Kyrgyz Republic: Borrowing by Individuals

A Review of the Attitudes and Capacity for Indebtedness

Summary Issues and Observations

In partnership with:

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INTRODUCTION

A survey was undertaken in September 2014 to gain further insights into the experience of borrowing by individuals in Kyrgyzstan. This followed a similar survey which was undertaken in September / October 2013. The structure of the annual surveys was consistent and 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 additional perspective of a comparison across a 12 month period provides a strong additional dimension to such insights. 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 borrower.

4,000 individuals responded to the survey and spanned borrowers with microfinance institutions, commercial banks, together with some non-borrowers. This was consistent with the sample size and structure used in the 2013 survey. The methodology of the survey is outlined in Attachment 1 and the survey questionnaire is shown in Attachment 2.

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 and other essential commitments in a timely manner – and not against the '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.

Such surveys over 2013-2014 have not been undertaken previously in Kyrgyzstan. The responses provide, therefore, a unique perspective of borrowing through the eyes and minds of 8,000 individuals, particularly during a time of increasing economic pressure and increasing maturity of the market for lending to individuals.

This paper comprises:

An additional paper is separately available:

Potential Development and Action Issues for Consideration.

INDEBTEDNESS OF INDIVIDUALS: 2013 – 2014

SOME HEADLINES

A favourable change in the attitudes of borrowers towards their financial position and their relationship with the lender. Individuals recognise the increasing cost-of-living on their budgets and have reduced their level of domestic expenditure. Loan portfolios show some redistribution towards higher income clients, with the majority of lending being supported by pledged collateralised assets. This interaction of domestic budget management and higher income profile results in a slight improvement in the overall affordability of debt repayment in 2014 compared with 2013. Nevertheless, the level of borrowers (about 50%) with high levels of committed expenditure (over 75% of income) remains broadly unchanged.

1. The **average income of households remained broadly unchanged** in 2013-2014 with individual wage increases being less than inflation;

2. **Net household income (after domestic and utility costs) improved by 22%** (MFI 16% and banks 31%) reflecting lower expenditures on essential household needs (including food);

3. **Average Loan balances increased at a lower rate than inflation,** but MFIs and banks showed different lending strategies across the range of household incomes;

4. **Lending growth** was undertaken primarily by the **higher income clients**;

5. **Banks continued to provide substantially higher loans** than MFIs to borrowers with similar income levels. This appears to demonstrate significantly different lending strategies;

6. **Structural redistribution of the loan portfolios towards higher income clients** and a reduced proportion of lower income clients by both the MFIs and banks;

7. Loan portfolios show **contrasting trends across the regions;**

8. The **difference in the client income profiles between the commercial banks and microfinance institutions widened** with banks increasing further the proportion of higher income borrowers;

9. **A greater proportion of loan funds were used for domestic consumption purposes** by both MFI and bank clients. Additionally, there was an **increased usage of informal credit from retailers**;

10. After loan payments, the **net disposable income as a proportion of household income increased** for both MFIs (from 29% to 32%) and banks (from 23% to 27%);

11. The level of borrowers with **high committed expenditures was slightly reduced** at 47% of MFI and 55% of bank clients;

12. **Collateralisation of pledged assets supported a majority of loan balances**: 70% of MFI outstanding loans and 90% of bank outstanding loans;

13. **Usage of property as collateral was stronger with bank clients**, whilst MFI held a greater proportion of 'other domestic assets';

14. **Borrowers showed a stronger and positive attitude** to both their financial situation and their lifestyle, despite an increasing recognition of an adverse trend in the cost-of-living;

15. **35% of borrowers intend to renew their loans** at maturity, whilst about 40% remain undecided;

16. The **relationship between borrower and lender strengthened** during 2014.

SUMMARY REVIEW OF THE 2014 INDEBTEDNESS SURVEY AND COMPARISONS WITH THE SURVEY OF 2013

The responses of borrowers over 2013 -2014 present an overall picture of some caution.

The **net income of borrowers improved** but this resulted **primarily from reductions in the levels of domestic expenditure**, whilst individual incomes were little changed over the year. Lending institutions showed a **slight redistribution towards clients with higher incomes** and a corresponding reduction in the proportion of lending to lower income segments. The **microfinance institutions and commercial banks appeared to pursue different strategies** in relation to the client segments targeted for lending growth and also in the role and type of collateral to support such borrowing. The relationship between borrower and lending institution strengthened.

The **average incomes of wage earners remained broadly unchanged** during 2013-2014. Expenditures on **essential domestic needs were reduced** in both real and nominal terms across the range of incomes, with such reductions being greatest amongst the highest income segments *(see page 12 for additional comments).*

The lowest income segments (up to KGS 15,000) were least able to achieve reductions in domestic expenditure and these clients experienced a reduction in net income. After loan repayments, this client segment had an average monthly net income of only KGS 700 (US$12), or KGS 150 per household member. This group represents about 25% of clients, and 10% of outstanding balances *(see page 19 for additional comments).*

The apparent pressure upon domestic spending was reflected in an **increased usage of loan funds to meet domestic consumption needs** (with a consequent reduction in asset financing) and, additionally, the domestic budget was supported by a **wider usage of informal credit from retailers** *(see page 15 for additional comments).*

There was some redistribution within the loan portfolios of both microfinance institutions and commercial banks. This resulted in a **greater proportion of loans to higher income clients**, and a reduction in the proportion of lending to the lowest income segments. Such low income clients show an extremely high level of committed expenditures in relation to income and also higher levels of usage of credit for consumption needs. This redistribution of the loan portfolios results, at the institutional level, in an apparent increase in income levels and also an improvement in the affordability ratios for loan repayment *(see page 9 for additional comments).*

The emphasis of lending strategies differed between the MFIs and banks. The rate of loan growth varied in relation to target income segments and also regions. Additionally, average bank loan amounts were substantially higher than those provided by MFIs, and this applied across the range of borrower incomes. The regional profile of lending shows an inconsistency of loan portfolios and their performance dynamics over the 2013-2014 period. These suggest that lending across the regions is not subject to a consistent national policy, but is substantively affected by different local business, economic and social factor *(see page xx for additional comments).*

Despite the reductions in the levels of domestic expenditure, the **cost of loan repayments increased for a majority of borrowers** in relation to both household and net income. The loan repayment periods remained broadly unchanged, except for large loans to high income borrowers for which the maturity period was extended (thereby lowering the amount of the monthly payment)*(see page 22 for additional comments).*

The profile of **loan products do not appear to be closely aligned with the usage of the loan funds**. This applies to both types of lending institution, but particularly the microfinance institutions. The structure of the loans does not substantively reflect the different cash flow and financial characteristics of the underlying purpose of the loan. There is little differentiation in the income profiles of group and individual loan borrowers – and these types of loan are used by over 75% of borrowers *(see page 32 for additional comments).*

Collateralisation of pledged assets was widely used by both MFIs and banks. The banks appear to have used collateralisation as a basis for differentiating their lending strategy in relation to higher loan amounts and greater repayment leverage of income. Conversely, the microfinance institutions do not appear to reflect the additional support of collateral in the level of loan balances. Banks hold a higher level of property as the 'pledged asset', which suggests a greater clarity of market and realisable value, whilst the MFIs hold proportionately greater levels of 'domestic assets', which may be anticipated to be more for motivational, than realisable, purposes*(see page 25 for additional comments).*

The outlook for lending levels from the portfolios of existing borrowers appears to be 'stable', with some potential for a 'slight reduction'. It may be anticipated that borrowers will face increasing pressures upon the domestic budget and this will serve to heighten and differentiate the risk profiles of the various client segments. This highlights the importance of business development to adequately identify and respond to the capacities and needs of different segments of borrower. A significant level of borrowers appear to make decisions of future borrowing at about the time of loan maturity *(see page 34 for additional comments).*

POTENTIAL IMPLICATIONS

The above issues, together with the more detailed comments in the following notes, raise a range of implications, both strategic and operational, for the future outlook and development of lending to individuals in Kyrgyzstan. These are outlined in the separate paper "Potential Development and Action Issues for Consideration", but the following comments highlights some principal dimensions.

The progressive redistribution of the lending portfolio, by the reduction of exposure to the lowest income segment, presents a potential contraction and restructure of the market, which is already saturated by supply-driven lending institutions and an increasingly mature market of borrowers who have experienced, and continue to face, significant economic and social pressures. Against a background of unchanged household incomes (2013-2014) and increasing costs-of-living, the capacity for growth in lending in real terms becomes increasingly constrained.

Actions by lending institutions, such as extended repayment terms or increased borrowings by high income earners, may provide a short-term solution to maintain lending volumes at an institutional level. However, without a real increase in incomes or an inflow of new middle and higher-income borrowers, it is necessary to consider the level at which a 'borrowing ceiling' will impact. This may place greater emphasis upon business development (product and service) initiatives, but in the relatively limited and 'enclosed' market of Kyrgyzstan, such competitive initiatives will be engaged upon a relatively limited / finite number of clients who have a propensity to borrow – a 'zero-sum' game. This is particularly appropriate for the MFIs which face the established market position of the commercial banks in relation to higher income clients and also an established product differentiation (including collateralisation) in relation to loan amounts and terms.

Against a progressively constrained lending ceiling, the pressures upon institutional financial performance may be anticipated to increase. Competitive actions, and probably forceful client awareness, will limit upward pricing opportunities and this would suggest that there will be greater and continuing focus upon operational and delivery costs. This is more difficult for the smaller institution. This would suggest increasing pressures for rationalisation within the industry, either by seeking the benefits of greater scale and/or greater internal / operational economies, or by optimising niche strategies which may support a smaller institution.

These scenarios suggest some process of restructure of market participants and their roles. The original mission of client development for microfinance institutions appears to be obfuscated by the demands of lending to individuals and the differences in current product propositions is not substantive. This will require the identification of a strategic framework involving institutions, regulatory authorities and investment stakeholders.

Financial inclusion is necessarily more focused towards the lower income households, but it is such clients who are primarily excluded by the trends in the lending portfolios. If the loan product is increasingly unaffordable for many of such clients, this presents a basic challenge for the definition and widening impact of 'financial inclusion' across Kyrgyzstan society. The financial pressures upon the lowest income households have been consistently shown in the 2013-2014 surveys. These reflect primarily the relatively high costs of basic domestic subsistence, in addition to borrowing costs and the wider usage of informal credit sources in 2014. Additionally, this income segment has shown itself highly responsible for its financial obligations and the maintenance of loan repayments.

The survey responses of the low income segment suggest that business case / profitability of this client sub-portfolio is likely to be highly marginal and probably [*an inference by the* *writer*] cross-subsidised by the 'higher-value' clients. In a constrained and increasingly competitive market, such cross-subsidisation may not be sustainable and certainly would be particularly pressured within smaller institutions.

This raises the fundamental issue of the extent to which 'financial inclusion' should be pursued and the role to be undertaken by financial institutions. In most situations 'financial inclusion' is synonymous with lending – but it is increasingly demonstrated that a loan is not necessarily the appropriate core product to drive a long-term usage of financial services. Furthermore, if such marginal lending is a negative dynamic upon institutional financial performance, then without fundamental changes to the funding structure, such support is unlikely to be maintained.

This situation poses the basic challenge for the identity and role of the 'champion' of financial inclusion in Kyrgyzstan. If the financial institutions cannot identify a commercial basis upon which to develop and market sustainable financial products to this client segment, it may be inappropriate to presume that such institutions should be the mechanism to establish or deliver such a proposition.

Loan products do not appear to be structured, or deployed, to reflect the underlying characteristics (both cash flow and time-scale) of the usage of the loan funds. The product proposition of the microfinance institutions does not appear to facilitate direct competition with the commercial banks. Such different lending strategies appear to present significantly different business case structures for lending activities and thereby may have strong implications for the future comparative commercial performance and business development of lending to individuals by the MFIs and the banks.

The MFIs and banks display significantly different loan product propositions, with MFIs providing most loans (over 80% of clients) by similar levels of group and individual loan product. The banks, however, focus most loans (70% of clients) upon the individual loan product. Banks show a higher deployment of business loans to meet business purposes.

However, the different delivery mechanisms of 'group' and 'individual' loan products have immediate implications upon the client interface and service propositions. These affect directly upon the operational costs and also the interpersonal and credit management skills and resources which are required for the fundamentally different characteristics of these types of loan.

If there is a strategic objective to move the distribution of the loan portfolios towards higher income clients, then the 'individual' or 'business' loan may be perceived as a stronger product platform by which to achieve this, rather than a 'group' product. If such a change in product emphasis were to be required by the MFIs, it may be anticipated to require changes to the culture and organisation structures, together with an increased capacity for direct client management and appropriate credit assessment.

The availability of 'pledged asset collateral' appears to be used differently by the microfinance institutions and the banks. The banks show a more differentiated approach to their product and service proposition as a result of collateral asset support, whilst the microfinance institutions appear to present a more passive response. The development and leverage of the 'collateral opportunity' present short-term favourable opportunities, but these are not without longer-term risks to institutional reputation.

Banks appear to have used collateralised loan situations to extend substantially the amount of outstanding loan balance and also, for the highest value loans, have extended the repayment term. This has been particularly related to the provision of property as the collateral asset, although the loans have seldom been for property finance.

Conversely, the microfinance institutions do not appear to have differentiated either the amount of lending or the repayment periods in relation to the availability of collateral. The range of underlying collateral assets is more diverse than those of the banks, with a lesser availability of property, and wider holdings of domestic assets (which may, by inference, be presumed to have a lower and less realisable value).

Neither the MFIs nor the banks appear to use collateral as a mechanism for support of higher risk, or more vulnerable lending situations. However, this may reflect that borrowers maintain a high level of loan repayments and, therefore, the underlying financial pressures may not be detected by the lending institution.

Unless the dynamics of financial pressure or constraint are identified in those borrower segments affecting about 60% of clients, the implications of any substantive deterioration in the economic environment could have significant implications for the collateral structures. Such collateral may be perceived to provide, currently, a motivational stimulus to maintain loan repayments. If there were a need to seek to realise the value of collateralised assets, then the feasibility of such actions should be carefully reviewed in relation not only to the capacity for value realisation, but also in relation to the potential widespread reputational impact. However, in the event of such economic deterioration, the provision of collateral may provide a basis upon which to extend the loan proposition to accommodate the problem borrower's financial position.

The use of collateral is a further mechanism to raise the short-term lending 'ceiling' (as mentioned in the above comments). However, in 'problem debt' situations, it must be accompanied by strong discipline of domestic budget management if it is to be a successful route from over-indebtedness. If not, the lending institutions face the twin dynamics of deteriorating debt quality and the impact of asset realisation.

REVIEW OF SURVEY FINDINGS

A range of issues have been identified by the responses of borrowers in the surveys conducted in 2013 and 2014 which reflect the capacity of individuals to meet their debt obligations and also provide an additional perspective for stakeholders in the lending sector in Kyrgyzstan.

Within the last year, a similar survey has also been undertaken in Tajikistan. Whilst it is fully recognised and accepted that these are different markets, some comparisons are shown to provide an additional dimension by which Kyrgyzstan stakeholders can assess and interpret the survey findings.

It is not suggested that the following observations provide an exhaustive review of the particular issues, but rather a range of insights, based upon the unique perspective of client responses to issues which have been raised consistently in the surveys of 2013 and 2014.

It is hoped that these comments provide a basis for a more detailed review and discussion of the issues amongst appropriate stakeholders.

An additional paper has been prepared in relation to 'Potential Development and Action Issues for Consideration'

Attachments:

STRUCTURE OF LOAN PORTFOLIOS: 2013 – 2014

There has been a redistribution within the loan portfolios of both MFIs and banks towards higher income clients and a reduction in the proportion of clients in the lowest income segments. Average outstanding loans to the lowest income segments have also reduced with MFI clients. Such redistribution has occurred primarily in the metro areas.

