

FINANCIAL ANALYSIS

A. Summary

1. Microfinance institutions (MFIs) should be selected for participation in the project based on the following criteria: (i) financial soundness as evidenced by adequate capital, asset quality, liquidity, and profitability; (ii) adequate credit and risk management policies, operating systems, and procedures; (iii) compliance with prudential regulations, including exposure limits; (iv) acceptable corporate and financial governance and management practices including, among other things, transparent financial disclosure policies and practices; (v) sound business objectives and strategy and/or plan; (vi) autonomy in lending and pricing decisions; and (vii) adequate policies, systems, and procedures for assessing and monitoring the impact of subprojects.

2. Financial due diligence was conducted on four MFIs—IMON, Arvand, Humo, and Oxus—to determine market capacity to deliver the proposed credit lines. This section presents summary findings of the due diligence.

Table 1: Basic Information on Indicative Microfinance Institutions (2012)

Item	IMON	Arvand	Humo	Oxus
Rank by Total Loan Portfolio	1	2	3	5
Equity	\$16,598,358	\$3,418,456	\$3,858,980	\$3,125,136
Total Assets	\$68,474,473	\$20,672,249	\$16,648,554	\$15,402,382
Equity/Total Assets	24.2%	16.5%	23.2%	20.3%
Return on Assets	6.5%	5.0%	9.0%	3.4%
Return on Equity	26.2%	30.6%	38.7%	16.7%
Intermediation Cost Ratio (Operating Expenses/Total Assets)	26.8%	28.8%	32.9%	31.2%
Portfolio at Risk > 30 days	2.2%	0.2%	1.2%	0.7%
Write-off Ratio	0.30%	0.02%	0.00%	0.49%
No. of Branches	16	5	14	5
No. of Sub-branches	...	11	37	24
No. of Loan Officers	503	126	205	139
No. of Borrowers	58,419	19,611	22,300	10,031
% Female Borrowers	36.9%	43.1%	50.0%	33.0%
Average Loan Balance	\$1,172	\$1,054	\$747	\$1,535
Yield on Gross Loan Portfolio	32.9%	36.5%	40.4%	35.4%

Sources: Association of Microfinance Organizations of Tajikistan (unaudited data); MFI websites (no. of branches and sub-branches).

3. In addition, the Government of Tajikistan and ADB agreed that MFIs may only participate in the project if they meet 10 other requirements, including six financial ratios (RRP main text, para. 20). They must (i) comply with all capital adequacy requirements and other prudential requirements established by the National Bank of Tajikistan; (ii) have a ratio of equity to total assets of not less than 12%; (iii) have a ratio of return on assets greater than zero; (iv) have a ratio of return on equity of not less than 10%; (v) have ratio of intermediation costs of less than 33%; (vi) have a portfolio at risk (PAR) over 30 days of less than 5%; (vii) have a write-off ratio of less than 5%; (viii) have corporate, financial, management, and governance practices acceptable to ADB and the Ministry of Finance; (ix) have satisfied ADB's integrity, anti-money laundering, and counter-financing of terrorism due diligence requirements; and (x) have a demonstrated presence in low income urban and rural areas. All four MFIs meet all 10 requirements (Table 2).

Table 2: Assessment of Tajikistan MFIs with Agreed-Upon Requirements (2012)

Item	Requirement	IMON	Arvand	Humo	Oxus
All NBT prudential requirements complied with?	Yes	Yes	Yes	Yes	Yes
Equity/Total Assets	≥12%	24.2%	13.6%	23.2%	20.3%
Return on Assets	> 0%	6.5%	5.0%	9.0%	3.4%
Return on Equity	≥10%	26.2%	30.6%	38.7%	16.7%
Intermediation Cost Ratio (Operating Expenses/Total Assets)	<33%	26.8%	28.8%	32.9%	31.2%
PAR (Portfolio at risk)>30 days	< 5%	2.2%	0.2%	1.2%	0.7%
Write-off Ratio	< 5%	0.3%	0.1%	1.3% ^a	1.2% ^a
ADB financial intermediary due diligence ok?	Yes	Yes	Yes	Yes	Yes
ADB integrity due diligence ok?	Yes	Yes	Yes	Yes	Yes
Substantial outreach in rural areas?	Yes	Yes	Yes	Yes	Yes
Summary	Ok	Ok	Ok	Ok	Ok

ADB = Asian Development Bank, MFIs = microfinance institutions, NBT = National Bank of Tajikistan

^a 2011 data.

Sources: Asian Development Bank; Association of Microfinance Organizations of Tajikistan (AMFOT). 2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

B. Information on Individual Microfinance Institutions

1. IMON

4. IMON was founded in 1999 by Mercy Corps and the National Association of Business Women of Tajikistan. In 2005, it registered as a micro loan foundation (MLF). In 2008, the MLF transferred virtually all of its assets and operations to a newly established limited liability company subsidiary of the same name that was licensed as a microlending organization (MLO). In 2012, the MLO upgraded its license to a microcredit deposit organization (MDO). The MDO's two largest owners are MLF Imon (85%) and Mennonite Economic Development Associates (10%).

