

## MICROFINANCE SECTOR ANALYSIS

1. The microfinance sector in Tajikistan began in 1999 and the early 2000s with the creation of microfinance programs by the United Nations Development Programme (UNDP) and by international nongovernment organizations (NGOs), such as Mercy Corps, ACDI/VOCA, CARE, and ACTED. These 4 international NGOs later spun off their microfinance programs into independent organizations—IMON, Microinvest (later renamed Arvand), Humo, and Oxus, respectively—that were legally organized as foundations under Tajik law. A fifth international NGO—FINCA—founded its operation as a branch.

2. In 2004, after sustained assistance by donors including ADB, Parliament enacted Tajikistan's first microfinance law. First, the law created 3 types of microfinance institutions (MFIs) that could make loans of up an amount determined by the National Bank of Tajikistan (NBT), which is currently \$50,000 for loans to individuals: (i) micro loan foundations (MLFs), which could neither have shareholders nor take deposits, (ii) micro loan organizations (MLOs), which had shareholders but could not take deposits, and (iii) micro deposit organizations (MDOs), which had shareowners and could take deposits. The law required existing MFIs to register with the NBT or cease lending activity, and required new MFIs to apply for a license with the NBT, which became the supervisor and regulator of MFIs.

3. In 2005 and 2006, all of the large MFIs sponsored by the foreign NGOs registered with the NBT, as did many of the 86 smaller *jamoat*-level MFIs that had been founded by UNDP.<sup>1</sup> Attracted by the financial returns achieved by some of the existing MFIs, several MFIs (including some MDOs) were also created by local entrepreneurs; these MFIs were designed only to generate profits, while the foreign sponsored NGOs generally retained a "double bottom line", i.e., seeking to achieve both social welfare goals—such as poverty reduction and women's empowerment—and good financial returns in order to enable sustained growth.

**Table 1: Growth of Microfinance Institutions in Tajikistan**

Item	2005	2006	2007	2008	2009	2010	2011	2012
Number of MFIs:								
MDOs	0	5	8	14	31	35	34	34
MLOs	1	20	24	37	42	42	43	44
MLFs	20	30	38	41	43	44	45	46
Total	21	55	70	92	116	121	122	124
Aggregate gross loan portfolio (\$ million)	9	21	45	79	72	99	132	190
Number of borrowers	25,000	44,960	64,227	93,965	04,802	113,252	126,421	180,073
Portfolio at risk (PAR) over 30 days	...	...	2.1%	1.0%	10.0%	7.0%	1.3%	2.0%

... = not available, MDO = micro deposit organization, MLF = microloan foundation, MLO = microloan organization, PAR = portfolio at risk

Source: National Bank of Tajikistan (NBT). 2012. *Statistical Bulletin*. Dushanbe; Association of Microfinance Organizations of Tajikistan (AMFOT). 2007–2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

4. From 2005–2008, the industry expanded rapidly, from 21 to 92 MFIs (Table 1). Over the same period, the MFIs' aggregate loan portfolio increased almost 9 times—from \$9 million to \$79 million, and the number of borrowers increased from 25,000 to 94,000 (Table 1). This growth was made possible by the relatively easy availability of credit for the largest MFIs, all of

<sup>1</sup> K. Qamar. 2006. *Jamoat Resource Center Revolving Fund: Future Options to Formalize into an MFI*. Dushanbe: UNDP Tajikistan.

which were well-managed and had achieved financial self-sustainability (FSS) and had high rates of return. This credit was provided by foreign lenders including Blue Orchard, Dexia, EBRD, Oikocredit, and responsAbility. ADB provided loans to Oxus and 13 smaller MFIs, not all of which had achieved FSS. With few exceptions, all of the foreign loans were denominated in US dollars and Euros. Demand for credit increased during this period because of improved economic activity in the country, which was partly due to higher prices for commodity exports and partly due to increasing remittances from Russia and Kazakhstan.

5. In 2009, the financial crisis hit Tajikistan. Loan demand fell (by around 9%) and delinquencies increased (the percentage of loans with payments overdue more than 30 days [PAR>30 days] went from 1.0% to around 10%) (Table 1). MFIs had to engage in restructuring loans to borrowers, and MFIs with foreign loans had to keep repaying their foreign currency-denominated loans by converting somoni which depreciated by almost 27% that year. Many MFIs lost significant amounts of capital as a result of loan losses or currency devaluation, but few MFIs became insolvent; instead, they merely shrank their operations.

6. In 2010, the somoni stabilized, remittances rebounded, and consumer confidence returned. Foreign lenders, impressed by the ability of their Tajik MFI borrowers to manage the crisis and continue to make their debt service payments on time (and eager to lend to creditworthy borrowers who would pay a spread above LIBOR), increased their loans to Tajik MFIs dramatically. Total outstanding loan portfolio increased by 36% over 2009, while PAR>30 decreased to 7.0% (Table 1).