The following table shows that there has been a redistribution of the loan portfolios of both the MFIs and the banks towards higher-income clients.

KGS	Distribution of Clients : Household Income					Distribution of Clients : Outstanding Loan				
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	< 15,000	15,001 - 30,000	30,001 - 50,000	50,001 - 100,000	> 100,000
MFI : 2013	32%	27%	26%	8%	8%	26%	28%	23%	15%	9%
MFI : 2014	27%	23%	29%	11%	9%	26%	24%	21%	19%	10%
Change	-4%	-4%	4%	3%	2%	1%	-4%	-2%	5%	1%
Bank : 2013	22%	23%	29%	11%	15%	17%	24%	21%	16%	23%
Bank : 2014	21%	17%	29%	13%	21%	20%	17%	17%	19%	27%
Change	-2%	-6%	0%	2%	6%	3%	-6%	-3%	3%	4%

This table shows some interesting trends, together with some structural differences between the MFIs and the banks.

1. The overall average outstanding loan balances increased for both the MFIs and the banks

KGS	2013	2014	Change
a. MFI	51,400	53,500	+ 4%
b. Bank	122,300	148,000	+ 21%

These increases in the average loan balance may be compared with the inflation rate (CPI) of about 7.5% reported for the year between the two surveys. This difference in growth rates suggests quite different market strategies between the MFIs and the banks.

2. The distribution of outstanding loan balances also reflects the greater emphasis upon the larger loan amount, which is primarily taken by the highest incomes (Note : the average loan amount for incomes KGS 30-40,000 is KGS 115,000 in contrast to KGS 284,000 for incomes over KGS 40,000).

3. The level of ‘overlap’ of the income profiles of MFI and bank clients reduced. The proportion of bank clients with incomes over KGS 30,000 increased from 26% to 34%, whilst the share of similar incomes with MFI clients grew only from 16% to 20% – conversely, the banks reduced the proportion of clients with incomes less than KGS 20,000 at a greater rate than the MFIs.

4. Such redistribution of the loan portfolio has occurred at different rates across the regions between the MFIs and the banks :

Regional distribution by household income	< 15,000		15,001 - 20,000		20,001 - 30,000		30,001 - 40,000		> 40,000	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Bishkek : MFI	24%	15%	24%	12%	23%	35%	12%	19%	17%	19%
Osh City : MFI	21%	20%	30%	22%	31%	34%	9%	11%	9%	12%
Chui Oblast : MFI	28%	22%	26%	29%	26%	31%	9%	12%	11%	6%
Jalal-Abad : MFI	39%	46%	32%	25%	25%	22%	3%	3%	1%	5%
Osh Oblast : MFI	45%	31%	24%	26%	23%	26%	5%	10%	3%	6%
Bishkek : Bank	18%	11%	20%	15%	25%	24%	11%	14%	25%	36%
Osh City : Bank	15%	12%	19%	14%	25%	28%	20%	14%	20%	32%
Chui Oblast : Bank	20%	18%	21%	17%	29%	33%	12%	16%	17%	15%
Jalal-Abad : Bank	31%	38%	27%	23%	27%	27%	7%	5%	7%	7%
Osh Oblast : Bank	27%	26%	29%	20%	36%	31%	5%	13%	4%	10%

This shows a consistent reduction of exposure to the lowest income segment in all regions, with the exception of Jalal-Abad, by both MFIs and banks. The scale of this shift cannot be attributed to any overall inflationary dynamic – annual CPI was about 7.5% which represents only about KGS 1,800 per month for the lowest income segment.

Conversely, the major metro areas (particularly in relation to bank clients) show a significant increase in the proportion of borrowers with household incomes over KGS 40,000.

Both MFIs and banks show particularly strong reductions in exposure to the lower income segments in the metro areas of Bishkek and Osh - which suggests that both types of institution independently established similar strategic objectives for their market position in locations.

5. The changes in the levels of outstanding loan have varied significantly in relation to the income distribution and trend of borrowers across the regions

	Change in Distribution of Household Income Segments					Change : 2013-2014			
						Average Household Income		Average Outstanding Loan	
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	KGS	Change : 2013-14	KGS	Change : 2013-14
Bishkek	-9%	-9%	7%	5%	5%	37,000	10%	123,000	3%
Osh City	-1%	-6%	3%	-2%	6%	32,100	12%	132,000	22%
Chui Oblast	-5%	0%	4%	4%	-4%	26,700	-8%	82,600	-10%
Jalal-Abad	8%	-6%	-3%	-1%	2%	21,100	0%	53,600	13%
Osh Oblast	-10%	-2%	1%	6%	5%	25,400	27%	68,800	36%

This table shows the stronger levels of redistribution in the metro areas of Bishkek and Osh, together with Osh Oblast, in contrast with the different trends in Jalal-Abad and Chui Oblast. However, there is no consistent pattern between the change in incomes and the average levels of individual outstanding loan in the different regions. This suggests that there are either different regional lending strategies, or that borrowers have adopted quite different attitudes towards debt.

This highlights the potential importance of the regional profile of the exposure of individual lending institutions, and the consequent impact upon the potential growth / risk profile of the loan portfolios.

6. A broad comparison of the distribution of incomes may be undertaken with Tajikistan[1]. The income segmentation in the following table is based upon broad US$ equivalents and is broadly similar for each country[2].

US$ equivalent Mid income range	Microfinance Institutions					Commercial Banks				
Kyrgyzstan	*<$ 230*	*$ 300*	*$ 430*	*$ 600*	*>$ 750*	*<$ 290*	*$ 340*	*$ 480*	*$ 670*	*>$ 770*
Tajikistan	*<$ 250*	*$ 310*	*$ 450*	*$ 620*	*>$ 700*	*<$ 250*	*$ 310*	*$ 450*	*$ 620*	*>$ 700*
Kyrgyzstan	27%	23%	29%	11%	9%	21%	17%	29%	13%	21%
Tajikistan	19%	19%	27%	14%	21%	13%	18%	28%	15%	26%

This table indicates that:

a. MFIs in Kyrgyzstan have a greater exposure to lower income clients than the MFIs in Tajikistan;
b. Similarly, the banks in Kyrgyzstan also have a slightly greater emphasis towards lower income clients;
c. The business case dynamics in each country may be anticipated to be quite different;
d. There is a greater differentiation in the market positions of MFIs and banks in Kyrgyzstan in relation to the distribution of the income segments, in contrast to the relatively similar level of distribution by MFIs and banks in Tajikistan.

CHANGES TO THE PROFILE OF BORROWING 2013-2014

The banks continue to provide substantially higher value loans than the MFIs to individuals at similar income levels. Growth in average loan outstandings has focused particularly towards the higher income segments. There are significant variations in the growth rates of MFIs and banks across the regions.

In conjunction with the change in client distribution (shown above), the profile of outstanding loans has also changed significantly during 2013-2014.

[1] Tajikistan : based upon a comparable survey undertaken in May 2014 involving 4,000 respondents

[2] Comparison with Tajikistan: this note does not suggest that the markets, cultures or client behaviour should be consistent across the two countries. The comparative survey responses are shown to enable the reader to gain a cross-border perspective of market behaviour and industry structure / conditions.

1. Whilst both MFIs and banks have reduced their structural exposure to the lowest income groups by similar levels and conversely increased the proportion of higher income clients, the average outstanding loan balances of the lower income segments have reduced more greatly amongst MFI clients than in the banks (as shown in the following tables).

KGS	Average Outstanding Loan Balance in relation to Household Income				
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000[3]
MFI : 2013	33,700	43,800	49,300	61,800	145,600
MFI : 2014	31,600	42,700	54,600	74,800	115,000
Change	-6%	-3%	11%	21%	-21%

KGS	Average Outstanding Loan Balance in relation to Household Income				
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000[4]
Bank : 2013	44,100	61,100	91,000	162,100	340,600
Bank : 2014	47,700	57,600	87,100	163,400	395,700
Change	8%	-6%	-4%	1%	16%

These tables provide a further indication that:

- The MFIs have structurally reduced their exposure to the lowest segments;
- The banks have a significantly different market strategy in relation to loan exposure across the range of income segments with significantly larger individual outstanding loans to individuals than are provided by the MFIs. (Note : see the later review of collateralisation of assets to provide additional perspectives upon these different market strategies and product/service propositions);
- Such different levels of outstanding loan balance have a significant and direct impact upon the business case / profit dynamics of lending to these client segments, and also to the outlook for potential risk sensitivity (Note: see the later reviews of risk profile and outlook for future borrowing).

2. The regional profile highlights also the substantive differences in average outstanding loan balances and the rates of change in the last year.

KGS	MFI : Outstanding Loan		Bank : Outstanding Loan		Change : 2013-2014	
	2013	2014	2013	2014	MFI	Bank
Bishkek	55,900	68,500	192,900	198,900	23%	3%
Osh City	61,100	61,500	161,000	228,000	1%	42%
Chui Oblast	68,100	55,600	125,800	114,400	-18%	-9%
Jalal-Abad	33,300	40,400	64,200	77,100	21%	20%
Osh Oblast	40,200	44,400	66,700	105,400	10%	58%

[3]MFI clients with household income over KGS 40,000 : note that this segments represents only 8-9% of the total MFI sample (about 175 respondents). This smaller sample size may result in a lower 'confidence factor' in the statistical analysis.

[4]MFI clients with household income over KGS 40,000 : note that this segments represents only 8-9% of the total MFI sample (about 175 respondents). This smaller sample size may result in a lower 'confidence factor' in the statistical analysis.

This table highlights:

a. The substantive differences in average outstanding loan amounts between the MFIs and the banks, with direct and significant implications for the dynamics of both the business case and risk profile dimensions;
b. The significant differences in the levels of change (again with the exception of Jalal-Abad) across the regions. This appears to be particularly significant in relation to the major metro areas of Bishkek and Osh City in which the MFIs and banks have clearly moved their market positions in contrasting ways;
c. The substantive implications for the performance of a lending institution in relation to the distribution of its lending activities across the regions.

3. A comparison of outstanding loan balances with Tajikistan shows:

Average Outstanding Loan Balance : US$ equivalent	Microfinance Institutions		Commercial Banks	
	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan
US$ exchange rate	*57.60*	*4.82*	*57.60*	*4.82*
Average Household Income	442	556	571	600
Average Outstanding Loan	950	1,450	2,550	1.800

This table shows the similarity of the loan balances of MFIs and banks in Tajikistan, in contrast with the situation in Kyrgyzstan

TRENDS IN THE DOMESTIC BUDGETS OF BORROWERS

An apparent increase in average net income levels reflects, in part, the structural redistribution of loan portfolios towards higher income segments. The domestic budgets of a significant proportion of individual borrowers appear to be under increasing pressure. Against broadly static earnings levels, reductions have been made in domestic expenditure, a greater proportion of loan funds have been used for domestic consumption and borrowers show an increasing recognition of a dependency upon loan funds to meet family needs.

The overall growth and changes of the domestic budgets during 2013-2014 show some potentially significant dimensions, together with an overall average increase in the level of net disposable income at an aggregated loan portfolio level.

KGS	Microfinance Institutions					Commercial Banks				
	Income	Domestic Expend	Utility	Loan Repay	Net Income	Income	Domestic Expend	Utility	Loan Repay	Net Income
2013	23,700	9,500	1,150	6,100	6,950	29,809	11,409	1,264	10,258	6,879
2014	25,400	9,550	1,200	6,600	8,050	32,900	11,038	1,465	11,419	8,977
Change	7%	0%	5%	9%	16%	10%	-3%	16%	11%	31%

This table may be considered in relation to an underlying cost inflationary rate (CPI) of about 7.5% during the period between the surveys and, against this economic impact upon the lives of borrowers, highlights:

a. The apparent overall 'improvement' in the average household income. However, such increase in income reflects the impact of the redistribution of the client base towards higher income households and a lower proportion of lower income segments (See comments below in relation to the underlying position of individual borrowers);

b. The substantive reduction, in real terms, in the level of domestic expenditure on household essentials. This suggests a significant behavioural motivation which has resulted in such financial constraints across households;

c. The increase in utility payments – the levels of payment arrears with utilities remained unchanged in both years;

d. The increase in loan payments was at a higher rate than the underlying inflation (CPI) rate which suggests an overall increase in debt levels in real terms. (The increases in average outstanding loan balance was 4% for MFIs and 21% for banks, which suggests that the MFIs have slightly reduced the average residual repayment term, whilst the banks have lengthened the loan maturities, thereby enabling a lower monthly repayment amount).

1. The domestic budget dimensions varied significantly across the different income segments of both MFIs and banks:

Income	MFI : 2013 : KGS				MFI : 2014 : KGS				Change : 2013-2014			
	Domestic Expend	Utility	Loan Repay	Net Income	Domestic Expend	Utility	Loan Repay	Net Income	Domestic Expend	Utility	Loan Repay	Net Income
< 15,000	5,650	725	4,325	900	6,200	750	4,225	925	10%	5%	-2%	4%
15,001 - 20,000	8,750	1,025	5,325	4,000	8,175	925	5,550	4,300	-7%	-10%	4%	8%
20,001 - 30,000	10,625	1,325	6,050	9,075	10,050	1,275	6,825	8,575	-5%	-3%	13%	-6%
30,001 - 40,000	14,675	1,625	7,575	13,000	12,850	1,725	9,350	13,450	-13%	6%	24%	3%
> 40,000	19,675	2,225	14,450	31,150	17,200	2,300	12,425	30,300	-13%	3%	-14%	-3%

Income	Bank : 2013 : KGS				Bank : 2014 : KGS				Change : 2013-2014			
	Domestic Expend	Utility	Loan Repay	Net Income	Domestic Expend	Utility	Loan Repay	Net Income	Domestic Expend	Utility	Loan Repay	Net Income
< 15,000	6,200	750	5,225	50	6,225	825	4,875	350	0%	9%	-7%	857%
15,001 - 20,000	8,500	1,075	7,050	2,425	8,000	1,200	7,225	2,700	-6%	12%	2%	11%
20,001 - 30,000	11,100	1,250	8,225	6,600	10,400	1,350	9,000	6,125	-6%	7%	9%	-7%
30,001 - 40,000	15,150	1,400	11,650	9,300	12,950	1,650	13,775	9,050	-15%	18%	18%	-2%
> 40,000	21,875	2,250	23,675	25,875	18,125	2,375	23,500	26,700	-17%	6%	-1%	3%

These tables for MFIs and banks show the following significant dynamics:

a. The widespread reductions in domestic expenditures across both MFI and bank clients. The different position of the lowest income segment may be suggested to reflect that expenditure was already so low and underlying inflation was continuing, that this segment had little opportunity to effect any further economies;

b. Such reductions in domestic expenditure are widely contrasted by increases in loan payments. This is particularly apparent in the middle income segments. However, the impact of loan payments upon net income has been substantively affected by the different repayment structures being adopted by the MFIs and banks. The banks have lengthened the residual repayment period (thereby reducing the monthly payment) for the highest income segment, but tightened the terms for middle-income clients. The MFIs appear to have maintained, or slightly shortened, the average residual term.

Income Segments	MFI : Residual Repayment (months)			Bank : Residual Repayment (months)		
	2013	2014	Change	2013	2014	Change
< 15,000	8	7	-4%	8	10	16%
15,001 - 20,000	8	8	-7%	9	8	-8%
20,001 - 30,000	8	8	-2%	11	10	-12%
30,001 - 40,000	8	8	-2%	14	12	-15%
> 40,000	10	9	-8%	14	17	17%

c. Net income levels are, therefore, highly sensitive to a range of actions being undertaken by both borrowers and lenders to generate additional net income (or debt affordability), against an overall background of 'no change' in nominal income (and thereby a reduction in real terms). The domestic expenditure reductions which have been demonstrated by both MFI and bank clients should be recognised as occurring prior to the increased cost pressures resulting from the Russian economic downturn and the adverse movements in the Kyrgyz Som exchange rate. This suggests that borrowers may have increasingly limited opportunities for further budget economies.

