	Bank	7 %
○ Group Loan	MFI	6 % (small sample)
○ Group Loan	Bank	8 % (small sample)

- Borrowers undertake a range of actions to enable loan repayments to be made:

¹⁶ The US Dollar comparative income ranges were

Tajikistan	<US\$ 250	US\$ 250-375	US\$ 375 - 550	US\$ 550 – 700	>US\$ 700
Kyrgyzstan	<US\$ 300	US\$ 300 - 400	US\$ 400 - 600	US\$ 600 - 800	>US\$ 800
BiH	<US\$ 700	US\$ 700 – 1,000	US\$ 1,000 – 1,400	US\$ 1,400 – 1,750	>US\$ 1,750

	Loan from family or friends	Friends or family provided money to repay loan	Sale of a major asset to repay a loan	Loan from Retailer	Reduced food expenditure to make loan repayments	Additional work to make loan repayments
Arrears	27%	18%	14%	19%	39%	36%
Lender Refusal	17%	38%	10%	28%	54%	40%
Repayment Difficulty	23%	15%	7%	19%	46%	22%
Expenditure >75% Income	10%	13%	3%	26%	45%	21%
Remainder	12%	9%	4%	20%	28%	15%

- Borrowers with problem repayments clearly make some significant actions in order to maintain their debt obligations and avoid loan arrears;
- The strong support from family is evident but it may be suggested that the scale of this support will be limited because of the family's own commitments;
- The levels of support of loans by family is greater in city and urban locations (in contrast to Kyrgyzstan where family support was greatest for rural clients).
- Many borrowers may wish to borrow again and therefore need to maintain an acceptable history of credit performance:

	Loans improve the quality of life : Agree	Two or more loans in the last two years ¹⁷	I need to continue to borrow to maintain how my family and I live : Agree	Loans were easy to obtain	My household expenses have risen faster than income in the last 6 months : Agree
City - MFI	89%	47%	44%	77%	67%
City - Bank	87%	38%	36%	72%	66%
Urban - MFI	97%	36%	59%	83%	74%
Urban - Bank	99%	37%	60%	78%	77%
Rural - MFI	96%	41%	50%	80%	67%
Rural - Bank	97%	42%	45%	80%	65%

- The above table shows a substantive underlying demand for a continuation of access to borrowing.
- Borrowers with collateralised assets (see also Q & A 3.6) demonstrate higher risk characteristics (loan leverage, informal loan sources, reduced food expenditure). This may suggest that the potential loss of an asset may be a significant motivating factor in the maintenance of loan repayments.

4.4 Do borrowers who move between lenders have a different risk profile?

Only 10% of borrowers have used two or more lenders in the last two years – however, this client segment shows a higher risk profile (both MFIs and banks) than those clients who remain with a single lender

- During the last two years, the movement between lenders by current borrowers is :
 - MFI 90 % with single lender; 10 % with two or more lenders;
 - Bank 90 % with single lender; 10 % with two or more lenders;
 - This indicates a lower level of client movement between lenders than was identified in Kyrgyzstan and BiH.

¹⁷ 'Two or more loans in the last two years' has been used because the average loan period is about 18 months. A 'regular borrower' who renews a loan at maturity would, therefore, have at least two loans in a two year period – and thereby show him/herself to be a continuing borrower.

- The income, expenditure and borrowing profiles of these different borrower segments are shown in the following table:
 - This segmentation indicates that mobility between lenders (during the last two years) appears to be linked directly with a need for higher borrowings

TJS	Income	Household and Utility Costs	Loan Repayments	Net Disposable Income	Outstanding Loan
MFI : One Lender	2,600	1,250	700	650	6,200
MFI : Two or more	3,550	1,400	1,350	800	13,400
Bank : One Lender	2,800	1,300	900	600	8,200
Bank : Two or more	3,900	1,550	1,500	850	13,200

- The basic risk characteristics of these segments shows the varying recognition of higher financial pressures being experienced by the 'multiple' segment (see also Q & A 3.2)

Tajikistan	My loan repayments are more than I can afford		Debt repayments cause problems within my family		I borrowed too much		Food expenditure reduced for loan repay	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
One lender	30 %	29 %	22 %	21 %	25 %	24 %	42 %	41 %
Two or more	22 %	22 %	29 %	24 %	35 %	34 %	32 %	31 %
Kyrgyzstan								
One lender	31 %	36 %	39 %	40 %	36 %	40 %	21 %	24 %
Two or more	38 %	32 %	44 %	43 %	43 %	44 %	34 %	26 %

- These responses appear to show some apparent paradoxes
 - Despite higher loans, higher arrears with utility payments and a feeling that they have 'borrowed too much', the 'multiple lender' segment shows a greater confidence in 'affordability' than those borrowers who have remained with a single institution;
 - However, the level of loan arrears is higher amongst the 'two or more' segment (MFI 6% against 3%; and Bank 8% against 3%);
 - There is little difference between these two segments in relation to the levels of informal loans;
 - By comparison with Kyrgyzstan, Tajikistan appears to indicate that repayment problems cause less stress, but conversely cause greater actions to seek to improve the situation.
- The following table provides further evidence of the apparently paradoxical situation:

	My financial situation has improved in the last 6 months		I need / needed to continue to borrow to maintain how my family and I live		Most of my friends have difficulties meeting their domestic budget needs		I would like help to resolve debt problems with my lending institution	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
One lender	85 %	87 %	51 %	46 %	58 %	60 %	29 %	30 %
Two or more	82 %	83 %	34 %	38 %	78 %	71 %	21 %	26 %

- However, the profile based upon the risk categorisation profile suggests that there is little overall difference between the risk structure of 'single' and 'multiple' borrower segments –

although, of course, the individual risk exposures (outstanding loan amount) of the ‘multiple’ clients is higher:

Tajikistan Distribution of Borrowers (see Attachment 2.)		Affordable	Concerned	Vulnerable	Exposed
MFI	Single lender	9%	4%	28%	59%
	Multiple lender	9%	4%	25%	61%
Bank	Single lender	9%	3%	28%	60%
	Multiple lender	9%	8%	29%	54%

Risk categorisation is based upon an expenditure: income ratio including loan repayments.

This may be compared with the risk categorisation profile in Kyrgyzstan:

Kyrgyzstan Distribution of Borrowers (see Attachment 2.)		Affordable	Concerned	Vulnerable	Exposed
MFI	Single lender	10%	5%	34%	51%
	Multiple lender	8%	8%	34%	51%
Bank	Single lender	10%	4%	27%	59%
	Multiple lender	6%	6%	30%	58%

- The risk profiles are reasonably similar but with Tajikistan showing a slightly adverse risk situation.

4.5 Do borrowers with arrears show any particular characteristics?

Loan arrears is only 3% of borrowers – four client sub-segments show higher loan arrears of 5-6% - loan arrears clients have received support from family but recourse to informal lending sources is not significantly different from that of other borrower segments.

- The overall level of loan arrears is low at 3% of borrowers (see also Q & A 4.3);
- Within this level of loan arrears the sub-segments of borrowers which show the highest level of loan arrears –

% relates to proportion of clients within the sub-segment (italics)	Arrears with Utility Payments	Refinance, or consolidation of debts during the last 12 months	Refusal by lender for loan in last 12 months	My loan repayments are / were more than I can afford	Food expenditure has been reduced to make loan repayments	I (or my spouse) have taken additional work to make loan repayments
Region <i>Sogd</i> : Arrears 6%	6 %	6 %	3 %	28 %	16 %	21 %
Region <i>Dushanbe</i> : 5%	19 %	8 %	12 %	27 %	33 %	27 %
Former Client MFI : Arrears 6%	9 %	9 %	15 %	25 %	35 %	17 %
Former Client Bank : Arrears 6%	12 %	14 %	14 %	35 %	42 %	34 %

Those borrowers with ‘recognised’ loan problems show that they have already undertaken independent actions to generate funds to enable them (by implication) to either support their lifestyles or make loan repayments (or both).

% relates to proportion of clients within each segment	Loan from Friends or Family	Loan from Retailer	Friends or family provided money to repay my loan	I had to sell a major asset to repay a loan	Food expenditure has been reduced to make loan repayments	I (or my spouse) have taken additional work to make loan repayments
Arrears	27%	19%	18%	14%	39%	36%
Lender Refusal	17%	28%	38%	10%	54%	40%
Repayment Difficulty	23%	19%	15%	7%	46%	22%
Expenditure >75% Income	10%	26%	13%	3%	45%	21%
Remainder	12%	20%	9%	4%	28%	15%

- The levels of arrears in Tajikistan (3%) and Kyrgyzstan (2%) was much lower than in BiH (9%) but the actions undertaken by Tajikistan borrowers differed from those in the other countries:

% relates to proportion of clients within each segment	Loan from Friends or Family	Loan from Retailer	Friends or family provided money to repay my loan	Refinance, or consolidation of debts during the last 12 months	Food expenditure has been reduced to make loan repayments	I (or my spouse) have taken additional work to make loan repayments
Tajikistan	14%	22%	14%	6%	41%	21%
Kyrgyzstan	23%	10%	29%	27%	47%	37%
BiH	27%	17%	25% ¹⁸	25%	49%	39%

- Against the similarities of Kyrgyzstan and BiH, it is perhaps appropriate to consider what factors may affect the situation in Tajikistan:
 - There may be less available funds within the family to provide financial support. It may be noted that there is a much higher level of remittance income to Tajikistan borrowers and also there are, on average, more income earners within the Tajikistan household;
 - The level of retailer credit to customers is much higher. Does this reflect the need for retailers to provide such funding as a means to maintain sales turnover;
 - Refinance is at a much lower level in Tajikistan, but the perception of the ease of access to loans is much higher. Does this reflect a situation in which problem lending has not yet been addressed as deeply as in the other countries;
 - Additional work is also lower in Tajikistan – but other responses show that, on average, there is a higher multiple of income sources for each borrower and also more income earners in each household. This may simply reflect a situation in which there is no further opportunity to seek additional income sources.

4.6 Do borrowers who undertake loan refinance have particular characteristics?

Refinance of debt relates to only about 6% of borrowers – refinance occurs a range of client segments and is not focused upon those borrowers who recognise that they have debt problems – an extension of repayment periods would have significant and favourable impact upon the budget position of many households which have repayment pressures.

- The level of refinance amongst all borrowers is extremely low at 6% (MFIs 6% and slightly higher in banks 8%). This level is broadly consistent with that shown in Kyrgyzstan (4%)

¹⁸ BiH : Friends and Family provided funds to make loan repayment” : relates to payments under a guarantee

- The sub-segments of borrowers which report the highest level of loan refinance are shown in the following table. (The proportion of sub-segment refinance is shown after the segment description).

(below) relates to proportion of refinance clients within the sub-segment (italics)	Loan Arrears	Loan from family and friends	Loan from Retailer	Refusal by lender for loan in last 12 months	My loan payments are more than I can afford	Food spending has been reduced to make loan repayment	I (or my spouse) have taken additional work to make loan repayment
Problem Lending : <i>Arrears: 25%</i>	na ¹⁹	27%	19%	19%	57%	39%	36%
Trade Sector : <i>Manufacture 11%</i>	5%	23%	18%	6%	33%	52%	35%
Income : Bank :TJS 1801-2600 : 11%	4%	13%	15%	7%	31%	50%	23%
Location : Rural Bank : 11%	3%	8%	24%	4%	24%	43%	25%
Gender : Rural Male : 10%	3%	8%	24%	5%	23%	44%	25%
Income : Bank : Own Business 10%	3%	14%	22%	7%	23%	39%	21%

- Whilst the levels of refinance are low, the above table suggests:
 - There is a significant diversity of characteristics of the financial situations;
 - Despite the refinance, the levels of financial and budgetary pressures continue to be significant.
- Despite the low level of refinance arrangements amongst borrowers, certain borrower segments show characteristics which may suggest an opportunity to extend the use of refinance and improve debt affordability by the client. This may be initially related to those borrowers who recognise their financial difficulties and that “loan repayments are more than can be afforded”.
 - Their net income (prior to loan repayments) is TJS 1,250 (US\$ 260 equiv.), representing 60% of household income. These account for 25% of borrowers;
 - This may be compared with an average of TJS 2,450 and 65% of income by borrowers with no immediate payment pressures;
 - The average loan repayments for such ‘repayment difficulty clients’ as a percentage of income are 29%, compared with 18% for those clients who are confident about their financial situation;
 - Only 6% of such clients have refinanced their loans in the preceding 12 months;
 - The average outstanding loan of ‘problem’ segment is TJS 8,100 with an average residual loan repayment period of 10 months;
 - If, for example, such ‘problem’ loans were restructured on a basis of repayments being 25% of household income – based on an acknowledgment that the borrower has recognised the problem situation and 95% of such situations have been with a single lender over the last two years.

