

# Kyrgyzstan

## Indebtedness of Individuals

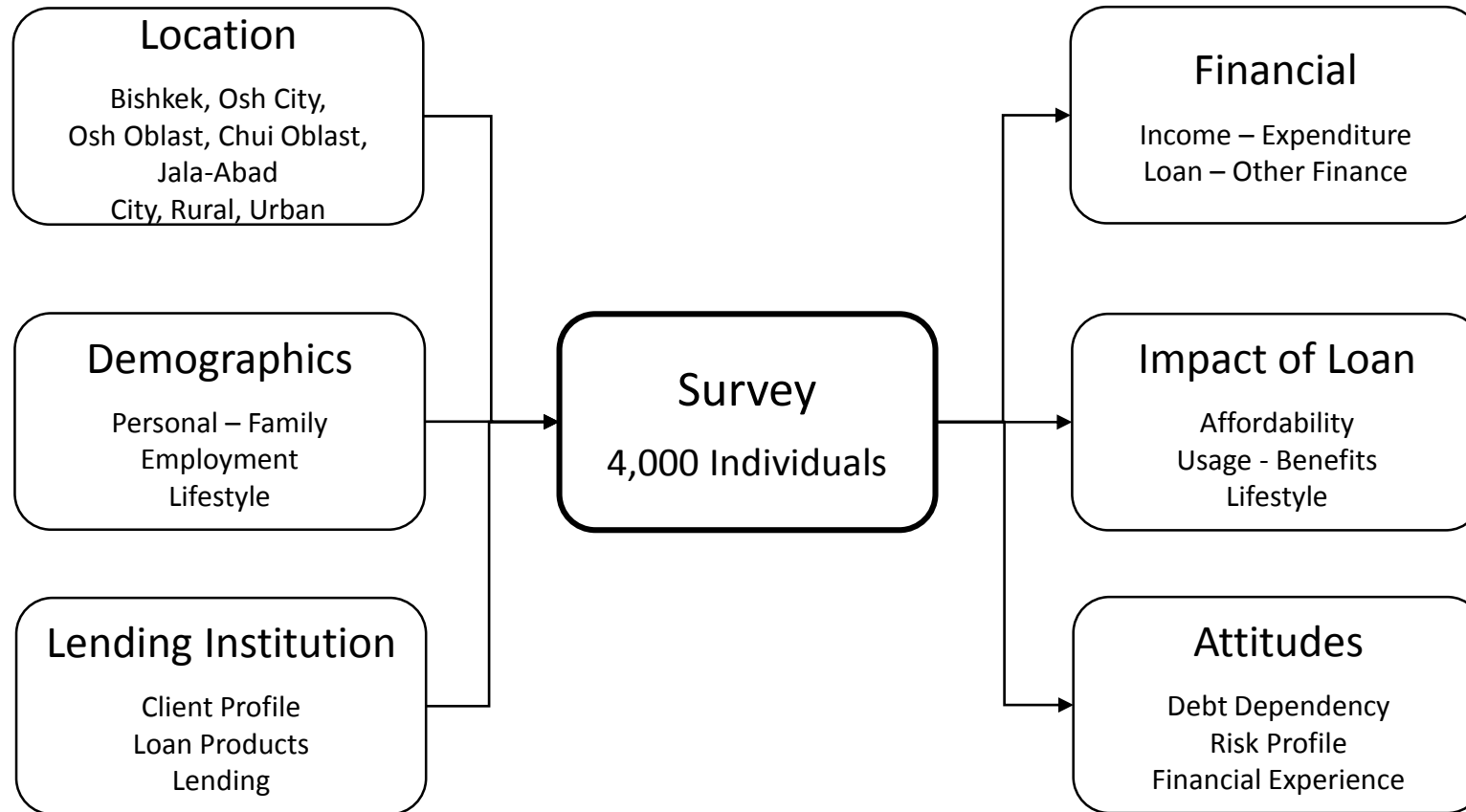
Roy Pratt

March 2014

# Survey Framework

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## Income : Expenditure - Regional

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<b>KGS</b>	<b>Household Income</b>	<b>Household Costs</b>	<b>Utility Costs</b>	<b>Loan Repayment</b>	<b>Net Income</b>
<b>Bishkek</b>	33,600	12,600	1,900	10,100	9,000
<b>Osh</b>	28,700	11,600	1,400	8,100	7,600
<b>Chui Oblast</b>	29,000	10,400	1,200	10,200	7,200
<b>Jalal - Abad</b>	21,000	9,500	800	5,500	5,200
<b>Osh Oblast</b>	20,000	8,000	600	5,900	5,500

## Income : Expenditure - Regional

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<b>KGS</b>	<b>Household Income</b>	<b>Household Costs</b>	<b>Utility Costs</b>	<b>Loan Repayment</b>	<b>Net Income</b>
<b>City : MFI</b>	25,400	10,400	1,300	6,000	7,700
<b>City : Bank</b>	31,300	12,500	1,400	10,800	6,600
<b>Rural : MFI</b>	21,400	8,000	800	6,200	6,400
<b>Rural : Bank</b>	28,200	9,600	1,000	9,800	7,800
<b>Urban</b>	20,300	8,800	700	6,400	4,300