2. Whilst the average overall household income has increased for the consolidated loan portfolios of both the banks and the MFIs, this results primarily from the effects of the redistribution of clients towards higher income. The underlying incomes of individuals remained largely unchanged in the period 2013-2014. The following table provides some dimensions of such income dynamics:

Household Income	Average Income per Earner in Household : KGS						Number of Earners in Household			
	MFI			Commercial Bank			MFI		Bank	
	2013	2014	Change	2013	2014	Change	2013	2014	2013	2014
< 15,000	6,550	7,150	10%	7,350	7,450	2%	1.8	1.7	1.7	1.7
15,001 - 20,000	9,450	9,700	3%	9,600	9,650	0%	2.0	2.0	2.0	2.0
20,001 - 30,000	12,000	12,550	5%	12,250	12,600	3%	2.3	2.1	2.2	2.1
30,001 - 40,000	15,850	14,600	-8%	15,400	16,600	8%	2.3	2.6	2.4	2.3
> 40,000	27,950	24,700	-12%	30,650	29,800	-3%	2.4	2.5	2.4	2.4

This table illustrates:

a. Almost all the income segments experienced income growth for each earner at a rate less than inflation;
b. Additionally, there was minimal change in the average number of earners in the household of each income segment;
c. This suggests that households may have been likely to consider that their financial situation was deteriorating.

3. These factors were reflected in various dimensions to questions addressed in both surveys in relation to [i] essential spending “My household expenses have risen faster than income in the last 6 months” and [ii] discretionary spending “I can afford to buy 'treats' for myself or my family”

% of All Borrowers who ‘Agree’	My household expenses have risen faster than income in the last 6 months			I can afford to buy 'treats' for myself or my family		
	2013	2014	Change	2013	2014	Change
< 15,000	54%	72%	19%	61%	51%	-10%
15,001 - 20,000	52%	62%	10%	70%	62%	-8%
20,001 - 30,000	51%	54%	3%	68%	71%	3%
30,001 - 40,000	53%	54%	1%	80%	77%	-3%
> 40,000	51%	47%	-4%	86%	82%	-5%

This table shows two dimensions of the domestic budget in which borrowers, across the income ranges, have recognised increasing adverse budget pressures.

4. The comparative levels of income and net income across the regions are shown in the following table:

KGS	Bishkek		Osh City		Chui		Jalal-Abad		Osh Oblast	
	Income	Net Income	Income	Net Income	Income	Net Income	Income	Net Income	Income	Net Income
2013	33,600	9,000	28,700	7,600	29,000	7,200	21,000	5,200	20,000	5,400
2014	37,000	10,700	32,100	11,400	26,700	5,900	21,100	5,600	25,400	8,400
Change	10%	18%	12%	50%	-8%	-14%	0%	8%	27%	55%

There are, however, many dynamics which impact upon these overall regional aggregate figures:

a. The portfolio redistribution which has been shown above;
b. The different levels of change in relation to domestic expenditures (Osh Oblast +24% in contrast to Osh City -11% and Jalal-Abad -18%);
c. The higher increases in outstanding loans in Osh Oblast +36% and Osh City +22% in contrast to Chui -10%.

5. The above comments (1 – 4) provide a broad description of:

   a. Redistribution of clients towards higher income segments which increases the overall portfolio average income, although individual incomes have remained broadly constant;
   b. Borrowers making budget cash flow savings by reducing expenditures on domestic essentials in both real and, for many, nominal terms;
   c. Increased borrowing by certain income segments. However, some bank clients obtained cash flow advantage as a result of an extension of the loan repayment period (and thereby lower monthly payments).

6. Additionally, it is appropriate to consider other dimensions which impact upon the domestic cash flow and loan repayment capacity – the extent to which borrowing is being used for domestic consumption purposes and also the extent of usage of informal loan sources.

   a. There is been a substantial change in borrower behaviour in relation to an increase in the usage of loan funds for domestic purposes and a reduction in the use of loan to support domestic asset acquisition.

Income Segments : % Usage of Loan Funds	'Other Domestic'			Asset Acquisition : Domestic		
	2013	2014	Change	2013	2014	Change
< 15,000	39%	42%	4%	27%	25%	-2%
15,001 - 20,000	33%	38%	4%	23%	20%	-3%
20,001 - 30,000	26%	37%	10%	23%	14%	-9%
30,001 - 40,000	26%	36%	10%	22%	14%	-8%
> 40,000	18%	23%	5%	12%	11%	-1%

This represents a substantial shift in the behaviour of borrowers and also provides a significant short-term stimulus to domestic budget cash flow. However, against the background of broadly unchanged earnings and reductions in expenditure levels, this may cause a progressive and adverse change in the risk profile of the loan portfolios.

Such trends were demonstrated across most of the regions:

Regions : % Usage of Loan Funds	'Other Domestic'			Asset Acquisition : Domestic		
	2013	2014	Change	2013	2014	Change
Bishkek	33%	47%	14%	17%	8%	-9%
Osh City	29%	34%	5%	24%	17%	-7%
Chui Oblast	28%	46%	18%	21%	5%	-15%
Jalal-Abad	31%	38%	7%	28%	26%	-3%
Osh Oblast	32%	17%	-14%	25%	30%	5%

The regions show substantive changes towards domestic consumption (with the exception of Osh Oblast). This must also be considered in relation to the sizeable loan outstandings in the metro areas of Bishkek and Osh City.

b. The trends in informal loan sources provide a further insight of borrower behaviour and their domestic financial situation.

Income Segments : % Usage of Informal Loan Sources	Family and Friends			Retailer		
	2013	2014	Change	2013	2014	Change
< 15,000	15%	14%	-1%	9%	13%	5%
15,001 - 20,000	11%	12%	1%	7%	11%	5%
20,001 - 30,000	9%	8%	-1%	5%	7%	2%
30,001 - 40,000	9%	11%	1%	6%	10%	4%
> 40,000	6%	6%	0%	3%	8%	5%

There is a widespread increase in the use of retailer credit across the income segments. This clearly places a greater level of inter-dependency within local communities. The usage of such retailer credit was particularly strong in Chui where 20% of all borrowers recognised their use of this type of credit. Whilst such levels of retail credit are not as high as in Tajikistan, this general higher usage increases the risk sensitivity to wider economic factors affecting local communities. As such, dynamics such as inward remittances from overseas workers, local demand levels / reduced domestic expenditure and cost-of-living inflation may interact to affect the levels of liquidity in local economies – and thereby, the capacity of retailers to provide such support.

7. Against the background of these dimensions, borrowers demonstrated an increasing recognition of their dependency upon continuing debt.

Income Segments : % Usage of Informal Loan Sources	"I need to continue to borrow to maintain how my family and I live"					
	MFI		Bank		Change : 2013-2014	
	2013	2014	2013	2014	MFI	Bank
< 15,000	33%	45%	33%	39%	13%	6%
15,001 - 20,000	29%	43%	33%	40%	14%	7%
20,001 - 30,000	32%	40%	26%	32%	8%	5%
30,001 - 40,000	34%	45%	22%	33%	12%	10%
> 40,000	39%	38%	29%	31%	-1%	2%

This reflects a general recognition of debt dependency. However, it will be shown in other sections that such recognition of debt dependency is not matched by a similar recognition of the delicate financial position of the domestic budgets of many borrowers.

8. A comparison with Tajikistan[5] indicates that several of the dimensions reviewed in this section show a consistent profile across the two countries[6].

	Microfinance Institutions		Commercial Banks	
	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan
Loan usage : Other domestic	38%	40%	34%	39%
Loan Usage : Asset acquisition – Domestic	19%	19%	14%	15%
Loan Usage : Asset acquisition - Business	23%	18%	26%	19%
Residual repayment period (months)	8	9	13	9
Loans : Family and Friends	10%	15%	10%	14%
Loans : Retailer	10%	22%	10%	23%
"I need to continue to borrow to maintain how my family and I live"	42%	49%	34%	45%

The following points may be noted:

a. The longer residual repayment period by Kyrgyzstan banks may suggest that there may be limited scope for any substantive further extension of this period. However, in Bosnia and Herzegovina, the residual repayment periods were 20 months (for MFIs) and for the banks : 19 months with no collateral and 38 months with collateral;
b. The use of retailer credit was much more prevalent in Tajikistan, where it was recognised to be a relatively cultural 'norm'. However, it may be noted that such informal credit increased in Kyrgyzstan during 2014.

COMPARATIVE LEVELS OF DOMESTIC EXPENDITURE AND LOAN REPAYMENTS

Levels of household expenditure were reduced by many client segments during 2014. Loan repayments increased as a proportion the income of 'middle-income' clients. The levels of household expenditure were generally similar for MFI and bank borrowers in similar client segments. Borrowers appear to be maintaining domestic liquidity by primarily reducing domestic expenditure.

The above tables show the comparative levels of income and expenditure in 2013 and 2014. These highlight the increasing economies being made by many borrowers in their domestic expenditure levels. This is reflected in their perceptions of the cost-of-living and the recognition, by many, of an increased dependency upon the continuity of loan funds. Within the domestic budget, the two principal costs for borrowers are essential domestic expenditures and loan repayments.

[5] Tajikistan : based upon a comparable survey undertaken in May 2014 involving 4,000 respondents
[6] Comparison with Tajikistan: this note does not suggest that the markets, cultures or client behaviour should be consistent across the two countries. The comparative survey responses are shown to enable the reader to gain a cross-border perspective of market behaviour and industry structure / conditions.

The relative impacts of these two items varies substantially between MFI and bank borrowers and these are shown in the following table.

	Household Expenditure (inc Utilities) as % of Income			Loan Repayments as % of Income			Net Income as % of Income		
	2013	2014	Change	2013	2014	Change	2013	2014	Change
All Borrowers	44%	41%	-3%	30%	30%	0%	26%	30%	4%
MFI	45%	43%	-2%	26%	26%	0%	29%	32%	3%
Bank	42%	38%	-4%	34%	35%	1%	23%	27%	4%
Non-Borrowers	50%	45%	-5%	na	na	na	50%	55%	5%

Whilst these 'high level' aggregate figures show a slightly favourable trend in 2014, it must be again noted that the structural portfolio redistribution towards higher income clients will necessarily have resulted in an arithmetic improvement. The above table indicates:

1. The improvement in nominal net income has been achieved by reduced household expenditure;
2. Loan repayments have remained unchanged, despite average outstanding loans having increased by 4% for MFIs and 21% for banks.

Whilst the trends in domestic expenditure have been reviewed in the preceding section, it is appropriate to review loan repayments in relation to both income and residual maturity period.

	Average Outstanding Loan : KGS				Residual repayment period : (months)			
	MFI		Bank		MFI		Bank	
	2013	2014	2013	2014	2013	2014	2013	2014
< 15,000	33,700	31,600	44,100	47,700	8	7	8	10
15,001 - 20,000	43,800	42,700	61,100	57,600	8	8	9	8
20,001 - 30,000	49,300	54,600	90,900	87,100	8	8	11	10
30,001 - 40,000	61,800	74,800	162,100	163,400	8	8	14	12
> 40,000	145,600	114,900	340,600	395,700	10	9	14	17

This table highlights that:

1. Whilst there has been no/minimal growth in individual earnings, the MFIs and banks appear to have pursued different strategies.
    a. The MFIs and banks have targeted different client segments and the rates of change in the loan amounts has varied across the different income segments. The largest variance is with the highest income segment;
    b. Against higher outstanding loan amounts, the banks provide significantly longer residual repayment terms than those required by the MFIs. This impacts directly upon the monthly loan repayment level (Note: the level of 'property' lending is similar for both MFIs and banks in the survey responses and so this does not provide a basis for the longer repayment term).

2. Against these different product and service propositions of the MFIs and banks, it is appropriate to review the differential impact of loan repayments upon available income.

Household Income Segments	Loan repayment as % of household income				Loan repayment as % of net income			
	MFI		Bank		MFI		Bank	
	2013	2014	2013	2014	2013	2014	2013	2014
< 15,000	37%	35%	43%	40%	83%	82%	99%	93%
15,001 - 20,000	28%	29%	37%	38%	57%	56%	74%	73%
20,001 - 30,000	22%	26%	30%	33%	40%	44%	56%	59%
30,001 - 40,000	21%	25%	31%	37%	37%	41%	56%	60%
> 40,000	21%	20%	32%	33%	32%	29%	48%	47%

This table highlights:

1. The level of loan repayments has increased for those MFI and bank clients with monthly incomes between KGS 15,000 and 40,000. This represents 63% of MFI clients (63% of balances) and 59% of bank clients (38% of outstanding balances);

2. The substantial differences in leverage between repayments in relation to gross and net household income. This is even more significant when it is recognised against the reductions which have been made in basic essential expenditures by many income segments;

3. The high commitment to loan repayment by the lower income segments, particularly the bank clients. This leaves little margin for fluctuation or to meet the range of occasional domestic costs (such as clothing, health, education …). This may be considered to further widen the 'social gap' between the lower and higher income segments;

4. This suggests that the lower income segment clients face a 'collision' of two significant dimensions affecting their financial position and lifestyle:

   i. A reducing availability of accessible loan finance (as part of the structural portfolio shift towards higher incomes);
   ii. The pressures of domestic expenditure in which current spending levels are low and have been subject to further reductions.

3. The pressures upon household expenditure levels upon basic essentials (food, laundry, domestic essentials) are reflected in the following table:

Average expenditure[7] per household person : KGS	Household Income					Region				
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	Bishkek	Osh City	Chui	Jalal-Abad	Osh Oblast
MFI : 2013	1,400	2,000	2,250	3,200	4,200	2,750	2,350	2,350	2,200	1,450
MFI : 2014	1,400	1,850	2,200	2,600	3,500	2,950	2,050	2,500	1,550	1,850
Bank : 2013	1,550	1,950	2,350	3,150	4,600	3,650	2,900	2,600	2,400	1,550
Bank : 2014	1,450	1,750	2,300	2,800	3,900	3,150	2,900	2,750	1,600	1,850
Change (2013-2014) in average household expenditure per person										
MFI : Change	1%	-8%	-3%	-19%	-16%	8%	-14%	6%	-31%	28%
Bank : Change	-7%	-10%	-4%	-10%	-15%	-14%	0%	7%	-34%	20%

a. The impact across the income segments is clearly shown;

b. However, the regional impact of expenditure levels and changes is varied. It may be noted that the growth in outstanding loan balances had been stronger in Bishkek by the MFIs, in Osh City by the banks, which suggests that such higher loan growth may have compensated for lower levels of reduction in expenditure;

c. The levels of expenditure of MFI and bank clients is reasonably similar:
   i. Across the income segments which suggests that there is a 'natural' level of spending for the different income groups;
   ii. Across the regions (with the exception of Osh City) which also suggests a 'natural' level of spending in different regions.

d. Such expenditure characteristics suggest that there is a need for lending management and credit assessment to reflect such 'norms' in the evaluation of loan affordability.

The following table provides a comparison of the allocations of committed expenditures within the domestic budgets of Kyrgyzstan and Tajikistan.