¹⁹ Problem Lending : Arrears : Arrears for Utility payments were high at 19% for this segment. For all the other segments, utility arrears were between 2 – 6%

- Monthly loan repayments would reduce, on average, from TJS 740 to TJS 640;
 - The remaining period for repayment of outstanding indebtedness would extend by only 2 months to 12 months.
- The average net income (after loan costs) would increase by 20% from TJS 515 to TJS 615.

4.7 What is the extent of informal lending?

Informal lending sources are used more frequently in Tajikistan than in Kyrgyzstan – credit from retailers is taken by over 20% of borrowers – retailer credit is more prevalent amongst lower income segments, but financial support from family occurs across all income segments – such informal credit sources appear to be an important financial support in the short-term, but represent a significant challenge / risk to the on-going credit quality of the loan portfolios of the lending institutions.

- 38% of borrowers have an informal loan with at least family or retailer, and of these, 20% have two loans
- The levels of additional borrowings from the informal sector are significant.

% of Borrowers with Informal Funding Sources	Loan from :				Friends or family provided money to repay my loan	Payment Arrears for Utilities
	Friends or family	Retail shop	Moneylender or Pawnshop	Employer		
MFI	15%	22%	2%	2%	14%	8%
Bank	14%	23%	1%	2%	13%	7%
Comparison with Kyrgyzstan						
MFI	10%	7%	6%	2%	11%	5%
Bank	13%	7%	6%	3%	11%	4%

- This indicates a greater budgetary pressure in Tajikistan than in Kyrgyzstan;
- The budget / cash flow demands of such informal funding is not reflected in the other quantitative financial information of incomes and expenditures in other questions in the survey;
- If the use of informal funding sources is extended to anytime during the last two years, the scale and importance of such funding is strongly demonstrated:

% of Borrowers with Informal Funding Sources within the last two years	Within the last two years, Loan from :			
	Friends or family	Retail shop	Moneylender or Pawnshop	Employer
MFI	45%	32%	5%	6%
Bank	48%	33%	5%	7%
Comparison with Kyrgyzstan				
MFI	29%	22%	12%	8%
Bank	34%	22%	12%	9%

- Comparison between the current and 'two-year' tables indicates the greater level of loan reduction to families. This suggests that such loan repayments may be 'preferred' – however, it must be noted that loan repayments have continued in a timely manner;
- Retailers can be seen to be a significant and continuing source of funding.

- The high levels of additional funding from family and retailers indicates the complex inter-dependencies which must exist within society, and the particular implications which this may have in relation to :
 - The stability / efficiency of local economies.
 - The dependency of 'own business' upon the cash flow capacity of the community – and thereby, the impact of the volume and regularity of lending as a stimulus for local demand;
 - The credit quality of the 'own business' segment is closely and, seemingly, inextricably linked to the wider credit capacity of the individual.
- The financial profiles of the principal usages of informal lending are shown in the following table:

TJS	Household Income	Household & Utility Costs	Loan Repayment	Net Disposable Income NDI (after Loan)	Average Outstanding Loan Balance
Family : Loan	2,650	1,300	700	650	6,300
Family : Loan Payment	2,600	1,250	750	600	6,500
Retailer : Credit	2,150	1,000	650	500	7,400
None of these : MFI	2,850	1,300	850	700	7,300
None of these : Bank	3,200	1,450	1,050	700	9,300

- Those borrowers who use the major informal funding sources show a lower level of net disposable income, and also generally lower loan balances
- The comparative levels of loan leverage and loan repayment are shown in the following table:

	Loan repayment as % household income	Loan repayment as % net income	Arrears with Loan payment	Arrears with Utility payment	% of loans with assets pledged as collateral	Food expenditure has been reduced to make loan repayments
Family : Loan	27%	53%	6%	14%	42%	45%
Family : Loan Payment	30%	56%	4%	15%	44%	63%
Retailer : Credit	31%	57%	3%	11%	49%	38%
None of these : MFI	30%	55%	3%	6%	34%	37%
None of these : Bank	33%	61%	4%	5%	41%	38%

- Whilst those 'informal loan' borrowers have affordability ratios which are comparable with those of the 'non-informal loan' segment, the additional financial pressures are clearly shown;
- The slightly higher levels of collateral by the 'informal loan' segment may suggest that they are using such additional funding sources to avoid the potential loss of those assets;
- The higher level of reduced expenditures on food reflect the particular pressures which they are experiencing – and this pressure upon nutrition may be a further cause for the additional support from other family members.
- This table suggests that

Household Income TJS	< 1,200	1,201-1,800	1,801-2,600	2,601-3,400	>3,400	Average Income
Family : Loan	14%	16%	29%	19%	21%	2,650
Family : Loan Payment	17%	22%	30%	15%	17%	2,600
Retailer : Credit	31%	24%	19%	11%	15%	2,150
None of these : MFI	16%	18%	28%	14%	24%	2,850
None of these : Bank	8%	15%	31%	15%	31%	3,200

- This distribution of incomes reflects :
 - The significantly lower income profile of those people who obtain credit from retailers;
 - Not unsurprisingly, the generally lower income profiles of those people using informal funding sources.
- The implications of 'retailer credit' may be particularly significant and the incidence of such informal 'retailer credit' loans is widely spread across most borrower segments and may be evidenced below:

- This table shows some different levels of informal loans within borrower segments:

% of clients in segment with 'retailer credit' loan	Household Income		Location		Loan Type	
	MFI	Bank	City - MFI	20%	MFI Business	21%
< 1,200	36%	48%	City - Bank	19%	MFI Individual	23%
1,201-1,800	25%	35%	Urban - MFI	22%	MFI Agricultural	14%
1,801-2,600	15%	15%	Urban - Bank	27%	Bank Business	24%
2,601-3,400	19%	16%	Rural - MFI	25%	Bank Individual	24%
>3,400	16%	12%	Rural - Bank	24%	Bank Agricultural	14%

- Income : the pressures on the low income groups are clear. However, the greater incidence of 'retailer credit' amongst bank borrowers suggests that there may be different operational management practices being employed towards the lowest income segments;
- Location : the greater use of 'retailer credit' in more local, closely-knit communities (in which there is a greater social awareness) should be noted. Whilst this may positive local social support, it does increase the structural risk exposure in these locations if there is a cause for disruption / reduction in the availability of renewed loan funds;
- Loan type : little difference between bank and MFI.
- The source of income also shows some differences for the use of informal funding sources:

Trading Activity	Source of Income		Source of Income		
	Family Loan	Retailer Credit		Family Loan	Retailer Credit
Agriculture	14%	25%	MFI : Monthly	18%	23%
Building - Property	17%	15%	MFI : Own Business	10%	21%
Engineering	16%	35%	MFI : Other	18%	21%
Retail	11%	14%	Bank : Monthly	15%	22%
Services	13%	24%	Bank : Own Business	14%	22%
Public Sector	17%	24%	Bank : Other	14%	24%

- Trade Activity : the range of activities indicates that such 'retailer credit' cannot be simply attributed to trading terms. Family loans are also shown across all segments;
- Source of Income : again, relatively consistent profiles across all segments.
- The following table shows further that informal loans are not restricted to the characteristics of the underlying cash flow of the borrower.

Source of Income ²⁰ (% relates to the distribution within each segment row)	Regular work	Irregular work	Own business	Remittance	Other
Family : Loan	49%	42%	38%	31%	11%
Family : Loan Payment	49%	42%	43%	34%	15%
Retailer	52%	44%	46%	36%	16%
None of these : MFI	46%	39%	48%	25%	12%
None of these : Bank	44%	43%	48%	30%	13%

- Highly consistent across the different sources of income.
- The following additional table shows further differences between various borrower segments:

% of clients in segment with informal 'retailer credit' loans					
Repayment Difficulty		Loan Purpose		Region	
Arrears	19%	Asset acquisition : Business	16%	Dushanbe	18%
Lender Refusal	28%	Asset acquisition : Domestic	21%	Khatlon	48%
Repayment Difficulty	19%	Other Domestic	22%	Sogd	3%
Expenditure >75% Income	26%	Property	28%	RRP	10%
Remainder	20%	Other Business needs	24%	GBAO	34%

- The principal characteristics of informal borrowings have been :
 - Higher incidence amongst lowest income households;
 - More frequent usage in urban and rural community areas;
 - Higher loan repayment to family loans;
 - 'Retailer credit' appears to be a more continuing source of funds;
 - Low essential expenditure levels amongst those using 'retailer credit';
 - High incidence of 'retailer credit' in Khatlon and GBAO.

4.8 Are there differences in the credit profiles of those borrowers who have savings balances and those who do not?

About 70% of borrowers have no savings with a financial or informal savings organisation – savings with an informal savings institutions are used more extensively than with a formal financial institution – the risk profile is higher amongst those with no savings and those with savings with a financial institution – non-savers have lower levels of outstanding loan indebtedness.

²⁰ Source of income : total distribution exceeds 100% because some borrowers report more than a single income source

- The levels of 'savers' amongst borrowers was :

Tajikistan	Savings with a Financial Institution	Other savings	Non-Savers
MFI	8 %	25 %	72 %
Bank	9 %	26 %	70 %

- This level and profile of savings in Tajikistan is strongly similar to that shown in Kyrgyzstan:

Kyrgyzstan	Savings with a Financial Institution	Other savings	Non-Savers
MFI	8%	28%	72%
Bank	8%	31%	66%

- A comparison with Bosnia and Herzegovina identified that, in BiH, 27% of MFI clients and 38% of bank clients had savings with a savings institution. There is, therefore, a substantial similarity between the financial behaviour across these three markets.

- The financial profile of 'savers' is shown in the following table:

Average for each segment TJS	Income	Household and Utility Costs	Loan Repayment	Net Disposable Income	Outstanding Loan
Savings : FI : Borrowers	3,400	1,500	1,150	750	11,400
Other Savings : MFI	3,650	1,400	1,050	1,200	9,700
No Savings : MFI	2,350	1,200	650	500	5,900
Other Savings : Bank	3,650	1,450	1,150	1,050	10,300
No Savings : Bank	2,550	1,250	900	400	8,100

- This shows a positive relationship between the incidence of savings and the average amount of outstanding loan balance, particularly for the MFI clients.
 - However, as most savings are held outside the financial deposit-taking institutions, it must be assumed that the availability of savings is not a direct causal factor in the amount of agreed loan;
 - If so, this would suggest that the MFI borrowers, themselves, have some sensitivity to their financial situation of the amount of loan debt which can be undertaken.
- This highlights further the greater vulnerability of the financial budgets of those borrowers with no savings;
- This situation for MFI clients contrasts with that in Kyrgyzstan, where the difference in the average loan balance for MFI savers and non-savers was only 5%. (The profile of bank lending to savers and non-savers was similar in both countries);
- Whilst savings are undertaken by a greater proportion of higher income households, the use of savings by lower income groups is not at substantially lower levels.

Tajikistan Income TJS	Savings with a Financial Institution		Other Savings	
	MFI clients	Bank clients	MFI clients	Bank clients
< 1,200	7%	5%	20%	21%
1,201-1,800	5%	6%	14%	16%
1,801-2,600	7%	6%	18%	22%
2,601-3,400	9%	11%	27%	25%
>3,400	14%	14%	46%	40%

- The respective levels of savings at the different income segments are broadly similar for both MFI and bank clients;
 - The incidence of savings only increases substantively in households with monthly incomes in excess of TJS 3,400.
- The budgetary vulnerability indicated in the above table is reflected in the differential responses of savers and non-savers, which again highlight the pressures of those (majority) borrowers who have no savings:

	I borrowed too much	My loan repayments are more than I can afford	Debt repayments cause problems within my family	Reduced food expenditure to make loan repayments	Additional work to make loan repayments
Savings : FI : Borrowers	34%	32%	23%	30%	21%
Other Savings : MFI	26%	19%	18%	23%	21%
No Savings : MFI	26%	33%	24%	47%	21%
Other Savings : Bank	26%	18%	17%	22%	22%
No Savings : Bank	24%	31%	23%	47%	21%

- This highlights further the greater vulnerability of the financial budgets of those borrowers with no savings;
 - The similarity of responses by both MFI and bank borrowers is again strong;
 - Paradoxically, the responses of those savers with financial institutions shows similar characteristics to those of the 'non-savers'. This was also evident in Kyrgyzstan. It may suggest that the banks may use such funds as hypothecated balances as part of the collateral for the loan.
- There is little substantive difference in the usage of informal loans between savers and non-savers.

	Informal Loans		Friends or family provided money to repay my loan	I lost my job	My business was not successful
	Friends or family	Retail shop			
Savings : FI : Borrowers	17%	20%	15%	4%	17%
Other Savings : MFI	14%	21%	11%	7%	16%
No Savings : MFI	14%	22%	14%	5%	15%
Other Savings : Bank	11%	19%	12%	4%	9%
No Savings : Bank	15%	24%	14%	5%	13%

- The availability of savings and also the different net disposable incomes (shown in the above table) do not appear to result in any significant differences in the perception of lifestyle.