**Income**

- < 15,000
- 15,001 - 20,000
- 20,001 - 30,000
- 30,001 - 40,000
- > 40,000

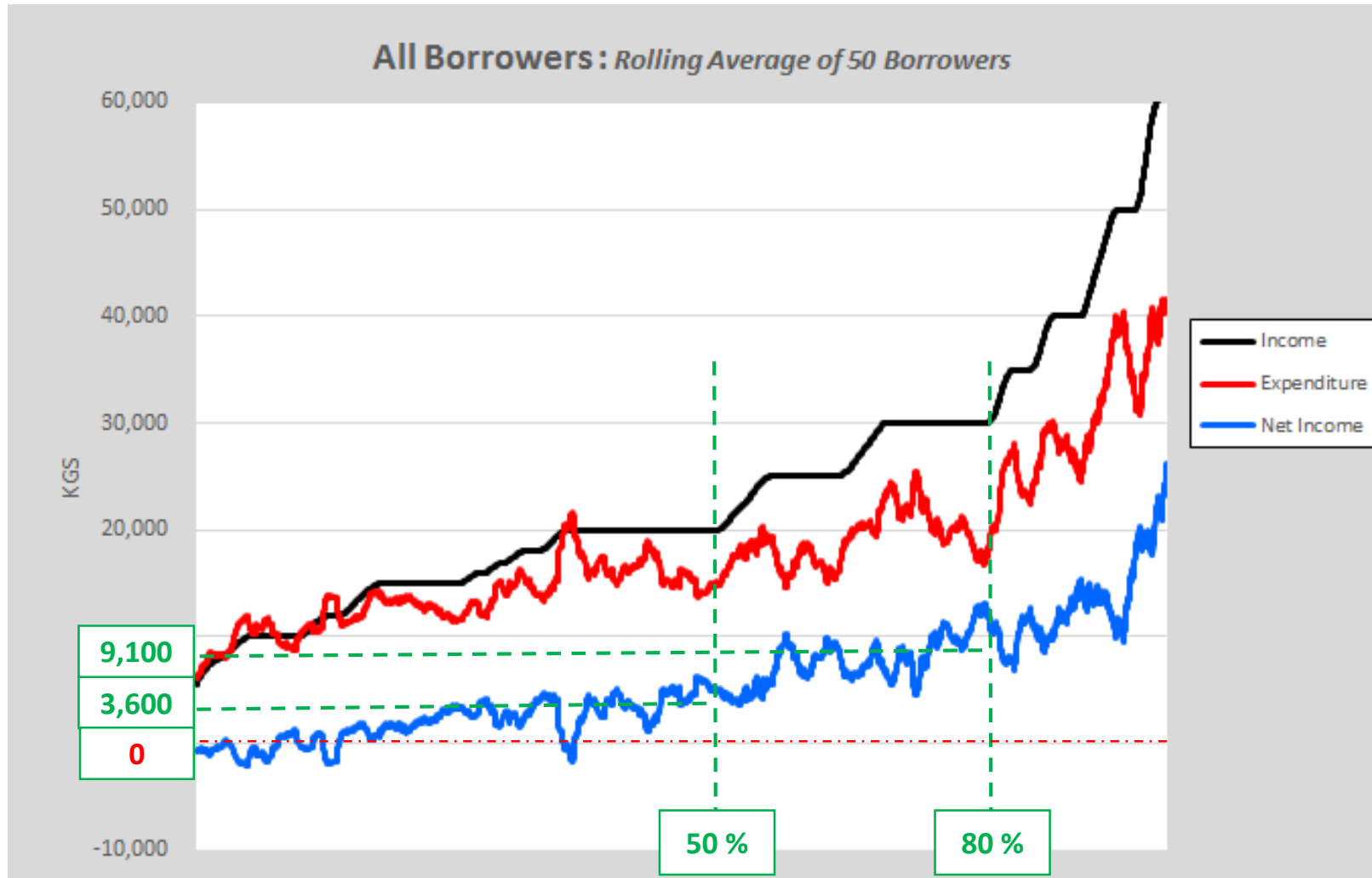
**Income – 53% of borrowers have household income less than KGS 20,000**

	<b>Average Income per Earner</b>	<b>Household &amp; Utility Costs</b>	<b>Loan Repayment</b>	<b>Net Income (After Loan)</b>	<b>Average Outstanding Loan</b>
<b>&lt; 15,000</b>	6,800	6,600	4,600	600	36,000
<b>15,001 – 20,000</b>	9,500	9,700	6,000	3,300	51,000
<b>20,001 – 30,000</b>	12,100	12,200	7,000	7,900	69,000
<b>30,001 – 40,000</b>	15,600	16,500	9,800	10,900	117,000
<b>&gt; 40,000</b>	29,600	23,400	20,000	28,100	266,000