2014: Expenditures as % of Household Income	Microfinance Institutions		Commercial Banks	
	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan
Household	38%	42%	34%	41%
Utility	5%	5%	4%	4%
Loan repayment	26%	29%	35%	33%
Residual loan term (months)	8	8	13	12

Whilst the nominal levels of household income (US Dollar equivalents shown earlier) are slightly higher in Tajikistan, the above table indicates:

a. Kyrgyzstan borrowers spend a lesser proportion of income on basic domestic essentials (including food). It should be considered if this represents a lower

[7]Average Expenditure : includes food and household essentials (such as laundry and cleaning) and excludes utility payments

level of nutritional standards, or simply lower costs of food in comparative terms;

b. This may suggest, however, that borrowers in Kyrgyzstan may have less scope for further reductions in the levels of domestic expenditure;

c. The proportion of loan costs reflects the somewhat higher level of microfinance loan balances in Tajikistan.

STRENGTH AND CAPACITY OF DEBT AFFORDABILITY

Net disposable incomes have improved slightly as a result of reductions to domestic expenditures and (for bank clients) an extension of repayment terms, thereby lowering of monthly payments. However, the proportion of borrowers with committed expenditures over 75% of income has increased for middle-income borrowers. Despite such financial constraints, an increasing proportion of borrowers are showing a more positive attitude towards their financial position.

The economic conditions of Kyrgyzstan during the period September 2013- 2014 have provided a constrained environment for financial development. Inflation (CPI) is reported at about 7.5% and there had been some devaluation of the Kyrgyz Som against the US Dollar. However, following the completion of the survey (September 2014), the economic conditions have been more challenging as a result of pressures from the Russian and Kazakhstan economies, the impact of such changes upon the flow of inward remittances from overseas workers, and also the return to Kyrgyzstan of some of those workers.

The following comments are based upon the responses to the surveys of September 2013 and 2014 – but must also be considered against the perspective of the further economic pressures which have subsequently occurred.

1. Various dimensions of 'affordability' have been illustrated in the earlier sections, but the following table provides a focus upon net income and the impact of loan repayments across the range of income segments. This highlights the relative strength of bank loan portfolios towards the higher income segments and thereby conversely, the relatively higher risk exposure (and development potential) of the MFI loan portfolios.

MFI : Household Income Segments	Net Income (pre loan payment)		Net Income (after loan payment)		% of Borrowers with expenditure >75% of Income		Distribution of Clients		Distribution of Loan Value	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
< 15,000	5,200	5,200	900	900	73%	72%	32%	27%	21%	16%
15,001 - 20,000	9,300	9,900	4,000	4,300	53%	53%	27%	23%	23%	18%
20,001 - 30,000	15,100	15,400	9,100	8,600	32%	36%	26%	29%	25%	30%
30,001 - 40,000	20,600	22,800	13,000	13,400	27%	30%	8%	11%	9%	15%
> 40,000	45,600	42,700	31,100	30,300	28%	20%	8%	9%	22%	20%

Bank : Household Income Segments	Net Income (pre loan payment)		Net Income (after loan payment)		% of Borrowers with expenditure >75% of Income		Distribution of Clients		Distribution of Loan Value	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
< 15,000	5,300	5,200	0	300	81%	71%	22%	21%	8%	7%
15,001 - 20,000	9,500	9,900	2,400	2,700	63%	60%	23%	17%	12%	7%
20,001 - 30,000	14,800	15,100	6,600	6,100	47%	51%	29%	29%	22%	17%
30,001 - 40,000	20,900	22,800	9,300	9,100	46%	53%	11%	13%	15%	14%
> 40,000	49,600	50,200	25,900	26,700	46%	43%	15%	21%	42%	55%

The above tables show some significant similarities and contrasts between the client portfolios of the MFIs and the banks:

a. The net incomes (post loan payment) of the middle-income segments (KGS 20,000-40,000) show reductions for both the MFIs and the banks;

b. The higher loan leverage of bank borrowers is reflected in the lower net incomes (after loan payments) in the mid-income ranges;

c. The lower income segments (up to KGS 20,000) show a very high level of committed expenditures in relation to gross income, with minimal residual net income to meet other expenditures which will necessarily occur. These segments represent a significant proportion of MFI business activity (50% of clients and 34% of loan balances);

d. The middle range incomes (KGS 20,000-40,000) show an increase in the proportion of borrowers with committed expenditures over 75% of gross income. This increase applies to both MFI and bank portfolios. This client segment represents an increasing proportion of the loan portfolios, particularly for the MFIs (from 34% of loan balances to 45%);

e. The highest income segment (over KGS 40,000) provides the strongest difference between MFIs and banks. Whilst the leverage of bank clients is much higher (average outstanding loan balances being KGS 280,000 – 244% higher than MFI loans to the same income segment), the residual net income is similar. (This benefits, in part, from the longer repayment periods provided by the banks);

f. However, the distribution of clients and outstanding loan balances is starkly contrasted between MFIs and banks. This highlights the fundamentally different market and business case structures of these types of lending institution. As such, the MFI loan portfolios are structurally more vulnerable to adverse changes in the economic situation of borrowers.

2. A similar assessment can be shown in relation to the regional characteristics of the loan portfolios of MFIs and banks.

MFI : Household Income Segments	Net Income (pre loan payment)		Net Income (after loan payment)		% of Borrowers with expenditure >75% of Income		Residual Net Income per household member		Average Outstanding Loan KGS	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Bishkek	17,300	19,200	10,400	10,300	48%	47%	2,600	2,600	55,900	68,500
Osh City	13,300	7,500	7,500	11,100	43%	32%	1,700	2,600	61,100	61,500
Chui	14,900	12,900	6,300	5,400	60%	60%	1,500	1,400	68,100	55,600
Jalal-Abad	9,100	11,600	4,900	6,300	49%	50%	1,200	1,300	33,300	40,400
Osh Oblast	10,900	12,600	5,800	7,300	49%	47%	1,100	1,300	40,200	44,400

Bank : Household Income Segments	Net Income (pre loan payment)		Net Income (after loan payment)		% of Borrowers with expenditure >75% of Income		Residual Net Income per household member		Average Outstanding Loan KGS	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Bishkek	21,100	27,200	7,400	11,500	61%	53%	1,900	2,800	192,900	199,000
Osh City	18,500	24,900	7,700	11,700	55%	46%	1,700	2,700	161,000	228,000
Chui	20,400	10,400	8,000	6,300	66%	59%	1,900	1,500	125,800	114,400
Jalal-Abad	12,500	13,100	5,600	4,700	55%	55%	1,300	900	64,200	77,100
Osh Oblast	13,100	18,400	5,600	10,400	52%	53%	1,000	2,000	66,700	105,400

The above tables show some significant differences in the regional profiles:

a. The impact of portfolio redistribution and residual payment terms upon the level of ‘over 75%’ clients in the bank portfolios in Bishkek and Osh City;

b. The apparent greater vulnerability / sensitivity of the loan portfolios in Jalal-Abad and Chui, particularly for the banks;

c. The range of average outstanding loan balance across the regions differs substantially for the banks, but is comparatively at similar levels for the MFIs;

d. These tables suggest that the banks have a much more differentiated lending strategy across the regions than is adopted by the MFIs.

4. The high levels of committed financial expenditure (over 75% of household income) indicate the greater vulnerability of such clients to adverse economic and financial impacts. These may, of course, reflect wider external economic changes (prices, economic activity) or domestic events (such as unexpected expenses, health costs). It is appropriate, therefore, to consider the extent to which the MFIs and banks are exposed to such more highly-committed borrowers across the range of incomes.

% of borrowers with expenditures over 75%	MFI : Household Income					Bank : Household Income				
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000
2013	73%	53%	32%	27%	28%	81%	63%	47%	46%	46%
2014	72%	53%	36%	30%	20%	71%	60%	51%	53%	43%

A substantially higher proportion of bank clients have high levels of committed expenditures than is shown by the MFI borrowers. It must also be noted that these expenditures relate only to basic domestic needs (food, cleaning …), utilities and loan payments – they do not include necessary and regular spending on items such as clothing, education, transport and health, or any unexpected exceptional payments. This should be further considered in relation to the later sections on collateral, risk, and the outlook for borrowing.

4. The above tables are based upon the quantitative responses of borrowers. Additionally, there is a range of qualitative responses which provide some insights of the attitudes of borrowers towards their debt and the affordability of repayment.

% of borrowers who agree	Loans improve the quality of life		My loan repayments are more than I can afford		Debt repayments cause problems within my family		Food expenditure has been reduced to make loan repayments	
	2013	2014	2013	2014	2013	2014	2013	2014
MFI	71%	75%	32%	28%	40%	31%	24%	16%
Bank	72%	75%	35%	28%	41%	33%	27%	17%

These responses show similar favourable improvement in attitudes across both MFI and bank borrowers, and the following table relates these issues to the range of income segments. The more positive attitudes towards debt affordability / capacity are primarily reflected in the middle-higher income segments (despite the adverse quantitative financial trends shown earlier).

% of all borrowers who agree	Loans improve the quality of life		My loan repayments are more than I can afford		Debt repayments cause problems within my family		Food expenditure has been reduced to make loan repayments	
	2013	2014	2013	2014	2013	2014	2013	2014
< 15,000	70%	72%	37%	39%	47%	44%	26%	26%
15,001 - 20,000	74%	73%	30%	31%	35%	37%	21%	17%
20,001 - 30,000	71%	78%	33%	24%	36%	27%	27%	12%
30,001 - 40,000	69%	77%	30%	21%	42%	24%	26%	12%
> 40,000	71%	76%	37%	18%	41%	24%	21%	11%

Such responses appear to present a paradox which contrasts with the quantitative responses in relation to trends in domestic budget expenditure together with an increasing proportion of borrowers who recognise the cost-of-living increases being greater than any rise in incomes. This apparent anomaly may reflect dimensions including:

a. An increase in outstanding loan balances at a rate above inflation for the middle income segments;

b. A significant change in the ease of obtaining loans and dealing with financial problems;

c. The greater net disposable income among many borrowers resulting from greater reductions in domestic expenditure levels and extended repayment terms (for bank borrowers);

d. Against the broader economic pressures which had developed prior to the survey, the constraints upon domestic expenditure may be attributed primarily to the wider economy, rather than as the consequence of borrowing. This situation would be further reinforced by the market actions and interface of the lending institutions which are reflected in the following table.

% of all borrowers who agree	Loans were easy to obtain				It is difficult to resolve debt problems with my lender			
	MFI		Bank		MFI		Bank	
	2013	2014	2013	2014	2013	2014	2013	2014
< 15,000	71%	83%	60%	78%	49%	42%	52%	47%
15,001 - 20,000	69%	80%	69%	77%	38%	31%	46%	39%
20,001 - 30,000	68%	80%	62%	74%	42%	25%	43%	30%
30,001 - 40,000	65%	82%	59%	73%	34%	24%	35%	27%
> 40,000	72%	73%	64%	71%	40%	21%	40%	26%

These responses appear to suggest that the lending institutions have, or are perceived to have, substantively facilitated the lending process and improved their interface with borrowers. Against such a more favourable lending environment, many borrowers may have resolved their immediate financial problems by increased debt. If this is so, then it may present a fragile vulnerability which may be exacerbated by the adverse economic development following the implementation of the survey.

5. The following table provides a comparative perspective with the attitudes of borrowers in Tajikistan[8].

[8]Tajikistan : based upon a comparable survey undertaken in May 2014 involving 4,000 respondents
Comparison with Tajikistan: this note does not suggest that the markets, cultures or client behaviour should be consistent across the two countries. The comparative survey responses are shown to enable the reader to gain a cross-border perspective of market behaviour and industry structure / conditions.

% of borrowers who agree	Loans improve the quality of life		My loan repayments are more than I can afford		Debt repayments cause problems within my family		Food expenditure has been reduced to make loan repayments	
	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan
MFI	75%	93%	28%	29%	31%	23%	16%	41%
Bank	75%	93%	28%	28%	33%	22%	17%	40%

The higher levels of loan balance and repayment amount in Tajikistan was shown in earlier sections. This is, perhaps, reflected in the greater recognition of reductions in domestic expenditure which have been needed to maintain loan repayments (Note: the level of loan arrears is also similarly low in Tajikistan).

REGIONAL BORROWING PROFILES

The regional profile of loan portfolios shows the different structures across the regions for both the MFIs and banks. Contrasting trends have been shown across the regions and between the major metro areas of Bishkek and Osh City. The different regional loan portfolio characteristics suggest that the lending institutions allow different lending strategies and practices across the regions.

The regional profiles show substantial differences within the MFI and bank portfolios, together with changes across 2013-2014. (It may be noted that the regional analysis is based on sample sizes of about 650 borrowers (and 150 non-borrowers), with each region comprising about 350 MFI borrowers and about 300 bank borrowers. As such, the regional figures do not provide the same level of confidence as the aggregated statistics, but nevertheless, the sample size and survey process may be considered to provide a reasonable indication[9] of underlying trends).

The basic regional profile may be summarised as:

KGS	Microfinance Institutions			Commercial Banks		
	Household Income	Net Income (after loan payment)	Average Outstanding Loan	Household Income	Net Income (after loan payment)	Average Outstanding Loan
Bishkek	33,100	10,300	68,500	42,700	11,500	198,900
Osh City	27,400	11,100	61,500	38,700	11,600	228,000
Chui	24,100	5,400	55,600	29,800	6,300	114,400
Jalal-Abad	20,200	6,300	40,400	22,700	4,700	77,100
Osh Oblast	23,300	7,300	44,400	28,900	10,400	105,400

This table identifies:

1. The significant differences in net incomes (after loan payments) across the regions, but similar for the MFI and bank portfolios in the two major metro areas;

[9] Regional statistical sample: based upon the sample size and the random selection of respondents, it is believed that the regional surveys should provide a statistical confidence of about 95% with a +/- 5% error factor.

2. The contrasting lending strategies of MFIs and banks in relation to the amount of the average outstanding loan balance in relation to the average income levels;
3. The similarity of average outstanding loan balances across the regional MFIs, whilst the banks demonstrate a much wider variation.

The income and expenditure profiles have been reviewed in preceding sections. The following tables provide a profile of the basic MFI and bank loan portfolios. These highlight some significant differences and, thereby, highlight that the business development and risk profiles of an individual lending institution will be highly influenced by the profile of its regional exposure.

1. Household income

Distribution of Clients	Microfinance Institutions : Household Income						Commercial Banks : Household Income					
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	Average Income	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	Average Income
Total	27 %	23 %	29 %	11 %	9%	25,400	21 %	17 %	29 %	13 %	21 %	32,900
Bishkek	15 %	12 %	35 %	19 %	19 %	33,100	11 %	15 %	24 %	14 %	36 %	42,700
Osh City	20 %	22 %	34 %	11 %	12 %	27,400	12 %	14 %	28 %	14 %	32 %	38,700
Chui	22 %	29 %	31 %	12 %	6%	24,100	18 %	17 %	33 %	16 %	15 %	29,800
Jalal-Abad	46 %	25 %	22 %	3%	5%	20,200	38 %	23 %	27 %	5%	7%	22,700
Osh Oblast	31 %	26 %	26 %	10 %	6%	23,300	26 %	20 %	31 %	13 %	10 %	28,900

This table highlights:

a. The significant ‘weighting’ of the bank client portfolios towards the higher income segments in all the regions, with the exception of Jalal-Abad;

b. The contrast of 50% of MFI clients with household income less than KGS 20,000 against 38% of bank clients. Within this distribution, the MFIs in Jalal-Abad and Osh Oblast show the highest exposure to the lowest income segments;

c. The high incomes (over KGS 30,000) are dominated by bank clients in the metro areas of Bishkek and Osh City. This suggests an established market position (together with high value outstanding loan balances) which is likely to be considered a major constraint to any MFIs which seek to gain greater share of the high income segments.