% of respondents who 'agree'	The quality of my life has improved in the last 12 months	My household expenses have risen faster than income in the last 6 months	I can afford to buy 'treats' for myself or my family	My children will have a better life than me.	My financial situation has improved in the last 6 months
Savings : FI : Borrowers	88%	72%	86%	98%	87%
Other Savings : MFI	86%	67%	92%	98%	85%
No Savings : MFI	84%	68%	82%	97%	84%
Other Savings : Bank	85%	67%	91%	98%	86%
No Savings : Bank	86%	68%	86%	98%	87%

These responses may be affected by a perception [inferred by the writer] that the Tajikistan borrowers appear to give 'positive' responses to direct questions for which they feel there is a 'politically-correct' response.

- However, the responses re 'treats' does provide some indication of the greater financial pressure on the 'non-savers'.
- Those 'former' clients of both the MFIs and banks show higher levels of savings than the averages for on-going clients.

	MFI		Bank	
	Current MFI Borrower	Former MFI Borrower	Current Bank Borrower	Former MFI Borrower
Savings with a financial institution	8 %	10 %	9 %	11 %
Other savings	25 %	34 %	26 %	36 %
Insurance product(s) from financial institution	5 %	3 %	6 %	8 %

- This suggests that there may be some migration of clients who are financially-stronger

5 OUTLOOK FOR BORROWING

5.1 What is the outlook for borrowing demand?

Over 90% of borrowers have positive attitudes towards borrowing and their loan experience – 45-50% recognise that they need to continue to borrow to maintain their family lifestyle - decisions upon future borrowing are taken at, or about, the maturity of the current loan – certain borrowers segments [i] repayment difficulty (32%), [ii] expenditure over 75% of income (40%), [iii] financially confident (28%) are likely to have different needs and attitudes as loans mature – product and service propositions will need to recognise, and respond, to such differentiated positions – financial stability (including loan repayments) in local economies is highly dependent upon the continuing role of informal credit sources and a stable environment of loan renewals, but a significant proportion of borrowers appear to have little, or no, margin for additional debt repayments.

- The pattern of loan purpose suggests that only a minority of loans are being used primarily for some particular (asset finance) purpose – and a significant level is being used to support domestic consumption needs.

	Asset acquisition : Business	Asset acquisition : Domestic	Other Business needs	Other Domestic	Property
MFI	18 %	19 %	25 %	40 %	8 %
Commercial Bank	19 %	15 %	30 %	39 %	8 %

- This identifies different characteristics of borrowing need

- Asset finance: for which some term finance is appropriate and that the ‘added-value’ of the asset can be related to cash-flow being used to fund repayment. As such, a fixed-term loan with repayment frequency and loan term linked to the cash-flow and asset cycle provides an appropriate funding mechanism;
 - Other business: this is likely to be primarily trade finance to support the operational needs of the business activity. A fixed-term, fixed-period loan is unlikely to have a repayment profile which is consistent with the underlying trading usage;
 - Other Domestic: this relates primarily to usage for domestic consumption purposes and, as such, is relatively short-term;
 - Property : usage for either property improvement or development is a relatively long-term framework. The loan structure should, ideally, reflect this framework.
- With 65-70% of loan usage being for shorter-term and less-well-defined purposes, the structure of the product and service proposition should be aligned accordingly to identify and segment such particular characteristics – and distinguish these from the more structured characteristics of fixed asset finance.

The survey respondents show exceptionally highly-positive attitudes in relation to direct questions of the impact of their loan and their relationship with their lender. Such ‘positivity’ is uncharacteristic of the attitudes of most borrowers in other countries and suggests [by inference to the writer²¹] that the borrowers in Tajikistan may not wish to display any direct criticism of either their lender or the loan. However, other ‘indirect’ questions (which do not imply criticism) provide clear indications of significant financial pressures upon the household budget of borrowers. This is more widely reviewed in the earlier ‘Issues for Consideration’.

- Comparison is shown with responses to the same questions from the recent surveys of borrowers in Kyrgyzstan and Bosnia and Herzegovina

Tajikistan : ‘Positive’ Attitudes	Loans improve the quality of life : Agree	Debt repayments cause problems within my family : Disagree	My loan repayments are more than I can afford : Disagree	Compared with 12 months ago your present total loans are : Same or Higher	After the next 12 months, do you expect your debt level to be : Lower
MFI	93%	77%	71%	49%	74%
Commercial Bank	93%	78%	72%	49%	71%
For comparison : Response from Kyrgyzstan					
MFI	71%	60%	68%	63%	77%
Commercial Bank	72%	59%	65%	63%	79%
For comparison : Response from Bosnia and Herzegovina					
MFI	62%	82%	83%	51%	89%
Commercial Bank	70%	83%	85%	53%	84%

- The uncertainty of most borrowers of the amount of their debt over the next 12 months indicates the low level of even medium-term financial planning, other than the reduction of current debt by the existing repayments schedules.
 - The outlook by borrowers for their future loan needs is similar for both ‘savers’ and ‘non-savers’;
 - Similarly, the perception of those borrowers with repayment problems does not create a different outlook from other segments;

²¹ Borrower attitudes : Inference drawn by the writer : such inferences are based upon the experience of borrower reactions drawn from client surveys undertaken in BiH (about 12,000 responses), Kyrgyzstan (about 4,000 responses) and extensive surveys across about 25 countries (involving 35 MFIs and about 50,000 respondents)

- 'Own business' clients reflect only a slightly greater recognition of future borrowing requirements than the employed consumer sector – this may suggest a low level of business or financial planning.
- The strong budgetary constraints on many borrowers - with committed expenditures greater than 75% of income (about 60% of all borrowers) and the high loan usage for domestic consumption needs - suggest that it may be considered that financial necessity will result in a continuation of borrowings by many clients in such situations.
- The low levels of arrears suggests that borrowers are striving to maintain their formal credit performance records despite the scale of underlying financial pressures which are shown by other Q & A reviews. (see also the review of collateral and loan security Q & A 3.6 and 3.7).
- The high level of debt leverage in relation to the impact of loan payments upon net disposable income, and a significant majority being 'non-savers', result in the large majority of borrowers having low (or minimal) levels of available funds to move out of a debt-based budget, without significant revisions to their lifestyles. Similarly, there appears to be limited scope for a majority for borrowers to increase the level of debt repayment without a corresponding increase in income. (The capacity for budget reductions has been discussed in Q&As 1.4 and 2.1).
 - Both MFIs and banks show very similar high levels of committed expenditure amongst their borrowers. This suggests a wider structural economic and social dimension to the scale and dependency upon borrowing within society.

Total expenditures as % of Income : Tajikistan	<25%	26-50%	51-75%	76-100%	>100%
MFI	2%	11%	29%	33%	25%
Bank	1%	11%	29%	34%	25%

- This may be compared with Kyrgyzstan :

Total expenditures as % of Income : Kyrgyzstan	<25%	26-50%	51-75%	76-100%	>100%
MFI	2%	14%	35%	34%	15%
Bank	2%	12%	29%	38%	20%

- This suggests a fundamental strategic challenge for the development of the lending industry for both MFI and bank institutions and from which sources additional lending opportunities may be available:
 - The current levels of loan leverage against household income, and particularly against net disposable income, are already high;
 - The levels of informal loans by borrowers is higher in Tajikistan than Kyrgyzstan;
 - Substantial budget economies have already been undertaken by many borrowers, as reflected in the levels of reduced expenditure on food, multiple income sources, and financial support from family members.
- The constraint upon the affordability / capacity for additional expenditures is particularly severe amongst the lowest income groups. The borrowers from the MFIs will, therefore, be most constrained in their capacity to increase debt levels.

Total expenditures as % of Income	<25%	26-50%	51-75%	76-100%	>100%	Distribution of Loans : Client
< 1,200	0%	1%	14%	36%	49%	17%
1,201-1,800	0%	4%	19%	48%	28%	18%
1,801-2,600	0%	7%	29%	35%	29%	28%
2,601-3,400	1%	16%	41%	30%	13%	14%
>3,400	3%	26%	42%	22%	7%	23%

- Whilst undue comparisons with other countries must be undertaken with caution, it is appropriate to identify the apparent vulnerability and sensitivity of the loan portfolio in Tajikistan:

Income Range TJS ²² CARE : See footnote for comparative income segments in US\$	% of borrowers with expenditures (household, utility and loan) greater than 75% of household income			Distribution of Borrowers		
	Tajikistan	Kyrgyzstan	BiH	Tajikistan	Kyrgyzstan	BiH
< 1,200	85%	76%	62%	17%	28%	26%
1,201-1,800	77%	57%	44%	18%	25%	24%
1,801-2,600	64%	39%	21%	28%	27%	24%
2,601-3,400	42%	38%	13%	14%	9%	14%
>3,400	29%	39%	10%	23%	11%	12%

- This table suggests that the Tajikistan loan market has a greater sensitivity / vulnerability to external adverse changes in the cost-of-living or the stability of income sources. This will also include the stability of the TJS / US\$ exchange rate in view of the significant level of loans denominated in non-local foreign currency (MFI 25% and bank 32%).
- In response to a direct question on the expected level of borrowing after the next 12 months, the large majority (over 70%) anticipate their borrowings to be less, and just over half of these anticipate their borrowings to be 'much less':
 - Such 'optimism' has been seen in other countries and it probably reflects a perception of current repayments, rather than a longer-term financial planning strategy. It does suggest, however, that the majority of loan decisions are made at, or approaching, the maturity of the current loan.
- The following table seeks to relate these different dynamics to the distribution of borrowers, based upon their perceived risk profile (see also Q & A 2.3). It provides a framework to disaggregate the potential borrowing needs and capacities of client segments with different risk characteristics. This is not, of course, a forecast of lending volumes, and relates only to the current financial position of existing clients. There is no reflection of any events which may impact upon their future actions for borrowing, nor of any changes in their economic situation.

²² The US Dollar comparative income ranges were

Tajikistan	<US\$ 250	US\$ 250-375	US\$ 375 - 550	US\$ 550 – 700	>US\$ 700
Kyrgyzstan	<US\$ 300	US\$ 300 - 400	US\$ 400 - 600	US\$ 600 - 800	>US\$ 800
BiH	<US\$ 700	US\$ 700 – 1,000	US\$ 1,000 – 1,400	US\$ 1,400 – 1,750	>US\$ 1,750

- The basic financial profile of these segments is shown the following table :

Risk Dimensions ²³	Income	Household and Utility Costs	Loan Repayment	Net Disposable Income	Outstanding Loan
Arrears	2,550	1,250	950	350	7,700
Lender Refusal	3,000	1,300	850	850	7,300
Repayment Difficulty	2,550	1,300	750	500	7,600
Expenditure >75% Income	2,150	1,250	1,000	(100)	8,700
Remainder	3,700	1,250	700	1,750	5,800

- This table illustrates some interesting, and contrasting, attitudes by borrowers
 - The recognition of 'repayment difficulty' is not related directly to the quantitative financial position of the borrower. For example, the 'repayment difficulty' segment does have some financial margin in the level of net disposable income and the average outstanding debt is not relatively high;
 - The 'high expenditure' segment shows both a higher average outstanding loan debt and a [more than] full commitment of income. However, despite these clear quantitative pressures, the borrowers do not recognise / acknowledge any concern for their financial position.
- Loan usage by this segmentation of borrowers is shown in the following table

	Distribution		Net Disposable Income (post Loan Payment) TJS	% of clients with more than one loan in last 2 years	Loan Purpose				
	Loan Value	Clients			Business		Domestic		Property
					Asset Acq'n	Other	Asset Acq'n	Other	
Arrears	3%	3%	365	58%	19%	21%	27%	34%	10%
Lender Refusal	4%	4%	830	40%	15%	38%	11%	35%	8%
Repayment Difficulty	25%	25%	515	38%	18%	25%	23%	39%	5%
Expenditure >75% Income	46%	40%	(85)	39%	20%	27%	15%	38%	8%
Remainder	21%	28%	1,784	41%	16%	28%	16%	44%	9%

'Arrears' *this segment clearly has severe repayment problems, together with relatively high levels of informal debt. The repayment period of current residual outstanding debt, based upon current contractual repayment levels, is about 8 months. However, in view of the arrears and the other informal debts of this segment, it may be anticipated that this borrowing will remaining outstanding, at reducing levels, for longer than the next 12 months. The adverse credit ratings arising from the arrears status may preclude further borrowings in the near future;*

'Lender Refusal' *the incidence of 'lender refusal' suggests that this segment is likely to be of marginal credit quality. In addition to current direct borrowing, this segment also has an above average use of informal lending sources (particularly retailers). This suggests there will be a continuing need for renewal at the maturity of current loans, which also have an average residual repayment period of 8 months;*

²³ Risk Dimensions are based upon : [1] Arrears : a rears with current loan; [2] Lender refusal: a lender has refused a loan application by the borrower in the last 12 months, although a loan was subsequently obtained from another lender; [3] Repayment difficulty : the borrower acknowledges to have difficulty in making the loan repayments; [4] Expenditure > 75% Income : the aggregate of essential household, utility and loan repayment expenditures exceed 75% of household income; [5] Remainder : all borrowers not included in segments 1 – 4. No borrower is included in more than one segment.