7. The strong growth and low delinquency environment returned in 2011 and continued in 2012 (Table 1). Total outstanding loan portfolio increased by 93% over the two-year period (to \$190 million), and the number of borrowers exceeded 127,000. PAR>30 fell to 1.3% at end of 2011, increasing to 2.0% by end-2012. However, this growth took place among existing MFIs; the total number of MFIs increased by only 3—from 121 to 124—from 2010 to 2012.

8. An important trend over the past 5 years has been the decline in the portion of MFI loans made for trade (from around one-half to around one-third) and an increase in the portion of loans for consumption (from zero to almost one-sixth) (Table 2).

**Table 2: Allocation by Sector of Loans by Microfinance Institutions**

Sector	2007	2008	2009	2010	2011
Trade	49.9	59.6	48.8	41.7	35.5
Production	4.5	4.6	3.6	3.9	4.3
Services	6.3	2.6	8.3	10.1	7.2
Agriculture	39.4	31.0	30.1	30.7	32.9
Consumer loans	-	0.5	9.1	13.2	14.9
Migration loans	-	-	0.1	0.5	1.0
Other		1.7	0	0	4.0
Total	100.1	100.0	100.0	100.1	99.9

Sources: AMFOT. 2006–2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

9. By the end of 2012, 34 of the 124 licensed MFIs were MDOs (Table 1). Three of the 6 largest NGO-sponsored MFIs (Arvand, FINCA, and IMON) had converted into MDOs in order to be able to take deposits, while the 6th largest MFI had been created as an MDO from inception. Although from 2010–12, the growth in deposits (133%) exceed the growth in loan portfolio (93%), the percentage of loans funded by deposits increased from only 11.0% to 13.2% (i.e., from \$11 million to \$25 million) (Table 3). However, because only 1 of the 3 converted MDOs

(Arvand) has actually begun taking deposits, there is significant potential for expansion of deposit-taking by MFIs. There is reason for optimism given the large client base of these MFIs, especially if development partners are generous in providing technical assistance for deposit taking, as they have done for microfinance-focused banks in Tajikistan (para. 10) and other countries.

**Table 3: Total Deposits of All Microcredit Deposit Organizations in Tajikistan**

Item	2005	2006	2007	2008	2009	2010	2011	2012
Total deposits (\$ millions)	0	0.4	0.9	2.6	6.1	10.9	14.6	25.2
% in somoni	...	...	...	83	66	51	31	26
% of loans of all MFIs	0	1.7	2.0	3.3	8.4	11.0	11.0	13.2

Sources: National Bank of Tajikistan (NBT). 2012. *Statistical Bulletin*. Dushanbe; AMFOT. 2006–2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

10. Deposit-taking—especially in local currency (currently, around three-quarters of deposits are in US dollars [Table 3] as a result of steady and sometimes dramatic depreciation of the somoni [Table 4])—will be challenging, because of (i) historic distrust of banks (most Tajiks lost all of their savings in banks in the 1990s, (ii) fear of government appropriation (bank deposits of enterprises were forcibly converted into shares of the Rogun dam company 4 years ago) and harassment by tax authorities, (iii) the lack of tested deposit insurance system, (iv) pent-up demand for consumption (e.g., for vehicles and home improvements), and (v) alternative uses for savings that may provide higher yields than savings accounts (e.g., investments in livestock).

**Table 4: Statistics on Exchange Rate Depreciation and Consumer Price Inflation**

Item	2005	2006	2007	2008	2009	2010	2011	2012
Exchange rate (TJS/\$)	3.2	3.4	3.4	3.4	4.1	4.4	4.6	4.8
TJS/USD depreciation (year on year)	5.3%	7.1%	1.1%	(0.4%)	20.6%	7.3%	4.5%	4.3%
Consumer price inflation	7.3%	10.1%	13.2%	20.4%	6.5%	6.5%	12.5%	5.8%

Sources: National Bank of Tajikistan website (exchange rates); World Bank (inflation prior to 2012); ADB. 2013. *Asian Development Outlook 2013*. Manila (inflation for 2012).

11. Tajikistan's MFIs have a commitment to social goals and women's empowerment. 39% of clients and 32% of loan disbursements are to women. Women lead 3 of the 5 largest MFIs. MFIs are actively involved in innovative programs that require them to incur additional costs. For example, Arvand and IMON have partnered with Habitat for Humanity to make home improvements for clients using personnel whose costs are shared between Habitat for Humanity and the MFI. Other MFIs are involved with other NGOs, including NGOs involved in energy efficiency.

12. Six MFIs—all of which are based in either Dushanbe or Khudjand—control more than 80% of the market (Table 5). IMON has been the largest from the beginning, controlling between 35–40% of the market. For 5 of the past 6 years, Arvand has been ranked second; its market share is currently 11%. FINCA, Humo, and Oxus compete among themselves for the next 3 places, while Matin has ranked sixth for the past 3 years. IMON, FINCA, Humo, and Oxus operate in all five of the populous regions of the country—Khatlon, Sughd, the Districts of Republican Subordination (DRS), and the cities of Dushanbe and Khudjand.