## Different lending strategies and market positions

Household Income	Average Outstanding Loan - KGS		Loan Repayment as % of Net Disposable Income		Net Disposable Income (after Loan) - KGS	
	MFI	Bank	MFI	Bank	MFI	Bank
< 15,000	33,700	44,100	83 %	99 %	900	0
15,001 – 20,000	43,800	61,100	57 %	74 %	4,000	2,400
20,001 – 30,000	49,300	90,900	40 %	56 %	9,000	6,600
30,001 – 40,000	61,800	162,000	37 %	56 %	13,000	9,300
> 40,000	145,600	340,600	32 %	48 %	31,100	25,900

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





Income

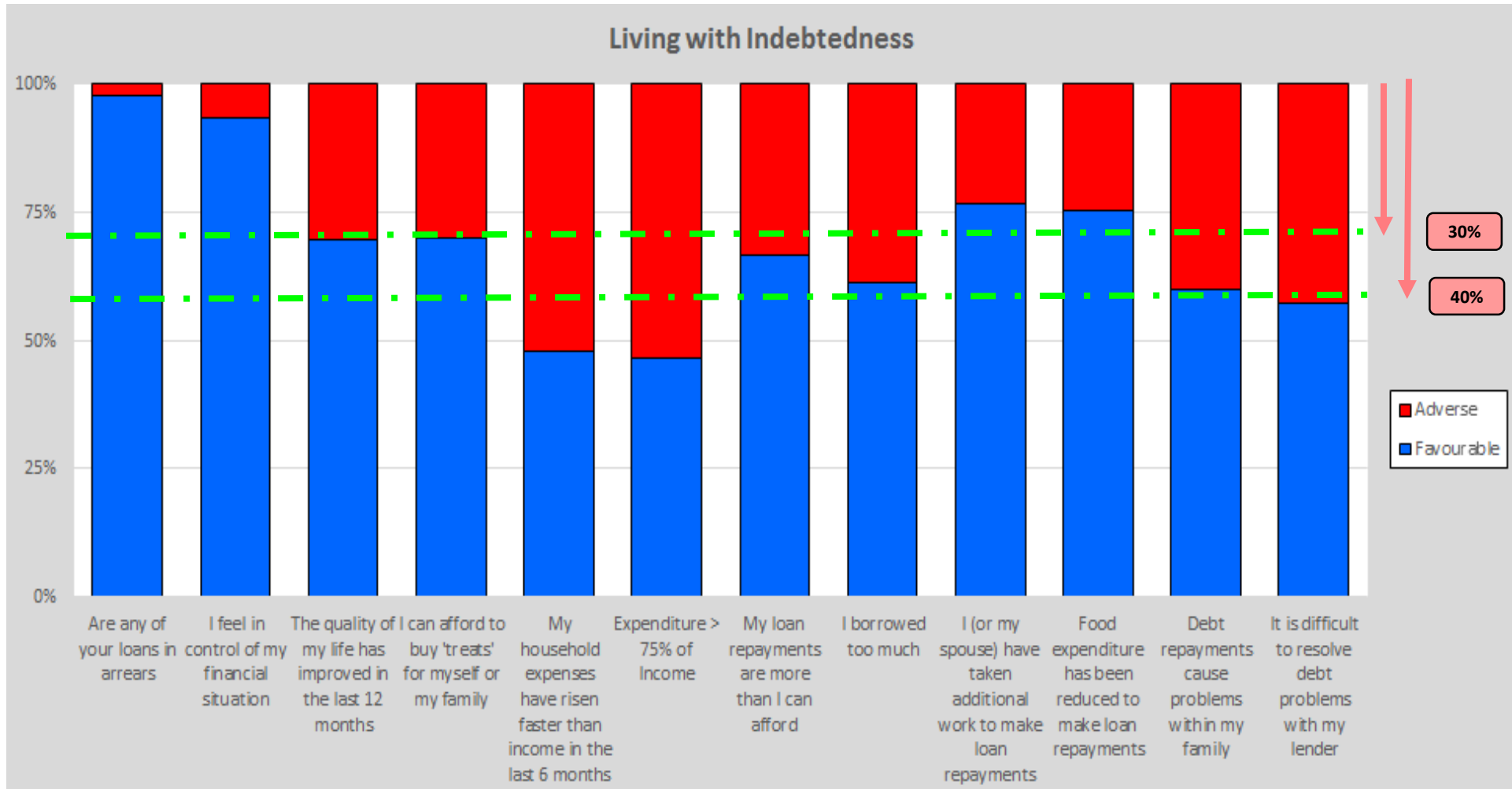
- < 15,000
- 15,001 - 20,000
- 20,001 - 30,000
- 30,001 - 40,000
- > 40,000