'Repayment Difficulty' this segment recognises the pressure / constraint upon its financial / budgetary position. This will reflect not only the borrowings from the lending institution, but also informal loans which are greater from family than from retailers. However, the level of disposable income is relatively strong and the frequency of loans is slightly below average. The 40% of loan usage for asset acquisition may offer an opportunity for some borrowers to not renew loans at maturity (which is at an average residual repayment period of 10 months) – however, the higher usage for domestic consumption and trading purposes may indicate a greater debt dependency and thereby need to renew their loans (even though the borrowers may feel concerned with their financial commitments). Within this segment, 51% agreed that debt repayments caused problems within the family and 75% recognise the need to continue to borrow to maintain how the lifestyle of their family. This suggests that up to 25% may approach the maturity of their loan with some caution about renewal and gain the immediate benefits of increase monthly disposable income;

'Total expenditures greater than 75% of income' this segment has a high commitment of current income to basic expenditures. The average amount of outstanding loan balance is higher than the other segments, and whilst financial support from family is relatively low (10%), there is a strong usage (26%) of credit from retailers. However, there is no residual net income. It may be anticipated that this segment will seek to renew its borrowings, but does not have the capacity to increase its debt level – however, only 45% recognise / acknowledge the need to continue to borrow to maintain the family lifestyle. This suggests that this segment may have a more 'laissez-faire' approach towards their financial position. This supports an anticipation of a high level of renewal at loan maturity.

'Remainder' this represents only 21% of loan value, and 28% of clients. There is, therefore, a higher volume of smaller credit decisions to be undertaken. This segment clearly has the greatest discretion for a more independent determination of future borrowing. With an average residual repayment period of only 8 months, a substantial proportion of these loans may be anticipated to mature during the next year. This segment represents the strongest group of clients for development of the loan portfolio – but possibly such borrowers have a relatively cautious approach to their debt commitments. Only 27% consider that they need to borrow to maintain family lifestyle, and a similar proportion reduced food expenditure to enable loan repayments. This suggests that this segment have a relatively high discretion in their decision for loan renewal.

- However, across the major segments about 60% of clients have had only one loan in the last 2 years, which implies that these are either first-time, or non-recurrent, borrowers, who not have established a debt-dependency in their domestic budget. For some, the loan maturity would enable the 'release' of the loan repayments into a significantly higher level of disposable income.
- This risk segmentation provides a somewhat cautionary outlook for the organic development of the loan portfolio, and there are strong similarities to the same segmentation in Kyrgyzstan

Risk Dimensions	Tajikistan : Distribution %		Kyrgyzstan : Distribution %	
	Loan Value	Clients	Loan Value	Clients
Arrears	3%	3%	2%	2%
Lender Refusal	4%	4%	8%	8%
Repayment Difficulty	25%	25%	34%	27%
Expenditure >75% Income	46%	40%	34%	32%
Remainder	21%	28%	22%	31%

- This table emphasises the need to identify such diverse borrower characteristics and align appropriate product and service propositions to address the different financial needs of each segment.
- This segmentation framework, as an outlook for lending, suggests :
 - Little scope for overall organic growth in the borrowings of current clients, with a greater probability of a 'bandwidth' of "level to slight reduction";

- A critical dynamic revolves around the decisions of those 60% of first-time or non-recurrent borrowers as their loans come to maturity. This implies that the lending institutions will need to be able to identify, and focus upon, the particular needs and characteristics of the different segments of borrower;
- An opportunity for the differentiation of client proposition from the possible wider use of 'refinance' amongst the 'repayment difficulty' segment; development of budget expenditure guidelines and/or slightly longer loan terms / lower monthly payments for the 'high expenditure' segment; and an asset financing product proposition for the 'remainder' which would resonate with borrowers who may be more cautious or risk averse.

5.2 What is the sensitivity of the borrowers' financial / budgetary position?

Overall, about 75% of income is committed to expenditures on household essential, utilities and loan repayments – 80% of lowest income clients (35% of all borrowers) have committed expenditures in excess of 75% of income – a 5% net increase in household expenditure would cause a significant and disproportionate erosion of the net disposable incomes of such low income households.

- During the previous six months, about 70% of borrowers considered that household expenses had risen faster than income.
- The earlier Q&A reviews have highlighted the high levels of leverage (committed expenditures in relation to income) amongst a majority of borrowers. The following tables provide an indication of the impact of a 5% increase in household expenditure (excluding utilities) upon the net disposable incomes of MFI and bank borrowers. (It assumes that all other budget factors [income, utility costs] remain unchanged. It highlights the highly marginal position of a majority of borrowers.
 - MFI borrowers

MFI Borrowers : Income Range	Net Disposable Income (after loan costs) : TJS		Average Net Disposable Income per household member per month		Distribution of borrowers
	Current expenditure	+5% in household expenditure	Current expenditure	+5% in household expenditure	
< 1,200	(150)	(175)	(30)	(35)	19%
1,201-1,800	85	45	15	10	19%
1,801-2,600	320	265	55	45	27%
2,601-3,400	805	740	135	125	14%
>3,400	2,245	2,155	360	345	21%

- This highlights the severe financial constraints being experienced by a significant minority of borrowers;
- The extended impact of such constraints impacts upon the families and the lowest income segments have average family sizes of 4.9 and 5.3 persons;

- o Bank borrowers

Bank Borrowers : Income Range	Net Disposable Income (after loan costs) : TJS		Average Net Disposable Income per household member per month		Distribution of borrowers
	Current expenditure	+5% in household expenditure	Current expenditure	+5% in household expenditure	
< 1,200	(185)	(210)	(40)	(45)	13%
1,201-1,800	75	35	15	5	18%
1,801-2,600	175	120	30	20	28%
2,601-3,400	685	620	125	110	15%
>3,400	1,810	1,715	295	275	26%

- Again, this highlights the severe financial constraints being experienced by a significant minority of borrowers;
- The extended impact of such constraints impacts upon the families and the lowest income segments have average family sizes of 5.0 and 5.6 persons.

6 IMPACT OF BORROWING

6.1 What proportion of borrowers appear to have benefitted, or been adversely affected, by the loan experience?

Over 90% of borrowers feel positively about the impact of borrowing on their lives (somewhat lower amongst bank group clients) – a dependency upon debt to maintain lifestyle which is widely recognised – the perceptions of ‘benefit’ from may be confused with the realities of ‘dependency’ upon debt and may reflect a more ‘survivalist’ approach towards financial management – greater financial pressures in Tajikistan than Kyrgyzstan, but a lesser recognition of the financial stringencies being experienced.

- The Tajikistan survey responses show that a more positive response to direct and somewhat ‘abstract’ questions, although these are somewhat contrasted by the response to more practical, ‘life-experiential’ questions.

% of borrowers ²⁴	Loans improve the quality of life : Agree		My financial situation has improved in the last 6 months : Agree		My household expenses have risen faster than income in the last 6 months : Agree		I need to continue to borrow to maintain how my family and I live : Agree		My loan repayments are more than I can afford : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
MFI	93 %	71 %	84 %	73 %	69 %	52 %	49 %	32 %	29 %	32 %
Bank	93 %	72 %	87 %	75 %	68 %	53 %	45 %	29 %	28 %	35 %

- o This contrasting pattern is repeated in relation to the borrowers’ response to the reputation and operations of the lending institutions.

% of borrowers	Lending institutions act with integrity : Agree		When I drew my last loan, the lender knew what I could afford : Agree		I borrowed too much : Agree		The institutions respond well to people with lending problems : Agree		I would like help to resolve debt problems with my lending institution : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
MFI	96 %	82 %	84 %	89 %	26 %	37 %	89 %	74 %	28 %	28 %
Bank	96 %	83 %	83 %	88 %	25 %	41 %	89 %	72 %	30 %	30 %

²⁴ Care : some questions are phrased to reflect a negative position : all % show ‘agree’

- Against such contrasting responses, it is appropriate to consider possible options and factors affecting this situation:
 - The borrowers do have a strong regard for the actions of the lending institutions;
 - The borrowers are fearful of giving an adversely critical response in case this may jeopardise the opportunity for loan renewal;
 - The borrowers intuitively recognise the important impact of the lending institutions upon their (and their families') lifestyles and, as long as this support is available, then they are appreciative.
- However, against the severe financial constraints which have been outlined in earlier Q & As, such overwhelming support appears to be 'generous' – and it may be a strategic risk and vulnerability to the lending institutions if their client proposition were to change and be perceived as significantly less accommodating.
- Contrasting situations of 'problem recognition' can be identified across different borrower segments:

Repayment Affordability : % of borrowers	Loans improve the quality of life : Agree		My financial situation has improved in the last 6 months : Agree		My household expenses have risen faster than income in the last 6 months : Agree		Debt repayments cause problems within my family : Agree		My loan repayments are more than I can afford : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
Arrears	85%	53%	66%	50%	78%	74%	53%	56%	57%	46%
Lender Refusal	84%	51%	77%	65%	67%	51%	40%	55%	38%	39%
Repayment Difficulty	93%	63%	83%	66%	85%	68%	51%	79%	100%	100%
Expenditure >75% Income	95%	76%	90%	76%	60%	46%	9%	19%	0%	0%
Remainder	93%	82%	84%	83%	65%	43%	9%	19%	0%	0%

- Again, the abstract questions appear to elicit a 'politically-correct' response, which is somewhat contradicted by the responses to more direct questions of the borrower's personal experience;
- It may have been anticipated that those with repayment difficulties would have been less positive in certain responses:

Repayment Affordability : % of borrowers	Lending institutions act with integrity : Agree		When I drew my last loan, the lender knew what I could afford : Agree		I borrowed too much : Agree		The institutions respond well to people with lending problems: Agree		I would like help to resolve debt problems with my lending institution : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
Arrears	89%	60%	80%	74%	45%	38%	74%	54%	44%	45%
Lender Refusal	89%	70%	95%	87%	24%	43%	72%	56%	37%	36%
Repayment Difficulty	96%	73%	78%	93%	42%	65%	93%	63%	59%	60%
Expenditure >75% Income	98%	86%	81%	85%	18%	26%	88%	78%	15%	13%
Remainder	97%	92%	91%	88%	18%	26%	90%	82%	18%	13%

- Again, the responses suggest one (or some) of the following :
 - The borrowers appreciate the actions which the lending institution has undertake;

- The borrowers have limited financial experience and, therefore, do not know what to expect;
- Borrowers have a ‘disconnect’ between [i] access to the loan, and [ii] the resolution of repayment difficulties.

- This pattern of response continues across the income segments :

Income : % of borrowers	Loans improve the quality of life : Agree		My financial situation has improved in the last 6 months : Agree		My household expenses have risen faster than income in the last 6 months : Agree		Debt repayments cause problems within my family : Agree		My loan repayments are more than I can afford : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
< 1,200	93%	70%	87%	69%	57%	54%	26%	47%	25%	37%
1,201-1,800	96%	74%	86%	75%	61%	52%	23%	35%	30%	30%
1,801-2,600	94%	71%	85%	74%	75%	51%	21%	36%	33%	33%
2,601-3,400	91%	69%	82%	74%	73%	53%	21%	42%	32%	30%
>3,400	92%	71%	86%	82%	75%	51%	21%	41%	25%	37%

- There is a surprisingly low differentiation of response across the income segments

Income : % of borrowers	Lending institutions act with integrity : Agree		When I drew my last loan, the lender knew what I could afford : Agree		I borrowed too much : Agree		The institutions respond well to people with lending problems: Agree		I would like help to resolve debt problems with my lending institution : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
< 1,200	98%	81%	90%	87%	22%	38%	95%	75%	26%	33%
1,201-1,800	97%	85%	83%	87%	21%	39%	86%	75%	29%	28%
1,801-2,600	97%	82%	78%	88%	25%	37%	84%	74%	30%	26%
2,601-3,400	95%	84%	81%	93%	24%	36%	89%	68%	31%	23%
>3,400	95%	81%	87%	91%	32%	43%	94%	62%	28%	30%

- The pattern of response, particularly amongst the lowest income segments, suggests a need for consideration of the following potential explanations
 - ‘Respond well’ may suggest that the loan is renewed / refinanced but not described as such (the level of formal refinance situations is low);
 - ‘New what I could afford’ may suggest transparency, but this is inconsistent with the level of ‘over-borrowing’ – and it would be interesting to determine the extent to which the lending institution is aware of the scale of informal lending;
 - ‘Integrity’ may be related simply to the accuracy of accounting, rather than the manner of ‘responsible finance’ with which loans are granted.