5. Headquartered in Khudjand, IMON originally focused its lending activities in Sughd province and its capital city, Khudjand. However, it currently operates a network of 16 branches in Khatlon province, the Districts of Republican Subordination (DRS), and the city of Dushanbe. Since inception, it has continuously maintained its position as the largest MFI in Tajikistan. From 2007–2012, its market share among MFIs ranged between 36% and 40%; in 2012, it was 38%—more than three times larger than the next largest MFI, Arvand. It employs more than 700 staff, including 503 loan officers. The average loan balance among its borrowers, 37% of which are female, is \$1,172. Its PAR over 30 days (i.e., the percentage of its loan portfolio on which a payment is more than 30 days delinquent) is currently 2.2%. IMON is highly profitable, with a return on equity of 26.2%.

2. Arvand

6. Arvand was founded under the name of Microinvest in 2002 by ACDI/VOCA with substantial support from USAID. In 2005, it registered as an MLF. In 2008, the MLF transferred virtually all of its assets and operations to a newly established limited liability company subsidiary called Arvand, which was licensed in 2009 as an MDO. The MDO is owned by MLF Microinvest (50.3%) and MCC Frontiers LLC (49.7%), which is a Bishkek-based wholesale funder of MFIs in Central Asia. Arvand is the only large MFI with a large minority shareholder, as well as the only MFI that has a significant deposit base: \$1.3 million, which is equal to 6.1%

of its loan portfolio. Its strategic plan includes expanding its geographical outreach, developing new products, improving service quality, enhancing its social impact, increasing efficiency, and maintaining profitability.

7. Headquartered in Khujand, Arvand originally focused its lending activities in Sughd province and its capital city, Khujand. However, it currently operates a network of five branches and 11 sub-branches in 7 districts in Sughd province and 9 districts in the DRS. Since inception, it has almost continuously maintained its position as the second largest MFI in Tajikistan. Its current market share is 11%. It employs 300 staff, including 126 loan officers. The average loan balance among its borrowers, 43% of which are female, is \$1,054. Arvand has historically maintained the lowest levels of loan delinquency among large MFIs; its PAR over 30 days, which peaked at only 2.5% during the 2009 financial crisis (compared to more than 10% for many MFIs), is currently 0.2%. Arvand is highly profitable, with a return on equity of 30.6%.

3. Humo

8. Humo, which commenced operations in 2005 as an MLF, inherited the small microfinance operations of CARE, a US-based international nongovernment organization (NGO). In 2008, the MLF transferred virtually all of its assets and operations to a newly established limited liability company subsidiary called Humo and Partners, which was licensed as an MLO. The MLO is wholly owned by MLF Humo. In 2013, the MLO intends to apply to convert its license into that of an MDO. Its strategic plan also includes developing new products, adopting a quality management system, increasing its social impact, and implementing a state-of-the-art risk management system.

9. Headquartered in Dushanbe, Humo originally focused its lending activities in Dushanbe and surrounding districts of the DRS. It later expanded into Khatlon and Sughd provinces. It currently operates 14 branches and 37 sub-branches. Its rank among MFIs rose from sixth in 2007 to third in 2012. Its current market share is 10%. It employs more than 300 staff, including 205 loan officers. Among large MFIs, it has the highest percentage of women borrowers (50%) and the lowest average loan balance (\$747). Its PAR over 30 days is currently 1.2%. Despite high operating expenses attributable to its large number of offices in rural areas and lower average loan balances than its competitors, Humo has the highest return on equity of any large MFI (38.7%).

4. Oxus

10. Oxus commenced operations in 2006 as an MLO organized as a limited liability company. It inherited the Tajikistan microfinance operations (which had begun in 1997) of ACTED, a French nongovernment organization. Oxus is wholly owned by Oxus Holding S.A., a Luxembourg-based investment vehicle that is 86% owned by ACTED. Oxus intends to apply to upgrade its MLO license and become an MDO, but this is not planned for 2013. Eventually, it hopes to launch mobile banking services, offer money transfers and remittances, and provide microinsurance products.

11. Headquartered in Dushanbe, Oxus originally focused its lending activities in Khatlon province and the DRS. It later expanded into Sughd province. It currently operates five branches (Dushanbe, Khujand, Kulyab, Kurgan Tube, and Shaartuz) and 24 sub-branches. It currently ranks fifth among MFIs. Its current market share is 9%. It employs around 200 staff, including 139 loan officers. Among the largest MFIs, it has the lowest percentage of women borrowers (33%) and the highest average loan balance (\$1,535). Its PAR over 30 days is 0.7%, the lowest

delinquency ratio after Arvand. Oxus is profitable, although its return on equity (16.7%) is lower than that of Imon, Arvand, and Humo.