2 Outstanding Loan Balance

Distribution of Clients	Microfinance Institutions : Outstanding Loan Balance						Commercial Banks : Outstanding Loan Balance					
	< 15,000	15,001 - 30,000	30,001 - 50,000	50,001 - 100,000	> 100,000	Average Balance	< 15,000	15,001 - 30,000	30,001 - 50,000	50,001 - 100,000	> 100,000	Average Balance
Total	26%	24%	21%	19%	10%	53,500	20%	17%	17%	19%	27%	148,000
Bishkek	30%	20%	17%	18%	16%	68,500	15%	15%	15%	14%	40%	199,000
Osh City	17%	21%	30%	23%	9%	61,500	16%	11%	15%	18%	40%	228,000
Chui	28%	21%	16%	22%	13%	55,600	19%	20%	17%	22%	23%	114,400
Jalal-Abad	33%	26%	20%	16%	5%	40,400	33%	17%	18%	15%	17%	77,100
Osh Oblast	25%	30%	21%	18%	6%	44,400	17%	24%	21%	25%	13%	105,400

This table highlights:

a. The relative similarity of outstanding average loan balance across the MFI regions;
b. The higher outstanding loan balance of the banks is somewhat impacted by the longer residual repayment terms 2014: MFI average residual 8 months; banks average residual 13 months). The higher average balance in Osh City is also reflected in a longer residual repayment term of 17 months;
c. Such extended repayment terms imply that those borrowers are 'locked into' current loans, unless the banks provide some form of refinance / interim roll-over proposition.

3 Repayment Affordability

The following table provides an overview of the 'affordability ratios' across the regions and identifies the differing levels of debt payments and trends.

Average repayment ratios	Microfinance institutions				Commercial Banks			
	Loan repayment as % of household income		Loan repayment as % of net income		Loan repayment as % of household income		Loan repayment as % of net income	
	2013	2014	2013	2014	2013	2014	2013	2014
Total	26%	26%	47%	45%	34%	35%	60%	56%
Bishkek	23%	27%	40%	46%	36%	37%	65%	58%
Osh City	23%	24%	43%	37%	33%	34%	59%	53%
Chui	33%	31%	58%	58%	38%	37%	61%	63%
Jalal-Abad	22%	26%	47%	46%	30%	37&	55%	64%
Osh Oblast	26%	23%	47%	42%	34%	28%	57%	44%

This table highlights:

a. Within the MFI institutions, the favourable trends in affordability in Osh City and Osh Oblast and, conversely, the adverse trend in Bishkek;
b. With the bank institutions, the favourable trends in Bishkek, Osh City and Osh Oblast and, conversely, the adverse trend in Jalal-Abad (Note: these are based upon the 'net income ratios' which reflect the borrower actions in relation to reduced expenditures and lender actions in relation to repayment term);
c. The different profiles and trends in 2013-2014 again illustrate the potential impact for individual institutions which may result from the regional structure / emphasis within the loan portfolios.

4 Loan Structure

% of borrowers using products[10]	Microfinance Institutions : Loan Product				Commercial Banks : Loan Product			
	Group	Business	Individual	Agricultural	Group	Business	Individual	Agricultural
Total	50%	11%	47%	6%	8%	18%	74%	8%
Bishkek	55%	4%	42%	2%	12%	13%	72%	3%
Osh City	53%	20%	49%	8%	1%	28%	77%	5%
Chui	58%	2%	39%	3%	6%	26%	60%	8%
Jalal-Abad	37%	16%	58%	11%	14%	14%	74%	13%
Osh Oblast	48%	12%	47%	8%	6%	10%	90%	10%

This table highlights:

a. The major differences in product structure, and thereby the service proposition, between the MFIs and banks;
b. Although about 30% of respondents in Jalal-Abad and Osh Oblast sourced their income from the agricultural sector, the level of 'agricultural loans' appears to be comparatively low;
c. Within both the MFIs and the banks, the usage of business loans varied significantly across the regions. The levels of 'business loans' appears highly inconsistent with the reported usage of the loan funds for business purposes (both asset acquisition and trading): Bishkek 30%; Osh City 42%; Chui 39%; Jalal-Abad 47%; and Osh Oblast 55%.

5. Loan Security / Collateral

The levels of loan payment arrears were low (about1-2%) across all the regions, with only Bishkek showing a higher arrears rate of 4%. The level of arrears with utility payments was also relatively low across most regions (3-5%), with only Jalal-Abad showing a higher level of 7%.
Whilst the profile of loan collateralisation will be reviewed in more detail in a subsequent section, it is appropriate to identify the substantial differences in the use and type of collateral being taken across the regions.

[10]Loan Product Usage: The total of usage levels exceeds 100% because current borrowers were asked to identify all loan products which they had used during the preceding 2 years, and not simply the current loan product.

% of clients providing type of collateral	Microfinance Institutions : Collateral Held					Commercial Banks : Collateral Held				
	Property	Domestic Assets	Other Assets	Guarantee	No Pledged Assets	Property	Domestic Assets	Other Assets	Guarantee	No Pledged Assets
Total	16%	19%	9%	25%	36%	40%	15%	12%	18%	24%
Bishkek	13%	4%	21%	26%	39%	50%	6%	14%	17%	19%
Osh City	15%	34%	7%	23%	30%	48%	23%	8%	12%	16%
Chui	13%	6%	4%	34%	43%	39%	3%	9%	19%	31%
Jalal-Abad	19%	26%	7%	20%	31%	28%	21%	14%	13%	25%
Osh Oblast	20%	21%	8%	23%	39%	32%	22%	16%	29%	29%

Whilst the profile and characteristics of collateralisation will be reviewed in later section, this broad regional perspective identifies:

a. The strongly different market positions of the MFIs and banks
b. The higher (but not surprising) levels of property collateral held by the banks in the metro areas
c. The similar profiles of the use of 'domestic assets' as collateral by both MFIs and banks across the regions
d. The lower level of collateralisation in Chui

IMPACT ON LENDING OF COLLATERALISED PLEDGED ASSETS

The level of collateral pledged assets is high, representing 44% of MFI borrowers and 67% of bank borrowers. Banks use collateral to support higher loan balances with repayments over longer periods, whilst MFIs do not leverage collateral into significantly higher loan amounts. Banks have a much higher level of property held as collateral than the MFIs, which have a higher level of pledged 'domestic assets'. The domestic financial budget profiles of 'collateral' and 'non-collateral' borrowers do not appear to be substantially different.

The 2014 survey incorporated questions in relation to the provision and type of assets pledged by borrowers as collateral to support loans. This represents primarily physical assets, although borrowers also identified if guarantees were held to support their loans.

1 The loan portfolios show significant differences between MFI and bank borrowers with, and without, collateralised assets.

	Microfinance Institutions				Commercial Banks			
	Average Household Income	Average Outstanding Loan	Loan repay as % of household income	Loan repay as % of net income	Average Household Income	Average Outstanding Loan	Loan repay as % of household income	Loan repay as % of net income
Collateral	26,400	58,400	27%	46%	34,800	173,900	37%	58%
No Collateral	23,800	44,500	24%	43%	26,700	63,600	27%	45%

This summary profile suggests a fundamental difference in the lending strategies of MFIs and banks. The banks appear to use collateral as a platform for higher lending and higher leverage, whilst the MFIs appear not to differentiate to any significant level and, by implication, use collateral as a defensive risk-support mechanism and repayment motivation.

2 The availability of collateralised support represents a significant dimension of the loan portfolios.

% of clients providing type of collateral	Microfinance Institutions : Collateral Held					Commercial Banks : Collateral Held				
	Property	Domestic Assets	Other Assets	G'tee	No Pledged Assets	Property	Domestic Assets	Other Assets	G'tee	No Pledged Assets
Total	16%	19%	9%	25%	36%	40%	15%	12%	18%	24%
Household Income										
< 15,000	13%	18%	8%	22%	42%	20%	19%	17%	23%	33%
15,001 - 20,000	16%	15%	8%	26%	37%	30%	16%	11%	21%	28%
20,001 - 30,000	16%	22%	9%	30%	32%	39%	14%	11%	17%	25%
30,001 - 40,000	19%	19%	13%	24%	31%	51%	10%	10%	21%	21%
> 40,000	23%	18%	14%	17%	30%	64%	12%	12%	10%	11%

This table highlights some significant differences between the portfolios of the MFIs and banks, and how these are applied across the range of income segments.

a. The role (and/or availability) of property as a collateralised asset differs substantially between MFIs and banks. There is minimal differentiation in the role of collateralised property across the income range of MFI clients (a slightly higher proportion at the highest income) whereas, conversely, the banks appear to adopt a deliberate strategy of obtaining property as collateral. This increases progressively through the income range of bank clients and, thereby, possibly reflects the increasing availability of such support. The property is primarily (90%) residential / domestic. This represents a substantive and motivating security to support the higher value lending being undertaken by the banks. It is also consistent with the more extended repayment terms. A further dimension relates to the business development / client relationship dimension by establishing a greater 'entry barrier' for other institutions (such as MFIs) to gain increased market share of this high-value, and implicitly more profitable, client segment (see below for assessment of collateral in relation to outstanding loan balance);

b. Conversely, MFIs show a slightly higher reliance upon 'other domestic assets'. The residual, or realisable, market value of such asset collateral must be highly uncertain. This suggests, together with the higher levels of guarantee, that the MFIs place greater reliance upon the motivational dimension upon the borrower of the potential loss of an important lifestyle dimension (such as television, cooker). Such an implied threat of the repossession of such assets may represent a potential reputational risk to the MFIs if there is any general need to enforce such action for relatively negligible financial benefit;

c. The MFIs appear to demonstrate minimal discrimination / differentiation in the role of collateral in relation to income – whereas, the banks appear to focus in the first instance upon the availability of property, after which other available collateral is obtained as available.

3 Whilst the above table shows the differentiated role of property as collateral across the range of household income, the following table considers collateral against the outstanding loan balance[11].

% of clients providing type of collateral	Microfinance Institutions : Collateral Held					Commercial Banks : Collateral Held				
	Property	Domestic Assets	Other Assets	G'tee	No Pledged Assets	Property	Domestic Assets	Other Assets	G'tee	No Pledged Assets
Total	16%	19%	9%	25%	36%	40%	15%	12%	18%	24%
Outstanding Loan Balance										
< 15,000	12%	9%	9%	30%	42%	21%	15%	11%	25%	33%
15,001 - 30,000	12%	17%	9%	27%	40%	28%	17%	14%	20%	30%
30,001 - 50,000	15%	27%	9%	24%	34%	26%	15%	14%	23%	30%
50,001 - 100,000	17%	28%	11%	22%	28%	37%	16%	17%	17%	23%
> 100,000	39%	17%	7%	15%	27%	73%	11%	8%	9%	9%

This table demonstrates further the differences between the loan portfolio of MFIs and banks.

a. The levels of collateralised property assets are substantively different, even at the higher loan values;

b. A significant number (c.25-30%) of high value MFI loans have no collateral support and this contrasts sharply with the corresponding position of the banks;

c. Domestic assets are more widely held for mid-value loans by MFIs than by banks.

3 This assessment suggests that the bank loan portfolios are significantly more strongly supported by collateral than those of the banks. This must, however, be considered in relation to the scale of high loan value exposure by the banks (see table below), whilst the loan leverage / repayment leverage is broadly similar across the MFIs and banks (see table below).

[11]Outstanding loan balance: This relates to the current balance and not the initial amount of the distributed loan. However, in view of the sample size and general loan turnover, it is suggested that this represents a reasonable proxy basis upon which to assess collateral in relation to loan size.

Distribution based on Average Outstanding Loan Balance	Microfinance Institutions				Commercial Banks			
	Distribution of Clients	Distribution of Loan Value	Loan repay as % of household income	Loan repay as % of net income	Distribution of Clients	Distribution of Loan Value	Loan repay as % of household income	Loan repay as % of net income
< 15,000	26%	5%	18%	34%	19%	1%	21%	38%
15,001 - 30,000	24%	10%	20%	37%	17%	3%	23%	43%
30,001 - 50,000	21%	17%	23%	40%	17%	5%	26%	42%
50,001 - 100,000	19%	28%	31%	52%	19%	10%	32%	51%
> 100,000	10%	40%	43%	67%	27%	81%	48%	71%

The loan product propositions of the MFIs and banks do not appear to have any clear relationship to the level of collateral which has been taken, with the exception of business lending by banks.

Type of Loan Product	Microfinance Institutions : Collateral Held					Commercial Banks : Collateral Held				
	Property	Domestic Assets	Other Assets	G'tee	No Pledged Assets	Proper ty	Domes tic Assets	Other Assets	G'tee	No Pledged Assets
Group	11%	17%	8%	29%	39%	29%	5%	15%	27%	25%
Business	23%	27%	5%	25%	31%	50%	14%	13%	14%	21%
Individual	21%	24%	10%	21%	32%	39%	17%	12%	18%	24%
Agricultural	7%	25%	8%	23%	41%	25%	20%	11%	17%	33%

This table highlights:

a. The microfinance Group product (43% of MFI clients and 36% of outstanding loan balances) has a wide range of collateral and [*surprisingly to the writer*] no clear perception of a guarantee structure by the borrowers;
b. The relatively high level of collateralisation amongst bank business loans (26% of outstanding loan value) in contrast to the MFIs (only 10% of loan value);
c. Agricultural loans were not frequently used (only 5% of clients) and so is a small sample size.

5 There is no clear differentiation to suggest that clients with, or without, collateral show significantly different risk profiles. The levels of loan arrears are low across both client segments (less than 2%) and also both show a similar level (about 4%) of arrears with utility payments. The following profiles further suggest that there appears to be no clear difference in the perception of risk.

	My loan repayments are more than I can afford		I need to continue to borrow to maintain how my family and I live		Debt repayments cause problems within my family		Food expenditure has been reduced to make loan repayments	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
Collateral	27%	27%	46%	33%	30%	32%	18%	18%
Non-Collateral	28%	31%	36%	39%	31%	37%	13%	12%

The following issues may be suggested / considered in relation to the above tables:

a. The banks appear to use collateral as a key dimension of their lending strategy and use it to enable higher value loans to be provided over longer repayment terms;

b. The MFIs appear to take collateral on a less structured basis (possibly if/when it is available) and do not significantly reflect this support in the scale of the loan facilities;

c. The income structures of the banks have a greater emphasis towards the higher-income segments (which may be presumed to be more likely to be property owners) and this may be the reason that banks have a higher level of property held as collateral. Such assets will usually have a more determinable and realisable market value;

d. The collateralisation structure of the MFIs reflects a higher proportion of 'domestic assets' which may be presumed to have a lower intrinsic and realisable value than property. Such collateral assets may be largely perceived as a 'motivational' factor for repayment, whereby the lifestyle of the borrower and family would be significantly disadvantaged in the event of the repossession of such assets;

e. The use of collateralised pledged assets applies across all the income segments. There is little differentiation across MFI client incomes, although banks do hold increasingly higher levels of property as collateral as client income increases. This suggests [*as an inference by the writer*] that:
    i. Such collateral is taken when available and not as part of a deliberate product proposition;
    ii. The greater use of 'domestic assets' by lower income segments is primarily a motivation of the threat of repossession, rather than a reflection of any significant underlying realisable value.

6 The comparative levels of collateralised 'pledged assets' in Kyrgyzstan and Tajikistan[12] may be summarised as:

[12]Tajikistan : based upon a comparable survey undertaken in May 2014 involving 4,000 respondents
Comparison with Tajikistan: this note does not suggest that the markets, cultures or client behaviour should be consistent across the two countries. The comparative survey responses are shown to enable the reader to gain a cross-border perspective of market behaviour and industry structure / conditions.