- This pattern of response continues across the locations :

Locations : % of borrowers	Loans improve the quality of life : Agree		My financial situation has improved in the last 6 months : Agree		My household expenses have risen faster than income in the last 6 months : Agree		Debt repayments cause problems within my family : Agree		My loan repayments are more than I can afford : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
City - MFI	89%	67%	78%	72%	67%	50%	25%	36%	30%	28%
City - Bank	87%	66%	77%	74%	66%	47%	24%	35%	26%	28%
Urban - MFI	97%	78%	90%	75%	74%	39%	22%	42%	34%	32%
Urban - Bank	99%		95%		77%		21%		36%	
Rural - MFI	96%	76%	92%	75%	67%	62%	19%	47%	23%	43%
Rural - Bank	97%	82%	93%	75%	65%	69%	19%	52%	24%	49%

- There is a wider diversity of responses across the locations

Locations : % of borrowers	Lending institutions act with integrity : Agree		When I drew my last loan, the lender knew what I could afford : Agree		I borrowed too much : Agree		The institutions respond well to people with lending problems: Agree		I would like help to resolve debt problems with my lending institution : Agree	
	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz	Tajik	Kyrgyz
City - MFI	95%	83%	84%	91%	24%	32%	88%	72%	22%	24%
City - Bank	94%	83%	83%	92%	23%	34%	88%	68%	22%	26%
Urban - MFI	97%	83%	82%	88%	29%	48%	92%	79%	39%	32%
Urban - Bank	98%		76%		31%		94%		41%	
Rural - MFI	99%	80%	87%	83%	27%	48%	87%	74%	31%	36%
Rural - Bank	98%	81%	89%	79%	22%	52%	87%	78%	32%	38%

- This greater spread of response highlights the need for the lending institutions to be aware of the different dynamics of the various client segments

6.2 Do microfinance institutions stimulate greater 'financial inclusion'?

Client profiles of MFIs and banks are similar – no substantive difference in the scale of financial inclusion between banks and MFIs (excluding the levels of male / female clients in each institution) – the amount and leverage of loans to male borrowers is greater than that to females.

- Whilst the dimensions of 'financial inclusion' can be widely defined, the core aspects involve
 - [i] the provision of financial services (including loans) to lower income groups;
 - [ii] wider inclusion, equal treatment and empowerment of female clients, and;
 - [iii] respect for the individual by the lending institution.
- The borrower profiles of MFI and bank clients are very similar – with little indications of any significant differentiation in the market positions undertaken by the MFIs

% of borrowers	Own Business	Household Income less than TJS 1,200	Number of Dependents	Rural Location	Age : up to 35 years
MFI	47 %	19 %	3.2	24 %	44 %
Bank	47 %	13 %	3.3	29 %	44 %

- The characteristics of the lending process are also similar across MFIs and banks

% of borrowers	Loans were easy to obtain : Agree	Loan for Business Usage	Average Residual Repayment Period (Months)	Assets held as Collateral	Loan in Foreign Currency	Explanation of cost of loan and repayment obligations
MFI	79 %	43 %	9.0	37 %	25 %	98 %
Bank	76 %	49 %	9.0	42 %	32 %	98 %

- The financial pressures appear to be also similar across MFI and bank borrowers

% of borrowers	Expenditures > 75% of income	Food expenditure reduced to make loan repayments	Loan repayments more than can afford	Loan Arrears	Loan from Family and Friends	Loan from Retailer
MFI	58 %	41 %	29 %	3 %	15 %	22 %
Bank	59 %	40 %	28 %	4 %	14 %	23 %

- The reputations of MFIs and banks are also similar. However, see also Q & A 3.2 in relation to the potential factors which may be affecting these responses.

	Clients are treated with respect	Lending institutions are trustworthy	Lending institutions act with integrity	Lending institutions understand customers' needs	Lending institutions seek to improve the lives of their clients
MFI	98 %	96 %	96 %	95 %	94 %
Bank	98 %	97 %	96 %	95 %	95 %

- A comparison of male / female responses indicates that the client proposition is similar across all clients – and that there is no particular focus to stimulate ‘own business’ activity amongst female clients

% of borrowers	Household Income less than TJS 1,200	Number of Dependents	Total Expenditures > 75% of income	Loan for Business Usage	Food expenditure reduced to make loan repayments	Need to continue to borrow to maintain family lifestyle
Male	16 %	3.5	60 %	48 %	40 %	47 %
Female	18 %	3.0	56 %	42 %	41 %	49 %

- Lending comparatives for males and females is shown in the following table :

	Household Income TJS	Net Income (pre loan repayment)	Average Outstanding Loan TJS	Loan Repayment as % Household Income	Loan Repayment as % Net Income
City - Male	3,200	1,800	8,700	32%	57%
City - Female	3,050	1,700	7,200	27%	48%
Urban - Male	2,500	1,200	8,800	35%	74%
Urban - Female	2,450	1,150	6,500	28%	59%
Rural - Male	2,400	1,300	7,000	31%	59%
Rural - Female	2,250	1,200	6,000	31%	57%

- Lending (amount and leverage) is greater for males in all locations Particularly city and urban).

- The distribution of clients in relation to average household is shown in the following table. This indicates that the Tajikistan MFIs :
 - Have a similar distribution of client incomes to that of the bank clients;
 - Have a wider distribution (from average) than the Kyrgyzstan MFIs:

	Level of household incomes below average			Level of household incomes above average		
	Over 40%	20 – 40%	Less than 20%	Less than 20%	20 – 40%	Over 40%
Tajikistan : MFI	33%	20%	13%	13%	4%	17%
Tajikistan : Bank	31%	18%	14%	11%	5%	21%
Kyrgyzstan : MFI	21%	19%	21%	12%	12%	15%
Kyrgyzstan : Bank	45%	12%	3%	14%	5%	20%

- This table highlights the substantive differences within the income distributions of clients and, thereby, the need for the identification and differentiation of appropriate product and service propositions

6.3 What impact does the loan have upon basic household expenditures (including food)?

Lower income borrowers have high leverage as a result of the real cost of basic essentials and loan repayments – a average monthly expenditure on household essentials (including food) for one person is TJS 203 (US\$ 42) – 40% of borrowers reduce food expenditure to meet loan repayments – monthly loan interest (not the total monthly payment) is equivalent to about 20 days household expenditure for one person – majority of borrowers identify household costs rising faster than income (and thereby pressuring repayment capacity).

- The average level of essential household expenditures²⁵ is shown in the following table :

TJS	Income	Household expenditures	Utility costs	Net Disposable Income (pre loan)	Household Expenses as % of Income	Average Household Expense per person
MFI	2,700	1,100	150	1,450	42%	201
Bank	2,900	1,200	150	1,550	41%	208

- The impact of essential household expenditure impacts more strongly upon the lower income segments.

TJS	Income	Household expenditures	Utility costs	Net Disposable Income (pre loan)	Household Expenses as % of Income	Average Household Expense per person
< 1,200	950	500	100	350	54%	107
1,201-1,800	1,550	800	100	650	50%	145
1,801-2,600	2,200	1,150	100	950	51%	199
2,601-3,400	3,000	1,350	150	1,500	45%	231
>3,400	5,500	1,800	200	3,550	33%	291

²⁵ Household expenditure : relates to essential household items bought each month and include food (borrower and family), tobacco and alcohol, household items (cleaning etc), telephone, and essential transport

- The lowest income segments account for 35% of borrowers (17% : <TJS 1,200 and 18% : 1,201-1,800);
- An independent national survey²⁶ indicates essential food expenditure of about TJS 95 (for the lowest decile) and TJS 198 (for the highest decile). The survey responses appear to be broadly consistent.
- However, significant pressures are being experienced by many borrowers in relation to the levels of food expenditures:

	Household Expenses as % of Income	Loan payments as % of Income	Net Disposable Income after loan payments TJS	I need / needed to continue to borrow to maintain how my family and I live	My household expenses have risen faster than income in the last 6 months	Food expenditure has been reduced to make loan repayments
< 1,200	54%	51%	(150)	49%	57%	38%
1,201-1,800	50%	38%	100	51%	61%	48%
1,801-2,600	51%	31%	250	56%	75%	50%
2,601-3,400	45%	25%	750	48%	73%	39%
>3,400	33%	28%	2,000	35%	75%	28%

- The 'real' costs of household essentials and loan repayments are strongly highlighted in this table (see also Q & A 4.7 re Informal Funding Sources);
- The reductions to food expenditure further erode the constrained budgets of the lowest income segments;
- Whilst direct country comparisons are difficult, the following table provides a perspective of Tajikistan against Kyrgyzstan:

Tajikistan Income Segment	Average Household Expenditure per capita US\$		Average Household Expenditure as % Income		Food expenditure has been reduced to make loan repayments	
	Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan
< 1,200	22	28	54%	50%	38%	26%
1,201-1,800	30	38	50%	45%	48%	21%
1,801-2,600	41	45	51%	40%	50%	27%
2,601-3,400	48	61	45%	40%	39%	26%
>3,400	60	87	33%	30%	28%	21%

- The pressures appear to be much greater in Tajikistan to maintain an essential household budget
- This increases the real impact of loan repayments upon the lifestyle and nutritional development of the family. The distribution and level of family dependents is shown in the following table :

Number of Dependents	0	1	2	3	4	> 4	Average
MFI	5%	11%	22%	24%	17%	21%	3.2
Bank	3%	13%	20%	22%	20%	22%	3.3

- This highlights the wider social impact of the loan and the potential implications of the 'real cost' of loan repayments;

²⁶ EU Food Security Study

- This emphasises further the social, as well as financial, responsibility of lenders – and the need to understand the social and budgetary dynamics of borrowers;
- The affordability of basic household essentials can be shown further in the following table in relation to the location of the borrower:

	Household Expenses as % of Income	Average expenditure per household member TJS	Net Disposable Income after loan payments TJS	I need / needed to continue to borrow to maintain how my family and I live	My household expenses have risen faster than income in the last 6 months	Food expenditure has been reduced to make loan repayments
City - MFI	38%	224	880	44%	67%	39%
City - Bank	38%	237	784	36%	66%	37%
Urban - MFI	50%	195	323	59%	74%	41%
Urban - Bank	47%	214	448	60%	77%	42%
Rural - MFI	44%	163	538	50%	67%	45%
Rural - Bank	41%	166	504	45%	65%	43%

- Despite lower levels of expenditure (in value terms), the real cost of household essentials is greater in urban and rural areas;
 - Reduced food expenditures has been greater in urban and rural areas – and this does not suggest that higher levels of self-subsistence can be achieved in those locations. It may also be noted that the levels of ‘retailer credit’ support is also higher in such locations.
- These reviews highlight the implications upon lending institutions to provide ‘responsible finance’ which reflects both the financial and social dynamics of the borrower.
- The cost of loan interest (without any inclusion of capital repayment) can be shown as the equivalent of the number of days of household spending per person which can be undertaken for the same amount.

Tajikistan Income Segments ²⁷	Tajikistan			Kyrgyzstan			BiH		
	Interest per month at 20% p.a. : TJS	Household Expend per person per month : TJS	Days equiv of per capita household expenditure	Interest per month at 20% p.a. : KGS	Household Expend per person per month : KGS	Days equiv of per capita household expenditure	Interest per month at 20% p.a. : BAM	Household Expend per person per month : BAM	Days equiv of per capita household expenditure
< 1,200	71	107	20	606	1,451	13	56	137	12
1,201-1,800	92	145	19	850	1,990	13	69	166	12
1,801-2,600	104	199	16	1,146	2,357	15	97	171	17
2,601-3,400	116	231	15	1,953	3,185	18	114	176	19
>3,400	225	291	23	4,438	4,498	30	152	201	23

- This table highlights the real cost of interest (based on a consistent rate of 20% pa²⁸) being paid by borrowers at different income levels.
 - This demonstrates clearly the ‘opportunity cost’ of domestic expenditure against the price of the loan funds – and thereby the level of added-value which must be perceived

²⁷ The US Dollar comparative income ranges were

Tajikistan	<US\$ 250	US\$ 250-375	US\$ 375 - 550	US\$ 550 – 700	>US\$ 700
Kyrgyzstan	<US\$ 300	US\$ 300 - 400	US\$ 400 - 600	US\$ 600 - 800	>US\$ 800
BiH	<US\$ 700	US\$ 700 – 1,000	US\$ 1,000 – 1,400	US\$ 1,400 – 1,750	>US\$ 1,750

²⁸ Interest Rates in Tajikistan : Interest rates in 2013 were 24.3% (domestic currency) and 24.4% (foreign currency) – Source : National Bank, Tajikistan. The nominal rate of 20% pa was used in the above table to provide a consistent inter-country comparative basis.

by the borrower (and the family dependents) to be derived from the usage of the loan funds.