## Can Borrowers Afford Their Debt ? ... 30 – 40 % have Difficulties

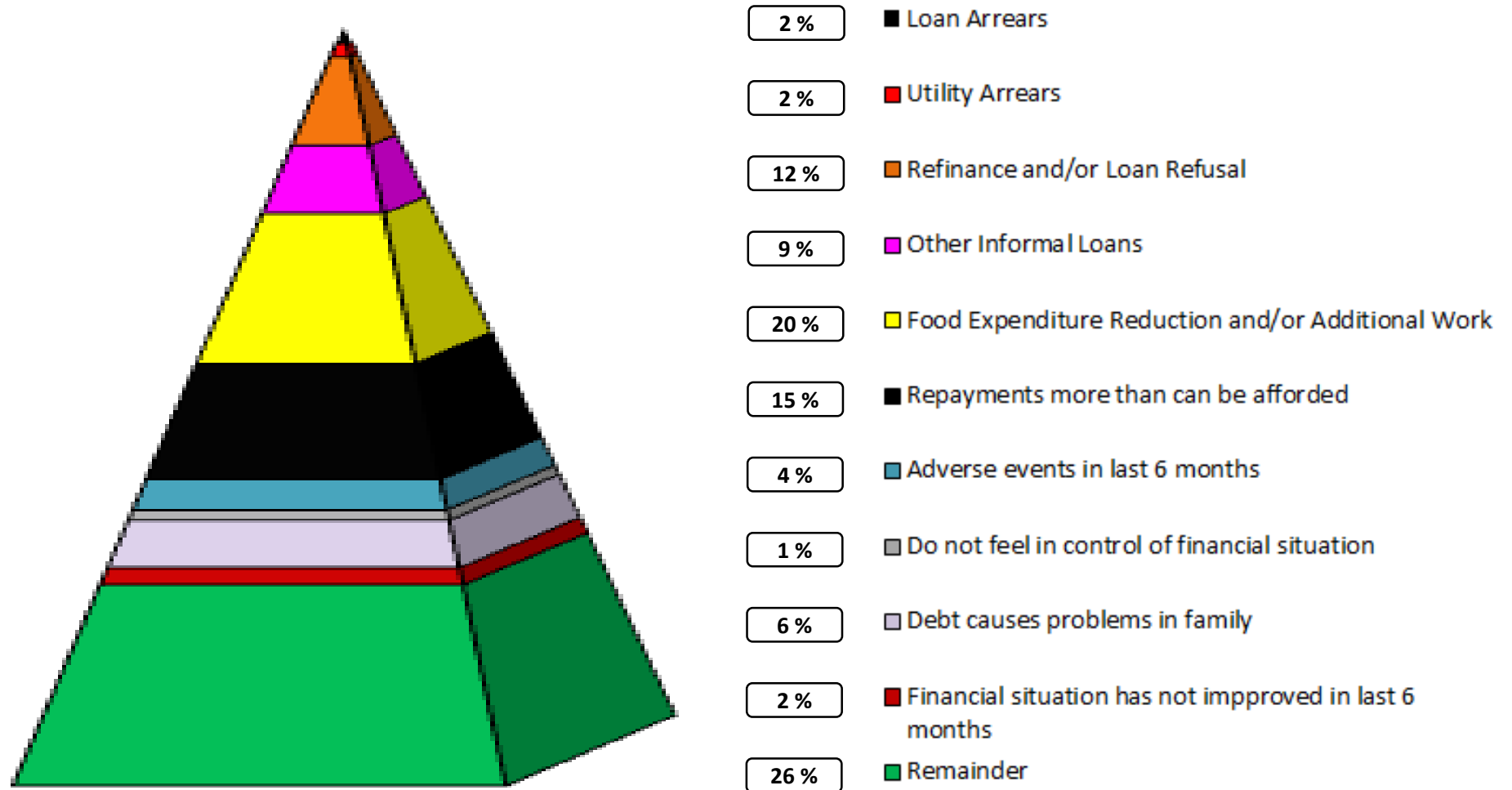
	Loan repayments are more than I can afford		I borrowed too much		Reduced Food Expenditure	
	MFI	Bank	MFI	Bank	MFI	Bank
<b>Total</b>	<b>32 %</b>	<b>35 %</b>	<b>37 %</b>	<b>41 %</b>	<b>24 %</b>	<b>27 %</b>
<b>&lt; 15,000</b>	<b>36 %</b> →	<b>40 %</b>	<b>40 %</b>	<b>37 %</b>	<b>25 %</b> →	<b>28 %</b>
<b>15,001 – 20,000</b>	<b>26 %</b> →	<b>35 %</b>	<b>35 %</b>	<b>45 %</b>	<b>20 %</b> →	<b>26 %</b>
<b>20,001 – 30,000</b>	<b>34 %</b>	<b>33 %</b>	<b>37 %</b>	<b>39 %</b>	<b>29 %</b>	<b>29 %</b>
<b>30,001 – 40,000</b>	<b>29 %</b>	<b>31 %</b>	<b>33 %</b>	<b>40 %</b>	<b>24 %</b>	<b>27 %</b>
<b>&gt; 40,000</b>	<b>40 %</b> ←	<b>35 %</b>	<b>42 %</b>	<b>43 %</b>	<b>23 %</b> ←	<b>21 %</b>