**Table 5: Market Shares of 6 Largest Microfinance Institutions in Tajikistan**

Rank	2007	2008	2009	2010	2011	2012
1	IMON (35%)	IMON (39%)	IMON (40%)	IMON (37%)	IMON (36%)	IMON (38%)
2	Arvand (18%)	Arvand (14%)	Oxus (7%)	Arvand (9%)	Arvand (11%)	Arvand (11%)
3	FINCA (11%)	FINCA (12%)	FINCA (7%)	Oxus (8%)	Oxus (9%)	Humo (10%)
4	Oxus (8%)	Oxus (10%)	Arvand (6%)	FINCA (8%)	Humo (8%)	FINCA (9%)
5	Imkoniat (6%)	Humo (6%)	Humo (5%)	Humo (6%)	FINCA (8%)	Oxus (9%)
6	Humo (5%)	Borshud (2%)	Spitamem Capital (2%)	Matin (3%)	Matin (6%)	Matin (6%)
<b>Total Market Share</b>	<b>83%</b>	<b>83%</b>	<b>67%</b>	<b>71%</b>	<b>78%</b>	<b>83%</b>

Source: AMFOT. 2008–2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

13. Healthy, profitable operations are not limited to large MFIs, however. Fifty-three of the 64 other most active MFIs are profitable.<sup>2</sup> Among the 20 MFIs whose financial ratios qualify them for participation in the Access to Green Finance Project (RRP main text, para. 20) are—in addition to all of the six largest except FINCA (which is unprofitable)—one other large MFI (Rushdii Vodii Zarafshon, based in Penjikent), six medium MFIs (with between 250 and 1000 clients), and 8 small MFIs. 10 of the 14 small and medium MFIs are based outside of the main cities, i.e., in Shahrituz (2), Shurobod, and Vose in Khatlon province; in Asht, Penjikent, and Isfara in Sughd province; in Faizobod in DRS; and in Darvoz and Khorog in Gorno-Badakhshan Autonomous Region.

14. In addition, one full-service commercial—Agroinvestbank (AIB)—and two commercial banks with a principal focus on microfinance and SME lending—First MicroFinanceBank (FMFB) (founded 2003) and AccessBank (AB) (founded 2010)—actively compete against the MFIs. Together, the three had around 39,000 borrowers at the end of 2012. However, the average loan sizes of AIB and AB (\$10,305 and \$4,244, respectively) are much larger than the average loan sizes of MFIs (\$1,295), and their percentage of women borrowers is lower (e.g., for AB, 28% compared to MFI average of 36%). In addition, AccessBank is not yet profitable and FMFB did not become profitable until 2012.

15. Donors—in the earliest years especially ACTED, Aga Khan Foundation, CARE, Mercy Corps, UNDP, and USAID, and since 2004 especially ADB, EBRD, GIZ, IFC, KfW, and USAID—have provided strong support to MFIs in Tajikistan (linked document 7). This support has included support for the Association of Microfinance Organizations of Tajikistan (AMFOT)—which places a critical support and information sharing role in support for the sector, support for the development of a credit bureau (which is scheduled to become fully operational in late 2013), extensive capacity building for MFIs and the NBT, and capital in the form of both debt and equity.

16. Given that there are fewer than 200,000 small borrowers in Tajikistan (with a population of 8 million), compared to more than 400,000 in the Kyrgyz Republic (with a population of 5.5 million), there is significant potential for continued growth in the MFI sector. The principal challenges for the MFI sector are the need to raise—through deposit-taking—more somoni-

<sup>2</sup> Source: AMFOT. 2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

denominated funding (i.e., most foreign-provided funding is denominated in US dollars or euros) to reduce currency risk, to diversify product lines to include more loan products as well as deposit, remittance, money transfer, and currency exchange products, and to avoid an overlending crisis like those that occurred in the MFI sectors in Bosnia and India.

17. In addition, in order to further expand, MFIs will continue to need to raise additional equity capital. Foreign investors, including the "socially responsible" investors that do not seek to maximize profits that have invested in MFIs in other countries, continue to be reluctant to invest in Tajikistan because of its unfavorable investment climate (ranking 141st of 185 countries in the 2013 Doing Business report<sup>3</sup>), the lack of a robust credit bureau, questions about the strength of NBT supervision of MFIs, and the risk of government interference or appropriation. Thus far, government regulation of MFIs has been relatively benign. For example, unlike the Kyrgyz Republic, there has been no serious discussion of imposing interest rate caps. And, unlike banks, the government has not interfered in their operations by directing credit to favored sectors (e.g., cotton production). Indeed, anecdotal evidence suggests that the government's support for the microfinance sector is increasing as difficulties in the banking sector continue. The banking system is plagued by low profitability, high levels of non-performing loans, and inadequate capital.<sup>4</sup>

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<sup>3</sup> World Bank and IFC. 2012. *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises*. Washington, DC.

<sup>4</sup> IMF. 2012. *Republic of Tajikistan: Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility—Staff Report; and Press Release*. Washington, DC. (IMF Country Report No. 12/110.)