7 LENDER / BORROWER RELATIONSHIP

7.1 What is the reputation of the lending institutions?

The cultural 'mores' of MFIs and banks is reported with overwhelming strength by clients – the large majority of clients believe that the lending institutions understand and support client needs – the lending institutions can be seen to have been accommodating of the loan requirements of borrowers – however, the responses are so favourable, yet seemingly inconsistent with the underlying pressured financial situation of a majority of borrowers, that behavioural factors affecting such responses to very direct questions must be considered with great care – the high levels of debt dependency and continuation of loan availability may be an influencing factor.

- The reputation of the lending institutions was considered in relation to the perceptions of respondents of both cultural values and also operational performance
- The survey responses show an exceptionally high level of favourable opinion towards the lending institutions (both MFIs and banks) – and this is matched by the general market perceptions of other respondents who have never had a loan

All Borrowers - % of respondents who Agree	Clients are treated with respect	Lending institutions are trustworthy	Lending institutions act with integrity	Lending institutions understand customers' needs	Lending institutions seek to improve the lives of their clients
Current : MFI	98%	96%	96%	95%	94%
Current : Bank	98%	97%	96%	95%	95%
Former ²⁹ : MFI	97%	97%	94%	93%	95%
Former : Bank	96%	91%	90%	92%	85%
Non-Borrowers	97%	91%	90%	90%	90%

- There is minimal difference in the attitudes of current MFI and bank borrowers, although former bank clients do show a slightly less positive view
- The perceptions of non-borrowers are also strong which suggests that there is not a major groundswell of media / public opinion against the lending institutions
- This feels to be somewhat unusual because lending institutions in most countries are frequently subject to criticism. The level of financial pressure shown by the Tajikistan borrowers, together with the difficulties of resolving loan repayment problems, would suggest that there should be some tensions between lending institutions and many borrowers.

²⁹ Former : This relates to those respondent who used to borrow from an MFI or bank, but have ceased to borrow from that type of lending institution

- It may be intuitively anticipated that clients who are recognising / acknowledging repayment difficulties may have less favourable perceptions, but the following table indicates that, if so, such opinions are not declared

All Borrowers - % of respondents who Agree	Clients are treated with respect	Lending institutions are trustworthy	Lending institutions act with integrity	Lending institutions understand customers' needs	Lending institutions seek to improve the lives of their clients
Arrears	92%	86%	89%	85%	86%
Lender Refusal	93%	88%	89%	84%	85%
Repayment Difficulty	99%	96%	96%	94%	93%
Expenditure >75% Income	99%	98%	98%	97%	96%
Remainder	98%	98%	97%	95%	95%

- It is surprising that there is not a greater differentiation across these responses. This may suggest that there are some more significant behavioural or motivational factors which need to be identified and their implications interpreted.
- These reputational perceptions may be contrasted with the responses which were seen in Kyrgyzstan and BiH.

All Borrowers - % of respondents who Agree	Clients are treated with respect	Lending institutions are trustworthy	Lending institutions act with integrity	Lending institutions understand customers' needs	Lending institutions seek to improve the lives of their clients
Tajikistan : MFI	98%	96%	96%	95%	94%
Tajikistan : Bank	98%	97%	96%	95%	95%
Kyrgyzstan : MFI	95%	87%	82%	82%	79%
Kyrgyzstan : Bank	95%	85%	83%	79%	76%
BiH : MFI	92%	72%	80%	67%	64%
BiH : Bank	92%	72%	80%	61%	57%

- This table shows some interesting differences
 - BiH is a mature and saturated market for the microfinance client. The significant market pressures in recent years, together with tighter lending conditions, may have resulted in a more critical perception by clients
 - The markets in Tajikistan may be at a different stage of development and this may be affecting the attitudes of clients (see following table)
- Against this more favourable perception of lending institutions in Tajikistan, it may be appropriate to review the comparative borrower experiences of their interface with the lending institutions along a continuum of the 'loan experience'

All Borrowers - % of respondents who Agree	Loans improve the quality of life	Loans were easy to obtain	I borrowed too much	It is / was difficult to resolve debt problems with my lender	I need / needed to continue to borrow to maintain how my family and I live
Tajikistan : MFI	93%	79%	26%	24%	49%
Tajikistan : Bank	93%	76%	25%	25%	45%
Kyrgyzstan : MFI	71%	69%	37%	42%	32%
Kyrgyzstan : Bank	72%	63%	41%	44%	29%
BiH : MFI	62%	66%	19%	35%	36%
BiH : Bank	70%	63%	19%	36%	29%

- These responses suggest a range of attitudes towards the loan experience across the three countries

- There is a much stronger recognition of debt dependency within Tajikistan. In this regard, if the Tajikistan borrowers do not have great experience / confidence with financial products and institutions, this may result in a higher level of trust being placed upon the lender – and consequently, a greater burden of the delivery of a service proposition based upon ‘responsible lending’
- The lending institutions in Tajikistan appear to be more receptive to the borrower – greater ease of access and greater ease of problem resolution
- However, the underlying financial position of borrowers appears to be more constrained in Tajikistan than the other two countries. This suggests that, in recent times, the lending institutions may have been more ‘accommodating’ of loan requests and financial pressures by borrowers

7.2 Do borrowers feel that the lender is providing clear information about the loan?

Strong acknowledgment that the terms of the loan are explained

- There is a strong recognition that the terms of the loan are being explained. This is reflected by over 95% of the borrowers of both MFIs and banks;
- This high level of response applied to loans in both loan and foreign currencies

7.3 Do lenders understand the borrower’s financial position?

(See also Q & A 3.3 re “Do the survey responses indicate credit standards or criteria“)

There is a strong recognition of ‘loan explanation’ by the lending institutions – however, there is a significant minority (25-30%) of clients for whom the loan was either too large or the repayment too onerous – about 20% of borrowers considered that the lender did not know what could be afforded.

- The responses suggest that whilst a majority of borrowers perceive that the lenders have understood their borrowing needs and capacity, there is a sizeable minority (about 25%) for whom the adequacy of the loan application / loan review process appears to be less certain

% of borrowers who Agree	When I drew my last loan, the lender knew what I could afford	Lending institutions understand customers' needs	Loans were easy to obtain	I borrowed too much	My loan repayments are more than I can afford	It is difficult to resolve debt problems with my lender
MFI	84%	95%	79%	26%	29%	24%
Bank	83%	95%	76%	25%	28%	25%
Kyrgyzstan						
MFI	89%	82%	69%	37%	32%	42%
Bank	88%	79%	63%	41%	35%	44%
BiH						
MFI	93%	67%	66%	19%	17%	65%
Bank	94%	61%	63%	19%	15%	64%

- This series of questions reflect a continuum in the borrowing process which appears to be somewhat ‘softer’ than may be anticipated by the financial constraints of borrowers, or the comparisons with Kyrgyzstan and BiH.
 - i. There appears to be a high transparency in the information being provided, presumably in response to requests from the lending institution
 - ii. This suggests that the borrower may need to place a high level of trust upon the integrity and responsibility of the lending practices of the institution
 - iii. The lending institution appears positive in its discussions with the borrower

- iv. In comparison with Kyrgyzstan and the underlying financial constraints of the Tajikistan borrowers, it may be suggested that the loan process appears to be 'easier' than may have been anticipated. (Often, those borrowers who want the loans even more rapidly include those who are most desperate for the funds)
- v. Despite the perceived transparency of information and understanding of needs, the loan amount is excessive for 25% of borrowers. This may relate to the amount being greater than the declared purpose, or the debt is too great a liability for the borrower – in either situation, this suggests that the loan evaluation process was less than adequate in those situations
- vi. Loan repayment pressures may, of course, occur from an unexpected event or change of circumstance. However, this level of repayment difficulty is much higher than the levels of 'adverse events' which are reported elsewhere. If the financial / budget information were correctly presented, this again suggests that the credit assessment process may have been overly optimistic of the borrower's capacity for repayment
- vii. Against these inferences of the loan assessment process, the resolution process for problem situations appears to be strained.

- This series of responses may be related to the different income segments

% of borrowers who Agree	When I drew my last loan, the lender knew what I could afford	Lending institutions understand customers' needs	Loans were easy to obtain	I borrowed too much	My loan repayments are more than I can afford	It is difficult to resolve debt problems with my lender
< 1,200	90%	96%	79%	22%	25%	34%
1,201-1,800	83%	96%	81%	21%	30%	29%
1,801-2,600	78%	95%	79%	25%	33%	21%
2,601-3,400	81%	93%	72%	24%	32%	17%
>3,400	87%	93%	76%	32%	25%	21%

- These responses do suggest the particular dilemma of the lowest income segments – and a major challenge in the process of 'responsible lending'
 - There is a transparency in the loan application process and an apparently strong perception by the client that the lending institution understands the situation
 - However, for about 25% of clients, the loan commitment presents difficulties ...
 - ... and ... it is difficult to resolve such issues when there is minimal net disposable income available

- The regional profiles provide a greater level of differentiation

% of borrowers who Agree	When I drew my last loan, the lender knew what I could afford	Lending institutions understand customers' needs	Loans were easy to obtain	I borrowed too much	My loan repayments are more than I can afford	It is difficult to resolve debt problems with my lender
Dushanbe	89%	89%	63%	26%	27%	23%
Khatlon	97%	98%	80%	18%	17%	40%
Sogd	92%	97%	93%	22%	28%	14%
RRP	47%	96%	72%	15%	35%	4%
GBAO	95%	92%	81%	50%	40%	44%

- This shows some substantial variances across the regions, which suggest different lending practices and operations
- The following location segments also show some apparent variations in the lending processes

% of borrowers who Agree	When I drew my last loan, the lender knew what I could afford	Lending institutions understand customers' needs	Loans were easy to obtain	I borrowed too much	My loan repayments are more than I can afford	It is difficult to resolve debt problems with my lender
City - MFI	84%	92%	77%	24%	30%	24%
City - Bank	83%	92%	72%	23%	26%	26%
Urban - MFI	82%	97%	83%	29%	34%	25%
Urban - Bank	76%	96%	78%	31%	36%	24%
Rural - MFI	87%	98%	80%	27%	23%	21%
Rural - Bank	89%	98%	80%	22%	24%	26%

7.4 Can borrowers adequately resolve their financial problems with lending institutions?

(see also Q & A 4.3 “Why are arrears so low?”)

About 25% borrowers find it difficult to resolve debt problems – similar levels in both MFIs and banks – significant differences across the regions – lower income borrowers identified greater difficulty of problems resolution and this is consistent with the underlying constrained budgetary positions of many borrowers - little difference across the trade sectors

- About 25% of borrowers (similar levels in MFIs and banks) considered that it is difficult to resolve debt problems with their lenders. In relation to the significant level of financial pressures upon borrowers (shown by both the income / expenditure data and also the levels of informal borrowings), this response level suggests
 - The lending institutions may have been flexible and accommodating in response to problem repayment situations – the level of loan refusal is low
 - The leverage levels are particularly high for the lower income segments and this may suggest that the credit assessment criteria may have been somewhat generous
- This varied significantly across the regions from only 4% in RRP experiencing difficulties to 40-45% in Khatlon and GBAO
- Different experience was also seen across the range of income segments, from 17% in the higher income band (TJS 2,601-3,400) to 34% in the lowest income segment (up to TJS 1,200)
- Across the trade sectors, there was a consistent level of recognition of difficulties between 18% (building – property) and 29% (engineering)
- Against this directional attitude by borrowers that they can address their problems, the following table provides some indication of the ‘self-help’ mechanisms which are being used to alleviate financial pressures

	Informal Loans		Friends or family provided money to repay my loan	Have you refinanced, or consolidated your debts during the last 12 months	Food expenditure has been reduced to make loan repayments	I (or my spouse) have taken additional work to make loan repayments
	Friends or family	Retail shop				
Arrears	27%	19%	18%	25%	39%	36%
Lender Refusal	17%	28%	38%	4%	54%	40%
Repayment Difficulty	23%	19%	15%	6%	46%	22%
Expenditure >75% Income	10%	26%	13%	6%	45%	21%
Remainder	12%	20%	9%	5%	28%	15%

- This highlights the importance of the wider family as the principal source of 'lender of last resort'.
- It suggests that the borrower will seek to resolve repayment problems on a loan with external parties, rather than address, in the first instance, the problem with the lender.
- This may suggest that the borrower will seek strongly to avoid any 'public' awareness of financial difficulties

7.5 Do borrowers want support to address problem debt repayment situations?

About 30% wanted assistance with debt resolution – substantial differences between regions – but little difference across the income segments – those borrower who recognise that they have financial pressures show a much higher desire for some form of assistance

- Only 29% of all borrowers wanted assistance to resolve debt problems with their lending institutions, a similar level to the 25% of borrowers who recognised the difficulties to resolve problem debt.
 - This is the same level as in Kyrgyzstan, but a substantially different response from those wanting assistance in BiH where 67% of all borrowers wanted assistance (and this was a low level compared with 80+% in the two preceding years.
- However, different borrower segments demonstrated quite different characteristics

% of borrowers who Agree : Region	It is / was difficult to resolve debt problems with my lender	I would like help to resolve debt problems with my lending institution	% of borrowers who Agree : Income	It is / was difficult to resolve debt problems with my lender	I would like help to resolve debt problems with my lending institution
Dushanbe	23%	20%	< 1,200	34%	26%
Khatlon	40%	20%	1,201-1,800	29%	29%
Sogd	14%	22%	1,801-2,600	21%	30%
RRP	4%	38%	2,601-3,400	17%	31%
GBAO	44%	47%	>3,400	21%	28%

- The similar levels across the income segments of borrowers who would like assistance appears low in relation to the strong financial constraints shown by their levels of income and expenditure. Consideration may be given to the extent to which :
 - The lending institutions have, so far, been able to provide positive responses; or,
 - Borrowers have not fully recognised the delicacy / sensitivity of their financial position; or

- At what stage, the lending institutions will be unable to further extend the leverage of borrowers, which appears to be currently extremely high for many borrowers.