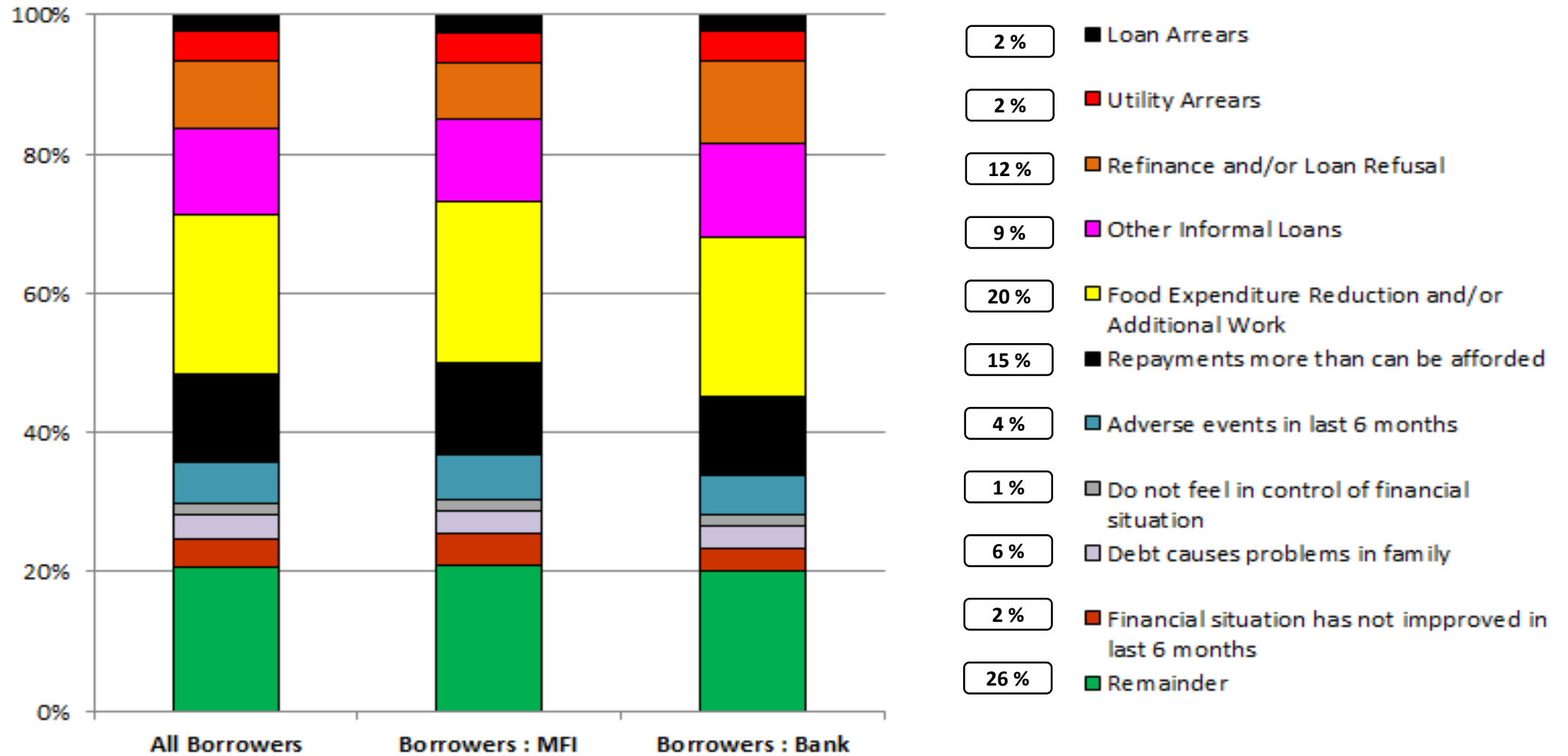
# What do people think ? – How concerned are they?