2014 *Excluding guarantees*		Microfinance Institutions		Commercial Banks	
		Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan
Clients % providing Collateral Assets		44%	37%	67%	42%
Collateral pledged assets in relation to Income Segments : *US Dollar equiv. of income mid-point*					
Kyrgyzstan	Tajikistan				
< $ 230	< $ 250	30%	39%	47%	38%
$ 300	$ 310	38%	40%	59%	47%
$ 430	$ 450	51%	33%	55%	39%
$ 600	$ 620	56%	34%	70%	38%
> $ 750	> $ 700	63%	39%	92%	48%

This table highlights:

a. The significantly higher level of asset collateralisation in Kyrgyzstan across the higher income segments
b. The different market propositions (product and service) which are applied in these countries
c. The consequent different risk and client motivational dynamics in these different markets

RISK PROFILE OF BORROWING

The risk profile improved slightly in 2014 for both MFIs and banks. Despite the low level of payment arrears, there remains a significant minority of borrowers who experience and recognise the financial pressures of loan repayment. Additionally, about a third of clients have a high level of committed basic expenditure which leaves minimal capacity to respond to irregular or unexpected payments. The prospect of increasing economic pressures suggests that such high levels of committed expenditure represent a significant vulnerability, in which the banks have a higher adverse exposure than the MFIs.

The traditional measure of credit risk, loan arrears or portfolio-at-risk, is low in Kyrgyzstan at about 2% for both MFIs and banks. Furthermore, an additional measure of arrears with utility payments is also low, at an average of about 4-5% for MFI and bank borrowers.

Additionally, the previous section demonstrated the high level of collateralisation amongst borrowers. It may be suggested that such commitment of pledged assets will affect the motivation and priority of payments being made by the borrower who will not wish to jeopardise the usage of such assets by non-payment of loan instalments.

1. The following comments explore the extent to which borrowers demonstrate financial and attitudinal characteristics which indicate the underlying risk profile. This should be considered in relation to both the trends of 2013-2014, and also the uncertainty of the economic and social outlook as a result of the pressures on the Russian and Kazakhstan markets which increased after the completion of the survey.

	Household expenditure as % of income		Monthly loan repayment as % of net income		Committed expenditure greater than 75% of income	
	2013	2014	2013	2014	2013	2014
All borrowers	39%	36%	54%	50%	54%	50%
MFI	40%	38%	47%	45%	50%	47%
Banks	38%	34%	60%	56%	58%	55%

Whilst this table shows a slight improvement in 2014, there continues to be 50% of borrowers with a high level of committed income (over 75% of income) after essential domestic and loan payments. The preceding sections of this note have shown the factors contributing to this slight improvement as reduced domestic expenditures by borrowers and extended repayment terms by bank lenders (particularly to higher value loans), together with a portfolio shift by both MFIs and banks towards higher income clients. Furthermore, there has been no substantive increase in the average outstanding loan (except for bank borrowers with incomes over KGS 40,000).

2. These overall dimensions are reflected across most of the household income segments with no substantive change, other than incomes over KGS 40,000.

All Borrowers : Income	Household expenditure as % of income		Monthly loan repayment as % of net income		Committed expenditure greater than 75% of income		Average Outstanding Loan	
	2013	2014	2013	2014	2013	2014	2013	2014
< 15,000	50%	51%	89%	86%	76%	71%	36,400	37,100
15,001 - 20,000	45%	43%	64%	62%	57%	55%	51,000	48,000
20,001 - 30,000	40%	38%	47%	51%	39%	43%	68,700	68,500
30,001 - 40,000	40%	35%	47%	50%	38%	40%	117,200	115,500
> 40,000	30%	26%	42%	40%	39%	34%	266,300	283,900

3. The regional profile shows a greater level of change within some regions, particularly in relation to the average outstanding loan amount, most regions show a reduction in domestic expenditure (except Chui Oblast).

All Borrowers : Region	Household expenditure as % of income		Monthly loan repayment as % of net income		Committed expenditure greater than 75% of income		Average Outstanding Loan	
	2013	2014	2013	2014	2013	2014	2013	2014
Bishkek	38%	33%	53%	52%	50%	54%	119,500	123,000
Osh City	40%	32%	52%	45%	38%	48%	107,900	132,100
Chui Oblast	36%	40%	59%	60%	59%	62%	92,000	82,600
Jalal-Abad	45%	37%	51%	54%	55%	51%	47,400	53,600
Osh Oblast	40%	39%	52%	43%	50%	52%	50,500	68,800

These tables indicate that there has been a significant focus upon the quantitative dimensions of lending and the related affordability issues – and that these have been addressed by both borrowers and lending institutions. However, there remains a substantial level of financial pressure amongst borrowers.

4 The scale of the recognition of financial pressures is illustrated in the following table. These suggest that an increased proportion of borrowers recognise the economic pressures in which they are living (reflected, perhaps, in the reductions in expenditure and minimal change in outstanding debt) suggest that they are responding to this pressure). However, despite such pressures, the greater financial recognition / awareness has resulted in lower levels of concern and this is reflected in the attitudinal responses.

	Microfinance Institutions		Commercial Banks	
	2013	2014	2013	2014
Financial Indicators : Adverse Trend				
My financial situation has improved in the last 6 months	73%	69%	75%	73%
My household expenses have risen faster than income in the last 6 months	52%	62%	53%	56%
I need to continue to borrow to maintain how my family and I live	32%	42%	29%	34%
Borrower Attitudes : Favourable Trends				
My loan repayments are more than I can afford	32%	28%	35%	28%
Debt repayments cause problems within my family	40%	31%	41%	33%
It is difficult to resolve debt problems with my lender	42%	30%	44%	34%
Food expenditure has been reduced to make loan repayments	24%	16%	27%	17%
I (or my spouse) have taken additional work to make loan repayments	23%	17%	35%	20%

5 A further dimension of risk exposure is to consider borrowers in relation to their recognition / awareness of financial problems and constraints. In this regard, borrowers may be considered in five principal segments:

i. Loan Arrears : direct indication of financial constraint
ii. Lender refusal or debt refinance : identification of financial pressure by the lending institution
iii. Repayment difficulty : self recognition of difficulty to meet payments
iv. Expenditure >75% income : limited capacity to respond to additional financial payments
v. Remainder : relative confidence and capacity in financial position

The distribution of borrowers may be summarised as:

	Distribution of Clients				Distribution of Loan Value			
	All Borrowers		2014		All Borrowers		2014	
	2013	2014	MFI	Bank	2013	2014	MFI	Bank
Loan Arrears	2%	2%	2%	2%	2%	2%	2%	3%
Loan Refusal	8%	2%	3%	2%	8%	2%	2%	2%
Repayment Difficulty	27%	25%	24%	25%	34%	23%	22%	23%
Expenditure >75%	32%	33%	31%	37%	34%	44%	39%	48%
Remainder	31%	38%	40%	34%	22%	28%	35%	25%

This table highlights:

a. The improved situation in 2014 in comparison with 2013 (see preceding sections for review of contributory factors);
b. The slightly stronger position of the MFIs in 2014 in comparison with the banks
c. An underlying core segment of about 30% of clients who recognise their financial constraints.

The income and regional distributions of this risk profile are shown in the following tables:

Household Income : Distribution of Clients	Microfinance Institutions					Commercial Banks				
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000
Loan Arrears	2%	3%	1%	4%	2%	3%	2%	1%	3%	1%
Loan Refusal	4%	3%	2%	1%	2%	2%	3%	2%	2%	2%
Repayment Difficulty	33%	26%	20%	19%	15%	33%	32%	25%	16%	17%
Expenditure >75%	44%	35%	24%	20%	16%	44%	38%	33%	41%	34%
Remainder	17%	35%	52%	56%	65%	18%	26%	39%	38%	46%

This distribution in relation to the income amount may be contrasted with the greater vulnerability and higher risk profiles shown by the distribution in relation to outstanding loan values.

Outstanding Loan Value: Distribution of Clients	Microfinance Institutions					Commercial Banks				
	< 15,000	15,001 - 30,000	30,001 - 50,000	50,001 - 100,000	> 100,000	< 15,000	15,001 - 30,000	30,001 - 50,000	50,001 - 100,000	> 100,000
Loan Arrears	3%	2%	0%	3%	3%	2%	3%	0%	2%	2%
Loan Refusal	3%	2%	3%	2%	3%	3%	3%	2%	3%	2%
Repayment Difficulty	24%	28%	23%	21%	25%	26%	27%	23%	28%	21%
Expenditure >75%	25%	26%	31%	38%	40%	26%	33%	33%	38%	50%
Remainder	45%	43%	42%	36%	29%	43%	35%	42%	30%	25%

These tables highlight the significant differences between the income segments in the dynamics of debt affordability and capacity to respond to additional, or unexpected, financial needs or pressures. The 'visible' demonstration of financial problems (loan arrears and refinance) in minimal across the income segments. The recognition of payment problems and the scale of borrowers with constrained financial budgets is directly correlated with the scale of household income for MFI clients.

However, this is contrasted by the higher levels of financial commitment being shown across all bank income segments. This is emphasised further in the distribution of loan values which shows the constrained financial capacity of by 50% of bank high loan value borrowers to meet exceptional payments or address any significant economic pressure.

This suggests that the banks may face a greater risk sensitivity / vulnerability in relation to any progressive downturn in economic conditions.

6 The regional distribution suggests that there may be quite different risk management pressures across the regions and, again, there is a substantial level of borrowers who are highly committed but who have not yet recognised repayment pressures.

Region	Distribution of Clients					Distribution of Loan Value				
	Bishkek	Osh City	Chui	Jalal-Abad	Osh Oblast	Bishkek	Osh City	Chui	Jalal-Abad	Osh Oblast
Loan Arrears	4%	1%	0%	2%	2%	7%	1%	0%	1%	2%
Loan Refusal	3%	2%	3%	2%	3%	3%	1%	3%	2%	1%
Repayment Difficulty	16%	11%	18%	41%	37%	15%	13%	29%	40%	38%
Expenditure >75%	37%	33%	44%	28%	25%	47%	49%	42%	32%	43%
Remainder	40%	52%	35%	27%	33%	28%	35%	26%	25%	17%

7 A comparison with Tajikistan[13] provides an additional perspective to the Kyrgyzstan position.

2014	Microfinance Institutions		Commercial Banks	
	Kyrgyzstan	Tajikistan	Kyrgyzstan	Tajikistan
Financial Indicators :				
My financial situation has improved in the last 6 months	69%	84%	73%	87%
My household expenses have risen faster than income in the last 6 months	62%	69%	56%	68%
I need to continue to borrow to maintain how my family and I live	42%	49%	34%	45%
Borrower Attitudes :				
My loan repayments are more than I can afford	28%	29%	28%	28%
Debt repayments cause problems within my family	31%	23%	33%	22%
It is difficult to resolve debt problems with my lender	30%	24%	34%	25%
Food expenditure has been reduced to make loan repayments	16%	41%	17%	40%
I (or my spouse) have taken additional work to make loan repayments	17%	21%	20%	22%

These responses suggest that, in the event of a significant economic downturn, these markets may face quite different dynamics and client behaviours.

LOAN PRODUCT

MFIs and banks have significantly different strategies and delivery propositions for the use of loan products. There appears to be no consistent profile for the type of loan product and the underlying usage of the funds. The loan product structure may have significant implications for the business case structures of the two types of lending institution. This may also impact adversely upon the business development opportunities of the microfinance institutions in comparison with the banks.

1 The structure of the loan products was fundamentally different in the loan portfolios of the MFIs and banks. This is shown in the following table :

Type of Loan	Distribution of Clients				Distribution of Loan Value			
	Group	Business	Individual	Agricultural	Group	Business	Individual	Agricultural
MFI	43%	10%	41%	6%	36%	11%	48%	4%
Bank	7%	17%	69%	7%	3%	26%	65%	5%

[13]Tajikistan : based upon a comparable survey undertaken in May 2014 involving 4,000 respondents
Comparison with Tajikistan : this note does not suggest that the markets, cultures or client behaviour should be consistent across the two countries. The comparative survey responses are shown to enable the reader to gain a cross-border perspective of market behaviour and industry structure / conditions.

This table highlights the fundamental differences in the product and delivery propositions of the MFIs and the banks. Such service propositions should be considered as the platforms for business development. As such, this product emphasis upon a group loan methodology suggests the cultural, operational and resource implications of any substantive change towards a greater level of direct individual lending.

The related loan amounts and residual repayment periods are shown in the following table.

Type of Loan	Average Outstanding Balance : KGS				Residual Repayment Period (months)			
	Group	Business	Individual	Agricultural	Group	Business	Individual	Agricultural
MFI	44,800	62,200	62,000	42,400	7	8	9	8
Bank	57,600	223,700	137,600	110,000	7	13	13	13

This further demonstrates the difference between the market propositions of the MFIs and the banks in relation to addressing the funding needs of borrowers. This raises the options of [i] there are two distinct markets which need such different product and delivery propositions, or [ii] the market has broadly similar needs but does not have equal access to the different types of institution, or [iii] the institutions seek to have strategically different market positions. However, these two structures have fundamentally different business cases and risk dynamics. Furthermore, if the MFIs do seek to move their client profile towards higher income segments, there appear to be various structural ‘entry barriers’ which result from the current market proposition.

2 The usage of the different types of loan:

Type of Loan	Microfinance Institutions				Commercial Banks			
	Group	Business	Individual	Agri-cultural	Group	Business	Individual	Agri-cultural
Distribution of Clients	43%	10%	41%	6%	7%	17%	69%	7%
Purpose of loan :								
Business : Asset Acqn	17%	58%	21%	9%	26%	45%	22%	14%
Business : Other	18%	26%	15%	9%	9%	37%	15%	16%
Domestic : AssetAcqn	18%	3%	18%	27%	21%	4%	15%	8%
Domestic : Other	37%	8%	36%	44%	34%	11%	34%	49%
Property	8%	4%	10%	11%	6%	3%	14%	13%
Other	2%	1%	0%	0%	4%	0%	0%	0%

This table shows that there is no strong linkage between the type of loan product and the usage of the loan funds.

i. Business loans do demonstrate a closer relationship to usage, but this type of loan is not widely used by either the MFIs or banks;
ii. Property usage implies a longer-term investment but, again, there is no consistent relationship to an appropriate type of loan product. However,

the average residual repayment period for 'property usage' loans is slightly longer 14 months;

iii. Usage of funds for 'other domestic consumption' is widely spread across the loan products. The average residual repayment period of 9 months is the same as that for 'domestic asset acquisition';

iv. The product structure is based upon a fixed term, fixed repayment. However, such rigid cash flow requirements appear inconsistent with the underlying usage for 'other business' needs which will reflect the cash flow cycles of the various underlying businesses.

3 This apparent lack of consistency of product structure or characteristics is further reflected in the availability of collateralised pledged assets. This is shown in the following table:

Type of Loan	Microfinance Institutions				Commercial Banks			
	Group	Business	Individual	Agri-cultural	Group	Business	Individual	Agri-cultural
Distribution of Clients	43%	10%	41%	6%	7%	17%	69%	7%
Collateralised Pledged Assets : % of clients providing the different types of loan support								
Property	11%	23%	21%	7%	29%	50%	39%	25%
Domestic Assets	17%	27%	24%	25%	5%	14%	17%	20%
Other Assets	8%	5%	10%	8%	15%	13%	12%	11%

There is, again, no apparent consistent profile in the requirement for / provision of collateralised pledged assets.

i. Banks obtain a higher level of property as collateral
ii. The 'Group' product appears to have additional support from pledged assets, and survey respondents were inconsistent in their recognition of any guarantee support structure
iii. The higher levels of 'domestic asset' amongst microfinance clients is clearly shown.