- Further borrower segments show similar characteristics

% of borrowers who Agree	It is / was difficult to resolve debt problems with my lender	I would like help to resolve debt problems with my lending institution	% of borrowers who Agree	It is / was difficult to resolve debt problems with my lender	I would like help to resolve debt problems with my lending institution
Arrears	46%	44%	MFI : One Lender	24%	29%
Lender Refusal	31%	37%	MFI : Two or more	26%	21%
Repayment Difficulty	40%	59%	Bank : One Lender	25%	30%
Expenditure >75% Income	18%	15%	Bank : Two or more	26%	26%
Remainder	17%	18%			

- The higher levels of recognition of the need for assistance appear to be concentrated upon particular segments which have higher risk characteristics.
- It may be suggested that against a loan performance of low arrears and low refinance (despite the indications of underlying debt pressures), the lending institutions present a resolute requirement for repayments to be achieved (including the use of assets pledged as collateral security). This does not appear to be translated by borrowers into a situation in which alternative debt restructure mechanisms can be established.

Survey Structure

A survey was undertaken during May 2014 in which individuals were invited to respond to questions relating to their financial position, the extent of any indebtedness and their attitudes towards indebtedness. The objective of the survey was to examine the characteristics and debt capacity of individuals. It was designed to enable the characteristics of different segments of borrowers to be identified and reviewed. Each independent lending institution will have its individual mix of these segments within its loan portfolio.

The survey was undertaken and co-ordinated by a local research agency and was conducted in five regions.

Location	Total Number of Respondents	Number of Borrowers from Microfinance	Number of Borrowers from Banks	Non – Borrowers
Dushanbe	850	427	310	145
Khatlon	850	379	328	147
Sogd	850	428	299	141
RRP	850	412	317	122
GBAO	600	398	210	0
Total	3,446	2,044	1,464	555

Note : Certain respondents had loans with both a microfinance institution and a bank.



Source : LonelyPlanet.com

The basis of the survey process was :

- Random sample selection within each region with interviews in a wide spread of socio-economic locations and avoidance of any undue concentrations of particular workplaces or markets;
- Survey interviews undertaken on a face-to-face basis;
- Borrowing experience (in Dushanbe, Khatlon, Sogd and RRP) based on :
 - About 375 persons currently with a loan with a microfinance institution
 - About 325 persons currently with a loan with a bank

- About 90 persons with no current loan, but who have borrowed in the last 2 years from either a microfinance institution or a bank
- About 60 persons who have never had a loan from either a microfinance institution or a bank
- Borrowing experience in GBAO based on :
 - About 350 persons currently with a loan with a microfinance institution
 - About 250 persons currently with a loan with a bank
- Approximately equal selection of male and female respondents
- Age profiles were spread :
 - 18 – 40 years 60% of which, 60% up to 30 years, and 40% 31 – 40 years
 - Over 40 years 40% of which, 60% 41 – 50 years, and 40% over 50 years
- Employment activity involved :
 - Trade and retail to represent at least 30% of the sample in each location
 - In rural locations, agriculture to represent at least 30% of the sample
 - Remaining sample was based upon a random selection across remaining trading activities
- The city / urban / rural samples were undertaken in

Location ³⁰	Dushanbe	Khatlon	Sogd	RRP	GBAO
City	100%	34%	26%	32%	33%
Urban	0%	33%	30%	35%	37%
Rural	0%	33%	34%	33%	31%

A summary of the principal demographic characteristics (based on the above sample process) is set out in the following table (Attachment 1b.).

Validation of Data

Survey responses were compared with published external data, involving :

- Statistical Agency, Tajikistan : Food Security and Poverty Report No. 1 2013
- Statistical Agency, Tajikistan : Labour Workforce Survey
- Statistical Agency, Tajikistan : GDP Economic data
- Statistical Agency, Tajikistan : Impact of migration and remittances August 2010

³⁰

City/ Town : an area of relatively concentrated population and housing
 Urban : away from more densely-populated areas of the city/town, but within convenient distance for easy transportation to a nearby city/town
 Rural : primarily a village or agricultural community

Number of People in Household : Survey average 5.6 – external survey showed an overall average of 6.4, but this was increased by a higher proportion of lower income / larger household segments than was reflected in the survey of borrowers. National statistics indicate that 70% of households had 5 or more persons – and the Indebtedness Survey reflected 69% of respondents with 5 or more persons. This suggests a reasonable level of consistency being shown by the survey responses.

Income : National statistics indicate that the average monthly wage was about TJS 676. Income earners (in the survey) reported an average of 1.75 earnings per person, which equates to TJS 1,183 (based on the national statistics) and compares closely with the survey average of TJS 1,141. This suggests a reasonable level of consistency being shown by the survey responses.

The relatively high level of multiple income sources by an individual earner suggests that the respondent is including any additional cash-based, informal earnings.

Household Expenditure : National statistics reflect an average monthly per capita of TJS 222, which implies an average household expenditure of TJS 1,425. This is comparable to the 'Food Security and Poverty Survey' with average monthly expenditure of TJS 1,390. The Indebtedness survey showed average monthly household expenditure (including service and utility costs) of TJS 1,270. This suggests a reasonable level of consistency being shown by the survey responses.

Lending : National statistics show an average outstanding microfinance loan balance of TJS 6,927, whilst the survey responses shows TJS 6,936. These are not at the same time period (but are within 12 months) and the survey is not a national weighted sample – but, again, the survey response compares closely with external data.

The National Bank reports the levels of lending in foreign currency in 2013 at 35% for MFIs and 65% for banks. This is based on loan balances for all lending including businesses, not only individuals. The recent annual growth rates for foreign currency lending have been substantial : 2011/10 MFI +162%, Banks +44%; 2012/11 MFI +85%, Banks +19%, 2013/12 MFI +165%, Banks 31%. The Indebtedness Survey shows overall levels of outstanding foreign currency loan balances at 44% of MFI outstanding loans and 42% of outstanding bank loans. Against the growth rates of foreign currency lending and also that it may be assumed that banks will have currency lending to business clients (which are not included in the survey), this suggests that the survey responses provide a reasonable reflection of the borrowing currency structure.

Survey Response : Detailed review and validation of individual survey responses was undertaken by the independent local research agency.

Principal Demographics of Survey Respondents**Age**

	16-25	26-35	36-45	46-55	> 55
Borrowers : MFI	9%	35%	28%	22%	7%
Borrowers : Bank	11%	33%	27%	22%	6%
Non-Borrowers	14%	31%	26%	22%	7%

Location

Borrowers only	16-25	26-35	36-45	46-55	> 55
City - MFI	10%	36%	28%	22%	5%
City - Bank	13%	36%	27%	20%	4%
Urban - MFI	10%	31%	29%	21%	10%
Urban - Bank	11%	31%	29%	21%	8%
Rural - MFI	8%	37%	25%	23%	7%
Rural - Bank	9%	32%	24%	28%	7%

Number of Persons in the Household

	< 2	3	4	5	> 5
Borrowers : MFI	3%	9%	20%	23%	45%
Borrowers : Bank	3%	9%	17%	20%	51%
Non-Borrowers	4%	8%	20%	20%	49%

Location

Borrowers only	< 2	3	4	5	> 5
City - MFI	4%	11%	24%	23%	38%
City - Bank	4%	12%	23%	19%	42%
Urban - MFI	3%	9%	16%	21%	51%
Urban - Bank	2%	7%	14%	21%	57%
Rural - MFI	3%	6%	15%	23%	53%
Rural - Bank	2%	6%	12%	21%	59%

Source of Income

	From employer 1 or 2 weekly	From employer monthly	Income payments sometimes delayed	Occasional or irregular payments	Income from own business
Borrowers : MFI	4%	37%	2%	17%	41%
Borrowers : Bank	3%	36%	1%	19%	40%
Non-Borrowers	4%	42%	3%	23%	28%

Location

Borrowers only	From employer 1 or 2 weekly	From employer monthly	Income payments sometimes delayed	Occasional or irregular payments	Income from own business
City - MFI	4%	41%	2%	12%	41%
City - Bank	5%	45%	1%	14%	36%
Urban - MFI	3%	37%	1%	21%	38%
Urban - Bank	2%	32%	0%	18%	48%
Rural - MFI	5%	26%	2%	23%	44%
Rural - Bank	3%	26%	2%	29%	40%

Risk Categorisation

An Outline of the Objective and Methodology

An assessment of the financial capacities of microfinance clients should not be seen solely in relation to quantitative measures (such as arrears, or income ratios, or material assets) but may also be considered in conjunction with other more qualitative dimensions – because the client's propensity to repay is a combination of factors, both financial and attitudinal.

A basic segmentation may be undertaken, therefore, upon the quantitative assessment of debt affordability and the qualitative assessment of clients' sense of financial concern or vulnerability. This provides also some dimensions for the impact of 'financial inclusion'.

An evaluation of the financial concern / vulnerability can be established for each borrower from the responses to the various attitudinal questions, which can be compared with the level of expenditure (as a percentage of income) for that borrower.

In this assessment, the 'Vulnerability Score' is determined by the qualitative responses to the various questions in relation to the concern of the respondent about the debt, its impact and the intensity of the response. These are reflected as :

- | | |
|-------------------------|--|
| 1. Low 'concern' score | No responses which show difficulty |
| 2. Mid 'concern' score | Limited range of responses which show difficulty |
| 3. High 'concern' score | More frequent responses which show difficulty |

The range of questions / factors comprising the qualitative 'vulnerability / concern assessment comprise :

- Loan arrears
- Utility arrears
- Refinance of loan or refusal of a lender to approve a loan
- Other 'informal' loans from family, retailer, employer or moneylender
- Reduction in food expenditure or additional work to make loan repayments
- Recognition that loan repayments are more than can be afforded
- Adverse events in last six months affecting household earning capacity
- Recognition that the borrower does not feel in control of financial situation
- Recognition by the borrower that debt causes problems in the family
- Recognition by the borrower that the financial position has not improved in the last six months

The expenditure : income ratio is based upon the quantitative responses provided by the respective clients.

This enables the spread / scatter of individual client responses and positions to be plotted in the following matrix.

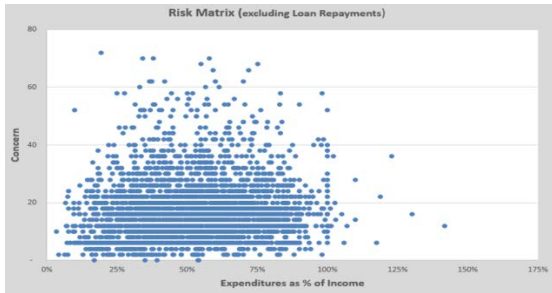


Chart 1. Expenditures include household and utilities and excluding loan repayments



Chart 2. Expenditures include household, utilities and including loan repayments

This enables the creation of a matrix to provide some segmentation of the severity of risk amongst this group.

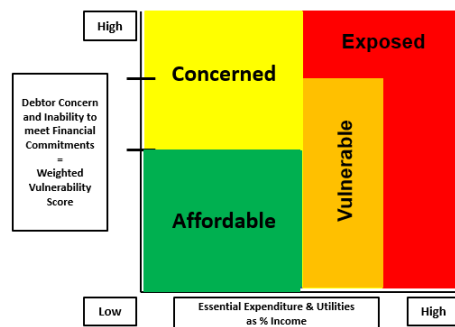


Chart 3. Client risk matrix

Such a matrix enables a broad differentiation between those clients who have possibly an unnecessarily high concerns for their repayment capacity / financial position but low expenditure commitments (these may be described as the “concerned” segments) in contrast to those with low levels of concern but whose financial position appears to be highly strained. The principle is to establish the interaction of both budget and attitude in the clients’ behaviour and for this to be reflected in the management of client portfolios.