## Arrears : only the tip of the Iceberg ... What is the depth of indebtedness below arrears



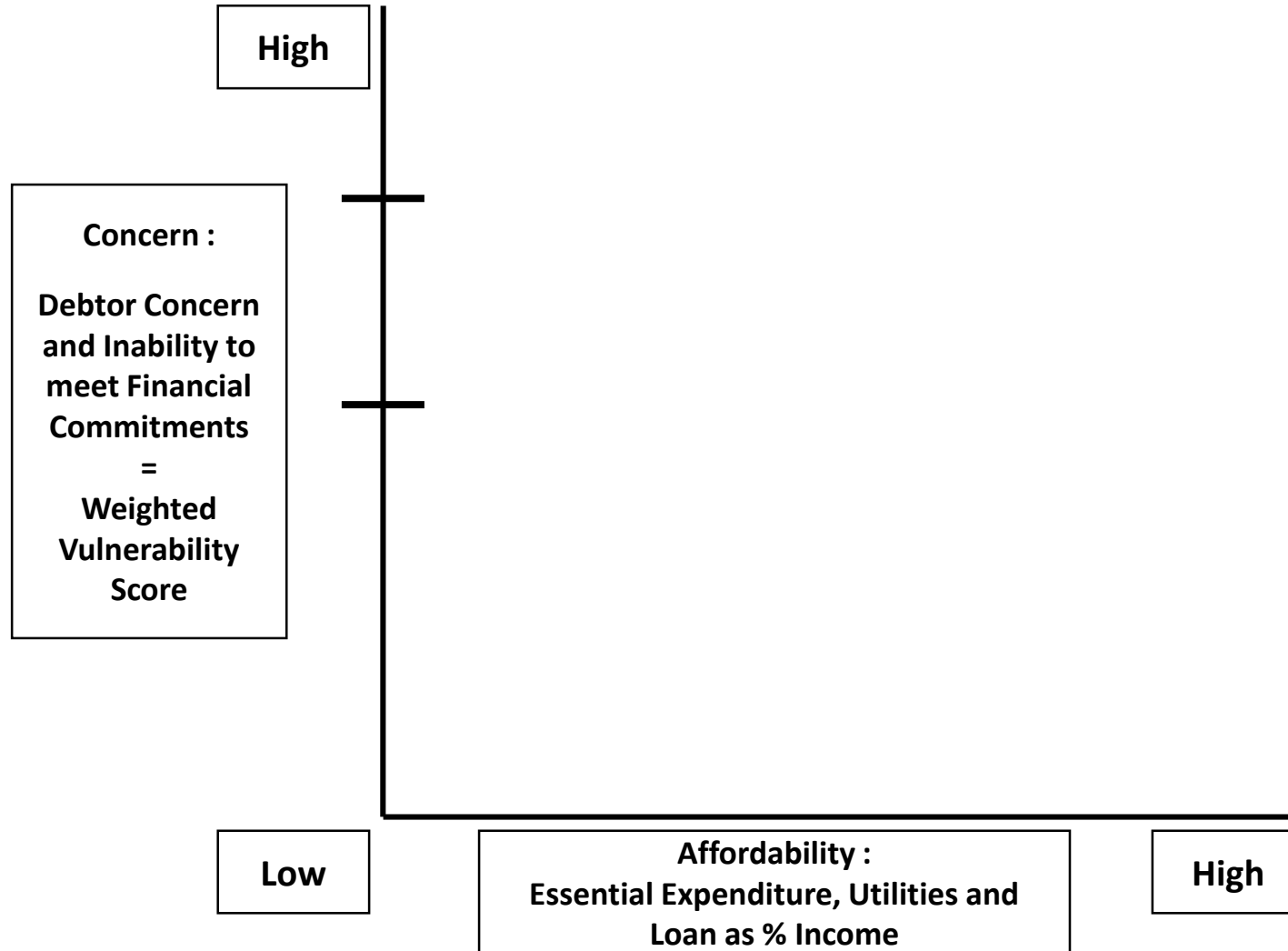
## Similar Profiles for both MFI and Bank