4 The pattern of usage of these loan products varied significantly across the regions.

Type of Loan	Microfinance Institutions				Commercial Banks			
	Group	Business	Individual	Agri-cultural	Group	Business	Individual	Agri-cultural
Distribution of Clients	43%	10%	41%	6%	7%	17%	69%	7%
Regional distribution of loan product usage by clients								
Bishkek	53%	4%	41%	2%	12%	13%	72%	3%
Osh City	41%	15%	38%	6%	1%	25%	69%	5%
Chui	57%	2%	38%	2%	6%	26%	60%	8%
Jalal-Abad	30%	13%	48%	9%	12%	12%	65%	11%
Osh Oblast	42%	11%	40%	7%	5%	9%	78%	9%

Such differences in the usage of loan products, particularly by the microfinance institutions, suggests that the business case and performance characteristics of the various regional structures are likely to be very different. As such, changes in the distribution of clients and the impact of economic conditions upon the risk profile are likely to have quite different implications for the service and client support propositions – and the resources, skills and costs related to such activities.

5 The profile of household incomes is similar for both 'group' and 'individual' loan products.

Type of Loan	Microfinance Institutions				Commercial Banks			
	Group	Business	Individual	Agri-cultural	Group	Business	Individual	Agri-cultural
Distribution of Clients	43%	10%	41%	6%	7%	17%	69%	7%
Average Household Income : KGS	25,100	29,200	25,300	23,800	30,500	40,500	31,400	28,900
Household Income : Distribution of clients within each loan product type								
< KGS 15,000	26%	17%	27%	37%	24%	9%	22%	24%
KGS 15,001 – 20,000	23%	17%	25%	19%	18%	14%	18%	21%
KGS 20,001 – 30,000	32%	37%	29%	23%	33%	28%	29%	28%
KGS 30,001 – 40,000	11%	13%	12%	10%	9%	16%	12%	11%
> KGS 40,000	8%	15%	18%	10%	16%	33%	18%	16%

There appears to be little product differentiation in relation to the levels of household income. This suggests that the 'driver' of the product deployment is based primarily upon operational and logistical capacities and cost structures of the lending institution, rather than the needs of the borrower.

6 The profile of loan product usage in Kyrgyzstan may be compared with that in Tajikistan.

Distribution of Clients	Microfinance Institutions				Commercial Banks			
	Group	Business	Individual	Agri-cultural	Group	Business	Individual	Agri-cultural
Kyrgyzstan	43%	10%	41%	6%	7%	17%	69%	7%
Tajikistan	5%	35%	54%	7%	2%	38%	55%	6%

i. There is clearly a different product strategy by MFIs in Kyrgyzstan from that in Tajikistan which suggests (*other things being equal*) that delivery and operational management costs are likely to be higher for the MFIs in Tajikistan;

ii. There appears to be a higher recognition of a business product proposition in Tajikistan.

OUTLOOK FOR BORROWING BY CURRENT CLIENTS

The lending outlook for existing borrowers over the next 12 months appears to be broadly 'level', with some possible likelihood of reduction. Those clients with the strongest financial capacity show the greatest uncertainty of their future borrowing needs or actions, which also increases the uncertainty of the future risk profiles of the loan portfolios. This highlights the importance for business development to adequately identify and respond to the capacities and needs of different segments of borrower. A significant level of borrowers appear to make decisions of future borrowing at, or about, the time of loan maturity.

The capacity for organic growth and development of existing borrowers may be considered to reflect three principal dynamics of the characteristics and attitudes of clients. These were reflected in the risk assessment at the conclusion of the preceding section. These are summarised again as a prelude to the review of lending outlook:

i. Recognition of current financial constraints, or an aversion to further risk exposure[14];

ii. Low levels of net disposable income, with committed basic expenditures being over 75% of income;

iii. Remaining clients, with an apparent financial capacity for higher debt commitments.

1. The structure of the loan portfolio (as at the survey in September 2014) is shown in the following table – and broadly reflects a client distribution of about 25% of 'problem recognition', 35% of 'highly committed', and 40% of 'potential financial capacity'. This table suggests that there is a greater confidence amongst borrowers in 2014. Such attitudinal shift does not, however, reflect the continuing level of highly financially-committed borrowers (particularly amongst bank clients).

	Distribution of Clients				Distribution of Loan Value			
	All Borrowers		2014		All Borrowers		2014	
	2013	2014	MFI	Bank	2013	2014	MFI	Bank
Loan Arrears	2%	2%	2%	2%	2%	2%	2%	3%
Loan Refusal	8%	2%	3%	2%	8%	2%	2%	2%
Repayment Difficulty	27%	25%	24%	25%	34%	23%	22%	23%
Expenditure >75%	32%	33%	31%	37%	34%	44%	39%	48%
Remainder	31%	38%	40%	34%	22%	28%	35%	25%

[14] Recognition of current financial constraints or an aversion to further risk exposure : This is based upon [i] clients with loan arrears, [ii] clients who have had a loan application declined within the last 12 months (but subsequently obtained a loan from another lender, and [iii] clients who recognise that their current loan repayments are more than they can afford.

2. The following 'credit quality' and financial attitude dimensions may be related to these client segments :

All Borrowers	Loan Arrears	Lender Refusal	Repayment Difficulty	Expenditure >75% income	Remainder
Food expenditure has been reduced to make loan repayments	39%	30%	29%	14%	8%
Payment arrears with utility providers	18%	13%	7%	4%	3%
Loans from family and friends	27%	14%	11%	11%	8%
Credit from retailer	30%	16%	7%	11%	10%
Financial situation improved in last 6 months	55%	57%	63%	72%	76%
Assets pledged as collateral	63%	52%	57%	56%	49%
Borrowed too much	47%	37%	70%	32%	21%
Need to borrow to maintain how my family live	53%	51%	57%	33%	32%
Debt payments cause problems in my family	58%	40%	82%	18%	10%
Difficult to resolve problems with lending institution	47%	42%	77%	17%	12%

This table shows the substantive difference in attitudes between those borrowers who recognise their financial difficulties and remainder – and the general similarity of attitude between those with high levels of committed expenditure and the remainder. These responses suggest:

a. The 'problem recognition' segment have already undertaken various actions to alleviate their financial position. The particular action has been to reduce food expenditure. This has clearly limitations as to how much further economies can be made, the social consequences of such spending reductions and the impact of the potential deterioration of the economic environment will make this situation worse;

b. The 'highly committed' segment show some similar characteristics to the 'remainder' segment. This may suggest that the 'highly-committed' segment may not fully recognise the vulnerability of their financial position. The quantitative financial budget position demonstrates that there is minimal scope to accommodate additional expenditures or the pressures of adverse external economic trends. Whilst there may be some scope of budget savings, the primary issue with this segment may be the psychological recognition / acceptance of the need to adapt / constrain their lifestyle and spending patterns;

c. The 'remainder' segment show generally the lowest adverse characteristics – and thereby have the greatest capacity to adapt to economic pressures or to increase the level of their borrowings.

The outlook for lending performance and business development must be based, therefore upon:

- The organic change which can be commercially sustained from within the existing loan portfolios which are summarised above; and
- The level of new / return business which is outside the current borrowing population.

3. Business Development opportunities need to be optimised from the existing client base. This may be particularly appropriate in view of [i] the increasingly mature and saturated structure of existing markets in relation to individual borrowers, [ii] the apparent structural reduction in exposure to the lower income segments, [iii] the increasing constraints of external economic pressures which will impact across the market, and [iv] little immediate prospect of increased employment or income levels.

   It is appropriate, therefore, to review the attitudes and expectations of current borrowers in relation to the prospective borrowing needs. Current borrowers show a high level of indecision in relation to their future borrowing intentions. The following table shows the responses in relation to these issues:

	% of loans maturing in the next 12 months	Do you intend to take out a new loan when your existing loan is repaid			If 'Yes', compared with the amount you borrowed for this loan, will the amount of your next loan be			
		Yes	No	Do not know	More	The same	Less	Do not know
MFI	87%	40%	22%	38%	24%	43%	12%	21%
Bank	74%	32%	24%	44%	29%	35%	15%	21%

These responses do not suggest an underlying widespread intention for strong lending growth. Furthermore, they also suggest that for many borrowers, the loan decision is not part of a long-term personal financial strategy, but rather based upon 'last-minute' circumstances or need. As such, any increasing economic uncertainty or pressure may impact significantly upon future borrowing levels and needs.

4. This profile of borrowing intentions can be further assessed in relation to household incomes across the MFI and bank loan portfolios.

MFI	% of loans maturing in next 12 months	Do you intend to take out a new loan when your existing loan is repaid			If 'Yes', compared with the amount you borrowed for this loan, will the amount of your next loan be			
		Yes	No	Do not know	More	The same	Less	Do not know
< 15,000	92%	46%	25%	29%	20%	37%	14%	30%
15,001 - 20,000	87%	46%	20%	34%	22%	49%	12%	17%
20,001 - 30,000	87%	35%	19%	45%	25%	48%	10%	17%
30,001 - 40,000	85%	34%	21%	45%	23%	49%	10%	18%
> 40,000	74%	31%	26%	43%	40%	25%	16%	18%

Bank	% of loans maturing in next 12 months	Do you intend to take out a new loan when your existing loan is repaid			If 'Yes', compared with the amount you borrowed for this loan, will the amount of your next loan be			
		Yes	No	Do not know	More	The same	Less	Do not know
< 15,000	87%	41%	24%	35%	29%	26%	23%	23%
15,001 - 20,000	83%	28%	32%	40%	23%	51%	7%	19%
20,001 - 30,000	77%	32%	27%	42%	22%	42%	18%	18%
30,001 - 40,000	65%	26%	19%	55%	17%	40%	13%	30%
> 40,000	53%	30%	18%	52%	50%	22%	6%	23%

Microfinance clients appear to show a slightly stronger commitment to the renewal of their loans at similar, or higher, levels than is demonstrated by the bank borrowers. Furthermore, with shorter residual repayment maturities, the MFIs have greater portfolio management / liquidity options over the next 12 months as a result of their ability to determine the level of their future lending – but conversely, there is the commercial risk that the 'better credit quality' borrowers may defer renewal of their loans until there is a greater stability in the market. This would leave the MFIs with an increasing proportion of 'debt dependent' borrowers.

The banks, however, have a higher level of longer-term lending to higher income clients. This may be anticipated to lessen some of the potential risks of a structural migration of 'better credit quality' clients in the immediate future.

However, across all the income ranges of both MFI and bank borrowers, there is a relatively high level of uncertainty of future needs. This provides a challenge to the business development of the lending institutions to reflect the differentiated needs and capacities of the various income segments. This may be particularly challenging as such future borrowing intentions appear to show little difference when related to the purpose / usage of the current loan funds. Similarly, if related to the availability (or not) of collateral, there is minimal difference between the two client segments.

Bank	% of loans maturing in next 12 mths	Do you intend to take out a new loan when your existing loan is repaid			If 'Yes', compared with the amount you borrowed for this loan, will the amount of your next loan be			
		Yes	No	Do not know	More	The same	Less	Do not know
Asset acquisition : Business	77%	45%	19%	36%	21%	43%	12%	24%
Asset acquisition : Domestic	86%	36%	27%	38%	27%	44%	10%	19%
Other Domestic	85%	33%	23%	43%	25%	35%	14%	27%
Property	79%	38%	20%	42%	31%	42%	9%	19%
Other Business needs	80%	39%	19%	42%	21%	38%	19%	23%

The future borrowing intentions of the various risk profile segments provide a significant framework from which to assess the potential development of the current client base.

MFI	% of loans maturing in next 12 months	Do you intend to take out a new loan when your existing loan is repaid			If 'Yes', compared with the amount you borrowed for this loan, will the amount of your next loan be			
		Yes	No	Do not know	More	The same	Less	Do not know
Arrears	85%	29%	51%	20%	50%	17%	25%	8%
Lender Refusal	82%	48%	22%	30%	38%	29%	17%	17%
Repayment Difficulty	87%	42%	25%	33%	21%	47%	18%	15%
Expenditure >75% Income	87%	46%	18%	36%	21%	45%	11%	23%
Remainder	87%	34%	21%	45%	26%	41%	9%	24%

Bank	% of loans maturing in next 12 months	Do you intend to take out a new loan when your existing loan is repaid			If 'Yes', compared with the amount you borrowed for this loan, will the amount of your next loan be			
		Yes	No	Do not know	More	The same	Less	Do not know
Arrears	62%	27%	35%	38%	29%	29%	29%	14%
Lender Refusal	76%	38%	24%	38%	15%	23%	23%	38%
Repayment Difficulty	74%	28%	31%	41%	15%	42%	22%	20%
Expenditure >75% Income	71%	38%	20%	42%	30%	33%	11%	26%
Remainder	77%	28%	23%	48%	38%	34%	14%	15%

These responses provide a framework for the interaction of risk management and business development in relation to the future performance of the existing client base.

a. The MFIs have a higher proportion of loans (than the banks) which will mature within the next 12 months;
b. The stronger credit quality segment, 'remainder' is the least decided upon future borrowing actions;
c. Whilst the level of 'renewal' is generally higher than 'non-renewal', there is a significant proportion (about 40%) of current borrowers who do not have a clear plan of their future financial needs. This may suggest that their attitude towards financial planning is limited to a relatively short-term future and/or that many of them (particularly in the 'remainder' segment) are somewhat discretionary borrowers.

5. A comparison of MFI borrowers with 'non-borrowers' provides a further insight of the possible future borrowing intentions of lower income households.

The income profiles of the MFI clients and non-borrowers are broadly similar.

	Distribution of Household Income					Average Income
	< 15,000	15,001 - 20,000	20,001 - 30,000	30,001 - 40,000	> 40,000	
MFI	27%	23%	29%	11%	9%	25,400
Non-Borrowers	36%	23%	23%	9%	9%	24,900

However, the level of loan repayments impacts significantly upon the available net disposable income.

2014	Domestic Budget : KGS					Expenditure as % of Income		
	Income	Household costs	Utility costs	Loan Repayments	Net Disposable Income	Household	Utility	Loan Repayment
MFI	25,400	9,500	1,200	6,600	8,100	38%	5%	26%
Non-Borrowers	24,900	9,750	1,450	na	13,700	39%	6%	na

This suggests that if lower income borrowers were to assess the situation objectively, the potential cash flow improvement could provide a significant short-term benefit if the loan were not renewed. With about 40% of low income MFI borrowers using loan funds for 'domestic consumption' purposes, there could be a significant budget gain to be obtained from the release of the monthly loan repayment commitment.

IMPACT DYNAMICS OF POTENTIAL COST-OF-LIVING PRESSURES

Increased external economic pressures will impact progressively upon the debt capacity of the marginal borrower. Lending institutions may need to review lending strategies, together with the loan product and service propositions, to reflect the particular demands of a changed market environment.

Individual borrowers in Kyrgyzstan face an uncertain outlook in relation to the external economic conditions. These may impact directly upon cost-of-living prices in the national economy, the level of inward remittances from overseas workers, the availability of employment, and the level of cash flow / liquidity within local communities and economies. Economic commentators suggest that the outlook for Kyrgyzstan is particularly vulnerable to the effects of the pressures in the Russian and Kazakhstan markets.

The sensitivity of the loan portfolios cannot be simply assessed by a supposed proportionate relationship between debt affordability / repayment and a change in basic prices. The surveys have indicated that many borrowers are highly resourceful and have been willing to adjust their lifestyles to reflect their financial situation. This following comments highlight various factors raised in the earlier sections which may be considered to influence the future performance and risk exposures of the individual borrower loan portfolios.

None of these issues are conclusive, or dominant, in themselves – but rather they may be anticipated to interact to reflect the changing environment. The purpose of these notes is not to re-rehearse the details of each factor, but rather to highlight the respective dynamics.