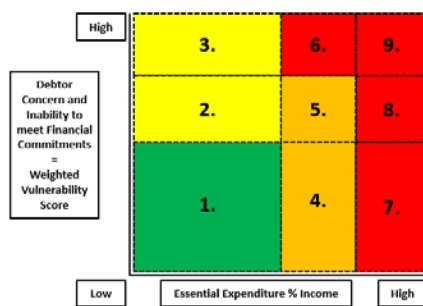


Chart 4. Segmentation of client risk and vulnerability

Such a distribution demonstrates that the management of the lending portfolios requires an understanding of the different client segments and that appropriate measures are available to address the differentiated needs and motivations of clients who are, or feel to be, experiencing financial and repayment pressures.

It is appropriate, therefore, to disaggregate the risk matrix (see charts 1 and 2 above) into different segments (charts 3 and 4 above) and identify the potential characteristics and risk management needs related to each.

The above analysis focuses upon the clients’ perception of concern / vulnerability in relation to their immediate budgetary cash flow pressures. Such segmentation of the varying attitudes towards risk and budgetary capacity will enable the establishment of a differentiated approach towards risk management

and client development, and thereby more effective levels of client service and support – rather than the overly blunt mechanisms of an undifferentiated approach by the lending institution towards those clients with repayment difficulties or financial concerns.

The risk matrix provides, therefore, a broad segmentation of clients into a differentiated risk framework. This combines a range of factors and enables the traditional credit risk assessment of independent criteria to be complemented by a portfolio approach combining both quantitative and qualitative dimensions of the client.

CLIENT SURVEY - INDIVIDUAL

We would like to better understand about how you undertake loan repayments.
All responses will remain confidential

1-2	Loan Identification <i>{All Respondents}</i>	Do you have loans with :	Yes, loan for personal needs	Yes, loan for business	Not now, but in last 2 years	Never	If Yes, how many
Q.1	Microfinance institution		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Q.1.a <input type="checkbox"/>
Q.2	Commercial bank (loan), excl. house purchase and credit card		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Q.2.a <input type="checkbox"/>

3-8 Please tell us about yourself : <i>{All Respondents}</i>											
Q.3	Gender :	Male	<input type="checkbox"/>	Female	<input type="checkbox"/>	Q.4	Age :	<input type="checkbox"/>	<input type="checkbox"/>		
Q.5	Number of people in household (inc. respondent)			<input type="checkbox"/>	<input type="checkbox"/>	Q.6	Number of dependents			<input type="checkbox"/>	<input type="checkbox"/>
Q.7	Marital Status	Married	<input type="checkbox"/>	Single	<input type="checkbox"/>	With Partner	<input type="checkbox"/>	Widow/Widower	<input type="checkbox"/>		
Q.8	Where do you live :	City / Town	<input type="checkbox"/>	Urban	<input type="checkbox"/>	Rural	<input type="checkbox"/>				

9-12 Income <i>{All Respondents}</i>												
What is the source of your income :												
Q.9	Regular work	<input type="checkbox"/>	Irregular work	<input type="checkbox"/>	Own Business	<input type="checkbox"/>	Remittance	<input type="checkbox"/>	Other inc. Agriculture Sales	<input type="checkbox"/>	None	<input type="checkbox"/>
<i>{Tick any which apply}</i>												
Q.10	In what type(s) of trade activity do you earn your income <i>{Tick any which apply}</i>											
	Manufacture	<input type="checkbox"/>	Food Production	<input type="checkbox"/>	Retail	<input type="checkbox"/>	Engineering	<input type="checkbox"/>	Building - Property	<input type="checkbox"/>		
	Service	<input type="checkbox"/>	Agriculture	<input type="checkbox"/>	Public Sector	<input type="checkbox"/>	Other	<input type="checkbox"/>				
Q.11	How would you describe the receipt of your income <i>{Tick any which apply}</i>	From employer 1 or 2 weekly	<input type="checkbox"/>	From employer monthly	<input type="checkbox"/>	Income payments sometimes delayed	<input type="checkbox"/>	Occasional or irregular payments	<input type="checkbox"/>	Income from own business	<input type="checkbox"/>	
Q.12	How many people earn income in your household <i>{Please enter number}</i>									<input type="checkbox"/>	<input type="checkbox"/>	

13-22 Household Budget <i>{All Respondents}</i>																
Q.13	How much is the average total monthly income into your household budget <i>{Please enter amount}</i>									TJS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.14	How much do you spend each month (on average) on food and household expenditure									TJS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.15	How much do you spend each month (on average) on gas, electricity, water, rent, garbage collection									TJS	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.16	Do you have any payment arrears with any of electricity, gas, water, or housing costs									Yes	<input type="checkbox"/>	No	<input type="checkbox"/>			
Do you have other loans with :										Yes, loan outstanding	<input type="checkbox"/>	Not now, but in last 2 years	<input type="checkbox"/>	Never	<input type="checkbox"/>	
Q.17	House purchase / property loan									<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
Q.18	Friends or family									<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
Q.19	Retail shop									<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
Q.20	Moneylender or Pawnshop									<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
Q.21	Employer									<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
Q.22	Credit Card									<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

Survey Questionnaire

23-35 Lifestyle *{All Respondents}*

Did any of the the following situations happen to you in the last six months *{Please tick all which apply}*

	Yes	No		Yes	No
Q.23 I lost my job	<input type="checkbox"/>	<input type="checkbox"/>	Q.24 My business was not successful	<input type="checkbox"/>	<input type="checkbox"/>
Q.25 My spouse / partner lost his/her job	<input type="checkbox"/>	<input type="checkbox"/>	Q.26 I had to sell a major asset to repay a loan	<input type="checkbox"/>	<input type="checkbox"/>
Q.27 Major illness of self or family	<input type="checkbox"/>	<input type="checkbox"/>	Q.28 Family or friends provided money to repay my loan	<input type="checkbox"/>	<input type="checkbox"/>

We would like to know how much you agree with the following statements

	Strongly	Agree	Disagree	Strongly	Do Not Know
	Disagree			Disagree	/ No Opinion
Q.29 My financial situation has improved in the last 6 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.30 I feel in control of my financial situation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.31 My children will have a better life than me.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.32 My household expenses have risen faster than income in the last 6 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.33 The quality of my life has improved in the last 12 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.34 I can afford to buy 'treats' for myself or my family	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.35 Most of my friends have difficulties meeting their domestic budget needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

36-41 Loan Dimensions *{Current and Former Borrowers}*

Please tell us about your loan(s)

What type(s) of loan have you used in the last 2 years *{Please tick all which apply}*

Q.36 Microfinance institution	Group <input type="checkbox"/>	Business <input type="checkbox"/>	Individual <input type="checkbox"/>	Agricultural <input type="checkbox"/>	Other <input type="checkbox"/>
Q.37 Commercial bank	Group <input type="checkbox"/>	Business <input type="checkbox"/>	Individual <input type="checkbox"/>	Agricultural <input type="checkbox"/>	Other <input type="checkbox"/>

(excl. mortgage and credit card)

Q.38 What was the main reason(s) for your last loan *{Mark up to two reasons}*

Asset acquisition - business <input type="checkbox"/>	Asset acquisition - domestic <input type="checkbox"/>	Other domestic <input type="checkbox"/>	Property <input type="checkbox"/>	Repay / replace existing loan <input type="checkbox"/>	Business Needs <input type="checkbox"/>
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Q.39 During the last 2 years, how many loans have you taken from microfinance institutions and commercial banks	<i>Enter number</i>	<input type="text"/>	<input type="text"/>
Q.40 How many lenders have you used for these loans	<i>Enter number</i>	<input type="text"/>	<input type="text"/>
Q.41 How many guarantees have you given for debts which are still outstanding	<i>Enter number</i>	<input type="text"/>	<input type="text"/>

42-54 Loan Dimensions *{Current Borrowers}*

Please tell us about your loan(s)

Q.42 Total amount outstanding of all loans	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	<i>{Please enter TJS amounts for Q. 42 and Q.43}</i>								
Q.43 How much is total monthly repayments for all loans	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

(include MFIs, banks, house mortgage)

Q.44 Have you pledged any assets as collateral to secure your loan	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
Q.45 Is any of your loan indebtedness (Q.42) outstanding in a currency which is not Tajikistan Som	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
Q.46 Are any of your loans in arrears	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
Q.47 Have you refinanced, or consolidated your debts during the last 12 months	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
Q.48 Have you applied for a loan in the last 12 months	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
Q.49 If 'yes', has any lender refused to lend to you	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
Q.50 Have you received any formal legal action for debt non-repayment in the last 12 months	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No

Q.51 How long ago did you take out your last loan

Within 1 month <input type="checkbox"/>	1 - 3 months <input type="checkbox"/>	4 - 6 months <input type="checkbox"/>	7 - 12 months <input type="checkbox"/>	Over 12 months <input type="checkbox"/>	Cannot remember <input type="checkbox"/>
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Q.52 Compared with 12 months ago your present total loans are

Much Higher <input type="checkbox"/>	Higher <input type="checkbox"/>	The Same <input type="checkbox"/>	Less <input type="checkbox"/>	Much Less <input type="checkbox"/>
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Q.53 After the next 12 months, do you expect your debt level to be

Much Higher <input type="checkbox"/>	Higher <input type="checkbox"/>	The Same <input type="checkbox"/>	Less <input type="checkbox"/>	Much Less <input type="checkbox"/>
--------------------------------------	---------------------------------	-----------------------------------	-------------------------------	------------------------------------

Q.54 Who undertakes the loans in your family

Only you <input type="checkbox"/>	Only your spouse/partner <input type="checkbox"/>	Jointly <input type="checkbox"/>	Both of you independently <input type="checkbox"/>
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55-61 Lending Institution (All Respondents)

When you think about lending institutions, how much do you agree with the following statements

	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know / No Opinion
Q.55 Clients are treated with respect	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.56 The institutions respond well to people with repayment problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.57 Lending institutions are trustworthy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.58 Lending institutions seek to improve the lives of its clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.59 Lending institutions act with integrity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.60 Lending institutions understand customers' needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.61 Lending institutions explain the terms and obligations of the loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

62-74 We would like to know your opinion, and how much you agree with the following statement (Current and Former Borrowers)

	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know / No Opinion
Q.62 Loans improve the quality of life	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.63 When I took my last loan, the charges (interest and fees) were explained to me and I know how much I am paying	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.64 Loans were easy to obtain	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.65 I borrowed too much	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.66 It is / was difficult to resolve debt problems with lending institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.67 Debt repayments cause problems within my family	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.68 My loan repayments are / were more than I can afford	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.69 I need / needed to continue to borrow to maintain how my family and I live	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.70 I would like help to resolve debt problems with my lending institution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.71 It is better to borrow from only one institution, rather than to change lenders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.72 When I drew my last loan, the lender knew what I could afford	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.73 Food expenditure has been reduced to make loan repayments				Yes <input type="checkbox"/>	No <input type="checkbox"/>
Q.74 I (or my spouse) have taken additional work to make loan repayments				Yes <input type="checkbox"/>	No <input type="checkbox"/>

75-77 We would like to know your attitudes towards saving. (All Respondents)

Q.75 Do you make savings with a financial institution	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Q.76 Do you make other regular cash savings	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Q.77 Have you bought an insurance product(s) from your financial institution	Yes <input type="checkbox"/>	No <input type="checkbox"/>

78-79 From which institution(s) have you borrowed in the last 2 years (Current and Former Borrowers)

<i>(Please tick all which apply)</i>		
Q.78	Microfinance Institution	<input type="checkbox"/>
	AccessBank	<input type="checkbox"/>
	Agroinvestbank	<input type="checkbox"/>
	Bank Eskhata	<input type="checkbox"/>
	FINCA	<input type="checkbox"/>
	FMFB	<input type="checkbox"/>
	IMON	<input type="checkbox"/>
	MDO Arvand	<input type="checkbox"/>
	MLO HUMO	<input type="checkbox"/>
	Other*: Please name institution:	<input type="text"/>
Q.79	Commercial Bank	<input type="checkbox"/>
	Aviabank	<input type="checkbox"/>
	Central Asian Bank	<input type="checkbox"/>
	East Credit Bank	<input type="checkbox"/>
	Orionbank	<input type="checkbox"/>
	Tajbank	<input type="checkbox"/>
	Tajikbankbusiness	<input type="checkbox"/>
	Tajprombank	<input type="checkbox"/>
	Vnesheconombank	<input type="checkbox"/>
	Other*: Please name institution:	<input type="text"/>

Thank you for participating in this survey - All answers will remain confidential

Comments, if any, made by respondent

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