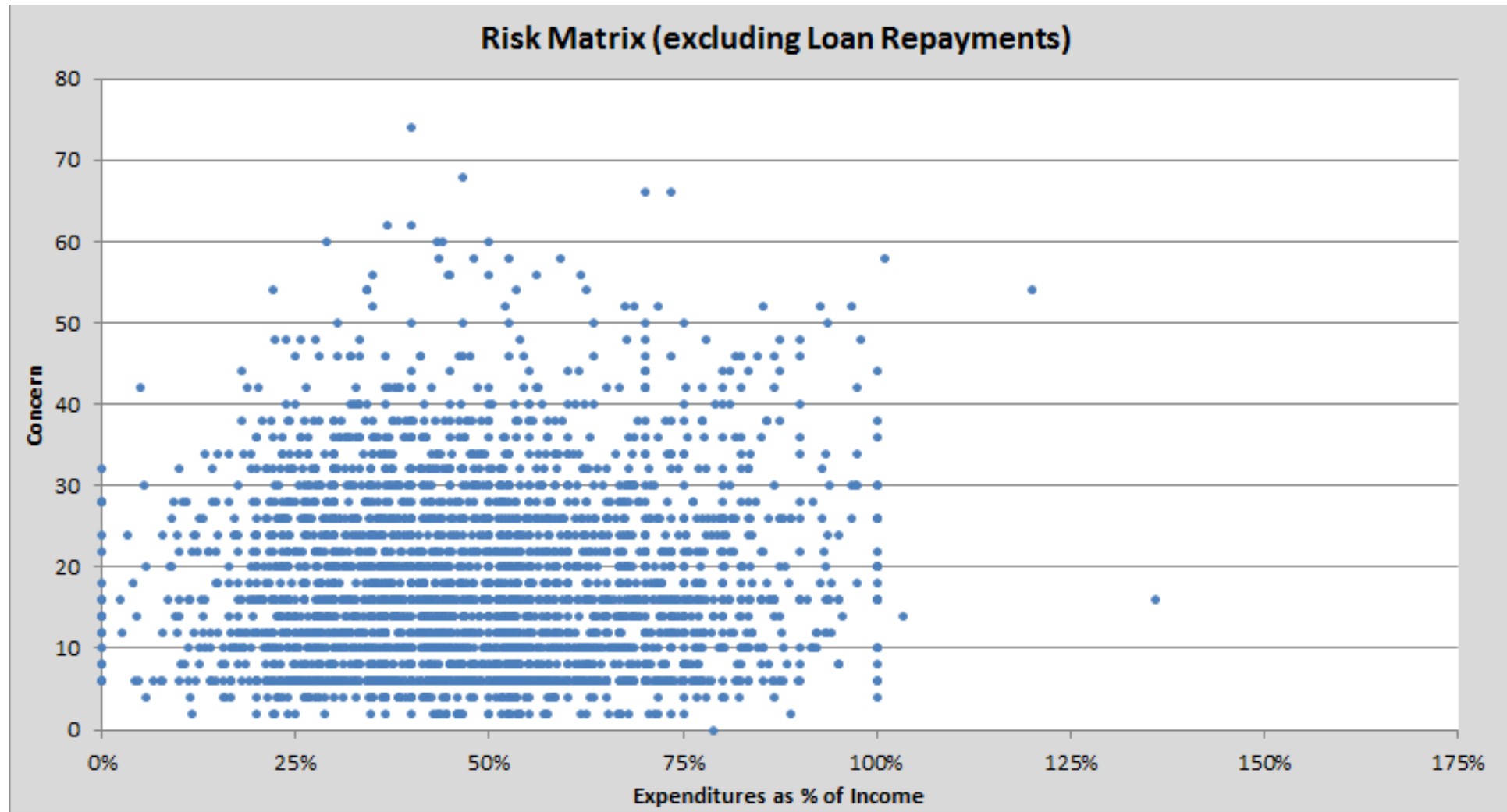
# Concern and Affordability

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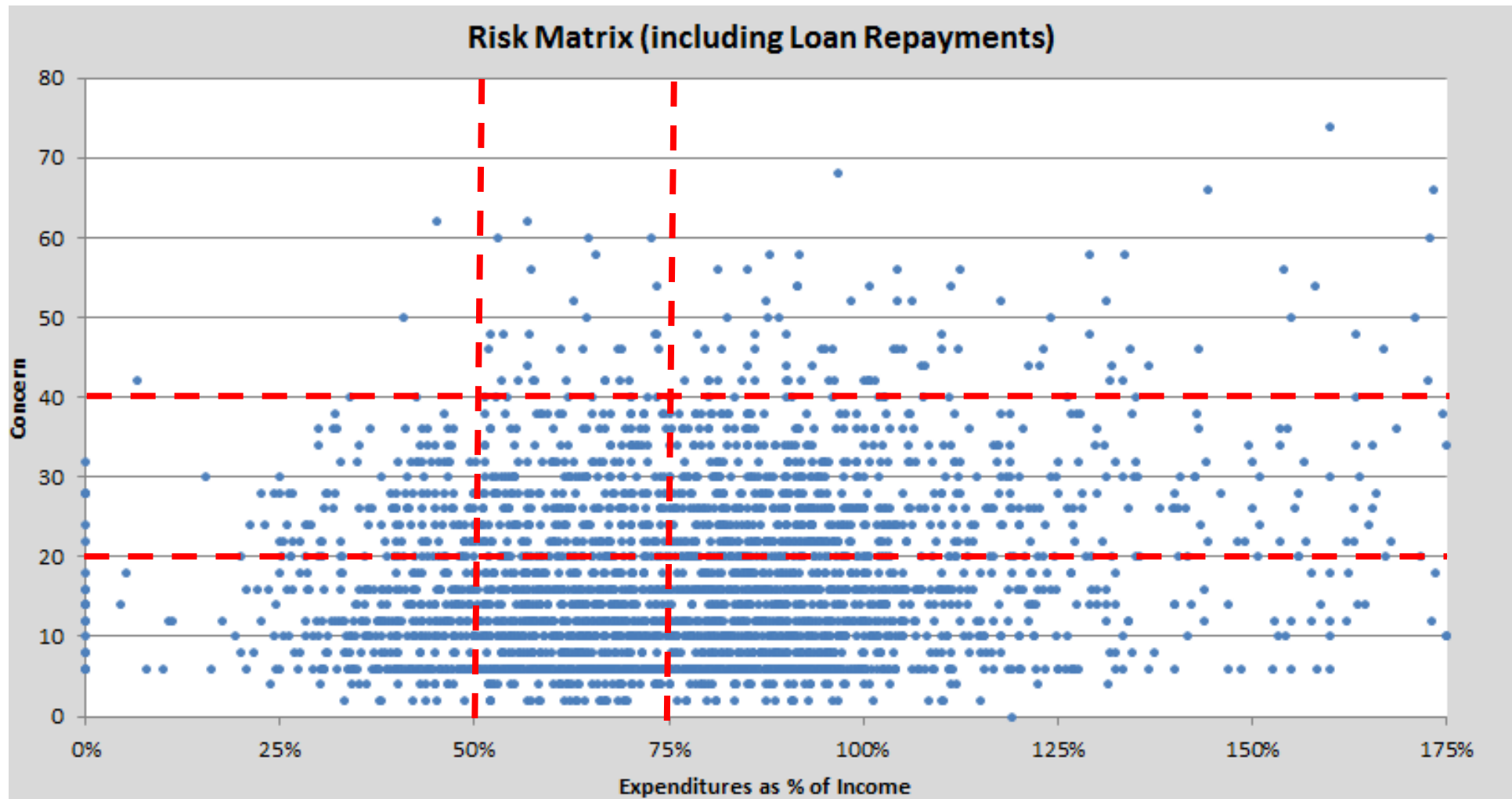