1. Capacity to make further expenditure reductions to the domestic budget

   Levels of domestic expenditure (per household person) reduced in both nominal and real terms (inflation adjusted) across all income segments in 2014. Average monthly expenditure on household essentials for the lower income segments (up to KGS 20,000 and 45% of all borrowers) was only KGS 7,100 (US$ 122) which appears to leave little room for further reductions. Additionally, informal trade credit from retailers increased in 2014 which suggests a further reflection on the domestic budget pressures. Whilst there is a capacity for further expenditure reductions, particularly amongst the higher income groups, it may be unlikely that there is a significant scope for further substantive savings amongst the lower income segments.

2. Capacity for additional expenditure

   Amongst the lower income segments (up to KGS 20,000 and 45% of all borrowers), about 65% of borrowers have committed expenditure levels in excess of 75% of income. This may be contrasted with only 35% of borrowers with incomes over KGS 30,000 having such high commitment of expenditures. This suggests that there may be an increasing divergence of lending strategies and client service propositions to reflect such different underlying financial situations.

   Paradoxically, a significant minority of lower income borrowers may have a stronger net income / disposable income position if they do not renew their loan, rather than continue to borrow and use the loan monies to fund domestic consumption needs.

3. Further increases in debt levels

   Growth in lending balances in 2014 was focused primarily upon the high income segment over KGS 40,000. About 60% of all borrowers recognise, or show, a constrained financial position. For such borrowers, current loan levels appear to present a 'debt level ceiling'. The remaining 40% of borrowers demonstrate some capacity in their financial position to absorb further increases in the cost-of-living.

   Any continuing increase in the level of lending would require a differentiated approach in relation to product structure and repayment terms.

4. Loan repayment term

   Loan repayment terms remained broadly unchanged in 2014, except for lending to the lowest and highest income segments of bank borrowers. The shorter residual repayment periods provide, particularly for the MFIs, greater flexibility to adjust their loan portfolios. However, if the economic environment deteriorates significantly, there may be a need to consider loan structures in which an extension of the repayment period can be accommodated. This may involve some product development to address loan situations supported by collateral (and thereby additional commitment by the borrower) in which the borrower needs additional cash flow.

5. Resilience of borrowers

   This is clearly a highly subjective issue, which can be best assessed by local stakeholders. (The writer's comments are, therefore, simply a perception derived from the survey responses). The comments and actions of many borrowers, not least those on lower income and with a constrained domestic budget, suggest that there has been an acceptance of the need to exercise economies and to adapt. This has impacted also on many families. The responses in 2014 suggest that borrowers may have become more accustomed to their constrained financial situation and have not considered the lending institutions to be the primary source of their financial difficulties.

The provision of collateral pledged assets is a further demonstration of their commitment to meet their liabilities – but it is also a strong motivation to maintain regular loan repayments. A significant challenge for the lending institutions may be the extent to which such motivation will be 'stretched', or the need for the lending institutions to determine when / if the financial pressures upon the borrower become too great.

6. 'Own business' clients

The 2014 survey indicates trends which impact upon the levels of economic activity / trading conditions of 'own business' clients. Borrowers have shown lower levels of domestic expenditure and also an increased usage of 'informal' trade credit. These will impact directly upon the level of business of activity of different segments of the 'own business' clients. Lending institutions may be particularly sensitive to the implications of such changes upon the cash flow and business model of the 'own business' client.

RELATIONSHIP BETWEEN THE BORROWER AND THE LENDING INSTITUTION: 2013-2014

The relationship between borrower and lender strengthened generally in 2014. The lending institutions showed strong cultural values and were perceived to be increasingly responsive and understanding of borrower needs.

The perception of the lending institution by the borrower may be considered in three principal dimensions. (It is appropriate to note that these reflect the borrowers' perception and are not based on an objective assessment of the process).

- The culture and values of the lending institution
- Credit evaluation
- The operational interaction, including problem debt resolution

Culture and values of the lending institution

The perception of the cultural standards of both MFIs and banks is consistently strong and shows some improvement between 2013 and 2014.

% agree	Act with integrity		Trustworthy		Treat clients with respect	
	2013	2014	2013	2014	2013	2014
MFI	82%	87%	87%	92%	95%	98%
Bank	83%	87%	85%	92%	95%	97%

Whilst the level of favourable responses is generally high, it is strongest amongst the lower income segments.

% agree	Act with integrity		Trustworthy		Treat clients with respect	
	2013	2014	2013	2014	2013	2014
< 15,000	81%	90%	86%	93%	95%	98%
15,001 - 20,000	85%	86%	89%	93%	95%	98%
20,001 - 30,000	82%	88%	85%	94%	96%	98%
30,001 - 40,000	84%	86%	85%	89%	95%	98%
> 40,000	81%	85%	87%	90%	95%	96%

Such strong cultural values are also reflected across the different risk segments (see table below). Again, there is minimal difference between the perceptions of MFI and bank clients. These are extremely strong responses, but are at similar levels to those identified in Tajikistan.

% agree : 2014	Act with integrity		Trustworthy		Treat clients with respect	
	MFI	Bank	MFI	Bank	MFI	Bank
Arrears	70%	64%	81%	82%	100%	100%
Lender Refusal	68%	78%	84%	90%	94%	77%
Repayment Difficulty	86%	85%	91%	92%	98%	97%
Expenditure >75% Income	89%	87%	93%	93%	98%	98%
Remainder	89%	89%	93%	93%	99%	98%

Credit evaluation

Borrowers indicate that the lending institution was adequately aware of their needs and financial situation, which provide a basis for an informed credit assessment.

% agree : 2014	Lender understood borrower needs		Lender knew what borrower could afford		Borrowed too much	
	MFI	Bank	MFI	Bank	MFI	Bank
Arrears	70%	67%	94%	86%	46%	44%
Lender Refusal	76%	72%	86%	79%	39%	37%
Repayment Difficulty	81%	83%	94%	92%	64%	77%
Expenditure >75% Income	88%	89%	85%	85%	32%	31%
Remainder	90%	91%	91%	90%	17%	28%

There is minimal difference between the MFIs and banks.

Operational interaction between borrower and lender

The following table shows the strengthened service proposition between lender and borrower which developed in 2014.

	Lending institutions seek to improve the lives of their clients		Lending institutions respond well to people with lending problem		It is better to borrow from only one institution, rather than to change lenders		Lending institutions explain the terms and obligations of the loan	
	2013	2014	2013	2014	2013	2014	2013	2014
MFI	79%	81%	74%	84%	78%	84%	95%	98%
Bank	76%	80%	72%	80%	76%	85%	95%	97%

This suggests an underlying strength in the relationship which may be required if the market comes under greater pressure as a result of economic trends. However, these perceptions may have reflected a greater accommodation of borrower needs during 2014.

% agree :	Loans were easy to obtain		Loans improve the quality of life		I need to continue to borrow to maintain how my family and I live	
	2013	2014	2013	2014	2013	2014
MFI	69%	80%	71%	75%	32%	42%
Bank	63%	75%	72%	75%	29%	34%

This suggests that the lending institutions changed their lending practices to facilitate the provision of loans (together with being more responsive in the event of debt problems) and that this occurred to meet an increased need from some (possibly the more marginal) borrowers for loans to maintain their lifestyle. This suggestion is an inference, but the responses appear to show a coincidence of lender and borrower needs.

Attachment 1.

Sample Profile and Methodology

The survey sample was based in five regions:

Number of Respondents	2014				2013
	Microfinance	Bank	Non-Borrower	Total	Total
Bishkek	361	269	150	810	800
Osh City	384	300	129	813	800
Chui	358	294	157	809	800
Jalal-Abad	418	261	135	814	800
Osh Oblast	400	263	142	805	800
Total	1,921	1,387	593	4,051	4,000

The sample selection criteria have been consistent for the surveys of both 2013 and 2014. The surveys have been conducted at the same time (September), by the same independent research agency and in the same locations within the regions.

The characteristics of the survey process have been:

- Respondents remain anonymous and there is no means by which to identify the individual;
- Survey interview are conducted on a random basis, within the terms of the selection criteria;
- Survey interviews are conducted on a 'face-to-face' basis – no telephone interviews are undertaken;
- Survey guidelines are provided to enable interviewers to have a consistent understanding of the process and the survey.

The sample selection criteria involve:

- Financial activity
    - About 350 persons with a current loan with a microfinance institution;
    - About 300 persons with a current loan with a commercial bank;
    - About 90 persons with no current loan, but having had a loan within the last two years from either a microfinance institution or a commercial bank;
    - About 60 persons who have never had a loan from either a microfinance institution or a bank.

- Equal distribution of male and female.

- 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

Survey Questionnaire: 2014

CLIENT SURVEY - INDIVIDUAL

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

1-2 Loan Identification *(All Respondents)*

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					Q.1.a
Q.2	Commercial bank (loan), excl. house purchase and credit card					Q.2.a

3-8 Please tell us about yourself : *(All Respondents)*

Q.3 Gender : Male ☐ Female ☐

Q.4 Age : ☐☐

Q.5 Number of people in household (inc. respondent) ☐☐

Q.6 Number of dependents ☐☐

Q.7 Marital Status Married ☐ Single ☐ With Partner ☐ Widow/Widower ☐

Q.8 Where do you live : City / Town ☐ Urban ☐ Rural ☐

9-12 Income *(All Respondents)*

What is the source of your income : *(Tick any which apply)*

Q.9 Regular work ☐ Irregular work ☐ Own Business ☐ Remittance ☐ Other (inc. agricultural sales or project payments) ☐ None ☐

Q.10 In what type(s) of trade activity do you earn your income *(Tick any which apply)*

Manufacture ☐ Food Production ☐ Retail ☐ Engineering ☐ Building - Property ☐

Service ☐ Agriculture ☐ Public Sector ☐ Other ☐

Q.11 How would you describe the receipt of your income *(Tick any which apply)*

From employer 1 or 2 weekly ☐ From employer monthly ☐ Income payments sometimes delayed ☐ Occasional or irregular payments ☐ Income from own business ☐

Q.12 How many people earn income in your household *(Please enter number)* ☐☐

13-22 Household Budget *(All Respondents)*

Q.13 How much is the average **total monthly** income into your household budge *(Please enter amount)* KGS ☐☐☐☐☐☐

Q.14 How much do you spend **each month** (on average) on food and household expenditure KGS ☐☐☐☐☐☐

Q.15 How much do you spend **each month** (on average) on gas, electricity, water, rent, garbage collection KGS ☐☐☐☐☐☐

Q.16 Do you have any payment arrears with any of electricity, gas, water, or housing costs Yes ☐ No ☐

Do you have other loans with :

		Yes, loan outstanding	Not now, but in last 2 years	Never
Q.17	House purchase / property loan			
Q.18	Friends or family			
Q.19	Retail shop			
Q.20	Moneylender or Pawnshop			
Q.21	Employer			
Q.22	Credit Card			

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			**Q.24**	My business was not successful		
Q.25	My spouse / partner lost his/her job			**Q.26**	I had to sell a major asset to repay a loan		
Q.27	Major illness of self or family			**Q.28**	Family or friends provided money to repay my loan		

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

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

36-41 Loan Dimensions *(Current and Former Borrowe* 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 ☐ Business ☐ Individual ☐ Agricultural ☐ Other ☐

Q.37 Commercial bank (excl. mortgage and credit card) — Group ☐ Business ☐ Individual ☐ Agricultural ☐ Other ☐

Q.38 What was the main reason(s) for your last loan *(Mark up to two reasons)* — Asset acquisition - business ☐ Asset acquisition - domestic ☐ Other domestic ☐ Property ☐ Repay / replace existing loan ☐ Business Needs ☐

Q.39 During the last 2 years, how many loans have you taken from microfinance institutions and commercial banks *Enter number*

Q.40 How many lenders have you used for these loans *Enter number*

Q.41 How many guarantees have you given for debts which are still outstanding *Enter number*

42-56 Loan Dimensions *(Current Borrowers)* Please tell us about your loan(s)

Q.42 Total amount outstanding of all loans

Q.43 How much is total **monthly** repayments for all loans (include MFIs, banks, house mortgage)

(Please enter KGS amounts for Q. 42 and Q.43)

		Yes	No
Q.44	Is any of your loan indebtedness (Q.42) outstanding in a currency which is not Kyrgyzstan Som		
Q.45	Have you pledged any assets as collateral to secure your loan		

Q.46 If 'yes', which collateral was provided *(please tick all which apply)* — Business Property ☐ Residential Property ☐ Business Equipment ☐ Domestic Asset(s) ☐ Vehicle ☐ Guarantee ☐ Other ☐

		Yes	No
Q.47	Are any of your loans in arrears		
Q.48	Have you refinanced, or consolidated your debts during the last 12 months		
Q.49	Have you applied for a loan in the last 12 months		
Q.50	If 'yes', has any lender refused to lend to you		
Q.51	Have you received any formal legal action for debt non-repayment in the last 12 months		

Q.52 When will your present loan be fully repaid — Within 1 month ☐ 1 - 3 months ☐ 4 - 6 months ☐ 7 - 12 months ☐ Over 12 months ☐ Cannot remember ☐

Q.53 Compared with 12 months ago your present total loans are — Much Higher ☐ Higher ☐ The Same ☐ Less ☐ Much Less ☐

Q.54 Do you intend to take out a new loan when your existing loan is repaid — Yes ☐ No ☐ not know ☐

Q.55 If 'yes', compared with the amount you borrowed for this loan, will the amount of your next loa — More ☐ The same ☐ Less ☐ Do not ☐

Q.56 Who undertakes the loans in your family — Only you ☐ Only your spouse/partn ☐ Jointly ☐ Both of you independently ☐

57-63 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.57	Clients are treated with respect					
Q.58	The institutions respond well to people with repayment problems					
Q.59	Lending institutions are trustworthy					
Q.60	Lending institutions seek to improve the lives of its clients					
Q.61	Lending institutions act with integrity					
Q.62	Lending institutions understand customers' needs					
Q.63	Lending institutions explain the terms and obligations of the loan					

64-76 We would like to know your opinion, and how much you agree with the following statem ***(Current and Former Borrowers)***

		Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know / No Opinion
Q.64	Loans improve the quality of life					
Q.65	When I took my last loan, the charges (interest and fees) were explained to me and I know how much I am paying					
Q.66	Loans were easy to obtain					
Q.67	I borrowed too much					
Q.68	It is / was difficult to resolve debt problems with lending institutions					
Q.69	Debt repayments cause problems within my family					
Q.70	My loan repayments are / were more than I can afford					
Q.71	I need / needed to continue to borrow to maintain how my family and I live					
Q.72	I would like help to resolve debt problems with my lending institution					
Q.73	It is better to borrow from only one institution, rather than to change lenders					
Q.74	When I drew my last loan, the lender knew what I could afford					

Q.75	Food expenditure has been reduced to make loan repayments	Yes		No	
Q.76	I (or my spouse) have taken additional work to make loan repayments	Yes		No	

77-79 We would like to know your attitudes towards saving. ***(All Respondents)***

Q.77	Do you make savings with a financial institution	Yes		No	
Q.78	Do you make other regular cash savings	Yes		No	
Q.79	Have you bought an insurance product(s) from your financial institution	Yes		No	

80-81 From which institution(s) have you borrowed in the last ***(Current and Former Borrowers)***

(Please tick all which apply)

Q.80 Microfinance Institution

Bai Tushum	
Finca	
FMCC	
Kompanion	
Mol Bulak	
Elet Capital	
ABN Credit	
Other	

Other': Please name institution :

Q. 81 Commercial Bank

UniCredit	
Kyrgyz Investment and Credit Bank	
Demir Kyrgyz International Bank	
Bank Ail	
BTA Bank	
Commercial Bank	
RSK Bank	
Other	

Other': Please name institution :

Thank you for participating in this survey - All answers will remain confidential

Comments, if any, made by respondent

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