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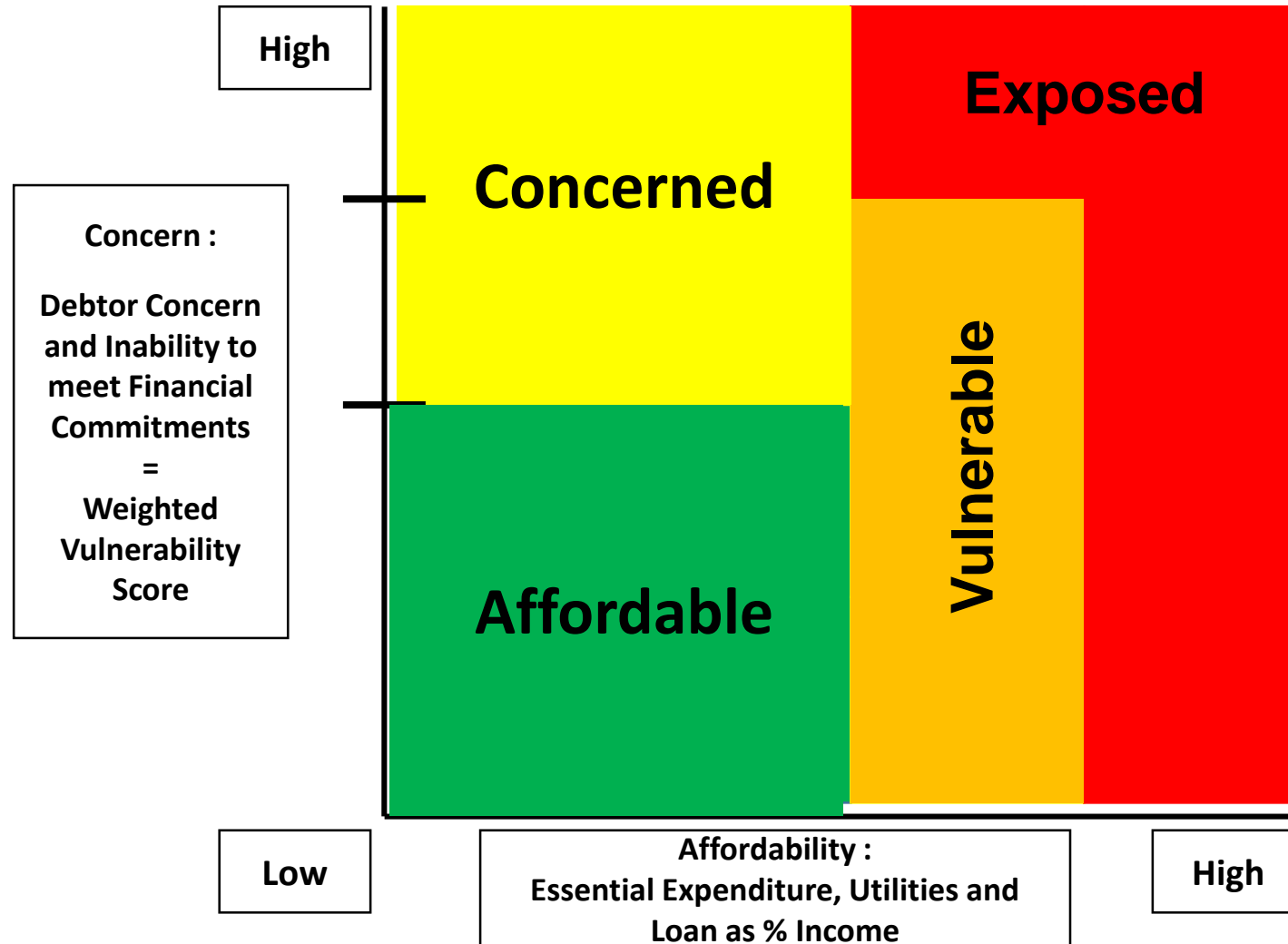
## Borrowers are Different ... different affordability ... and ... different concerns



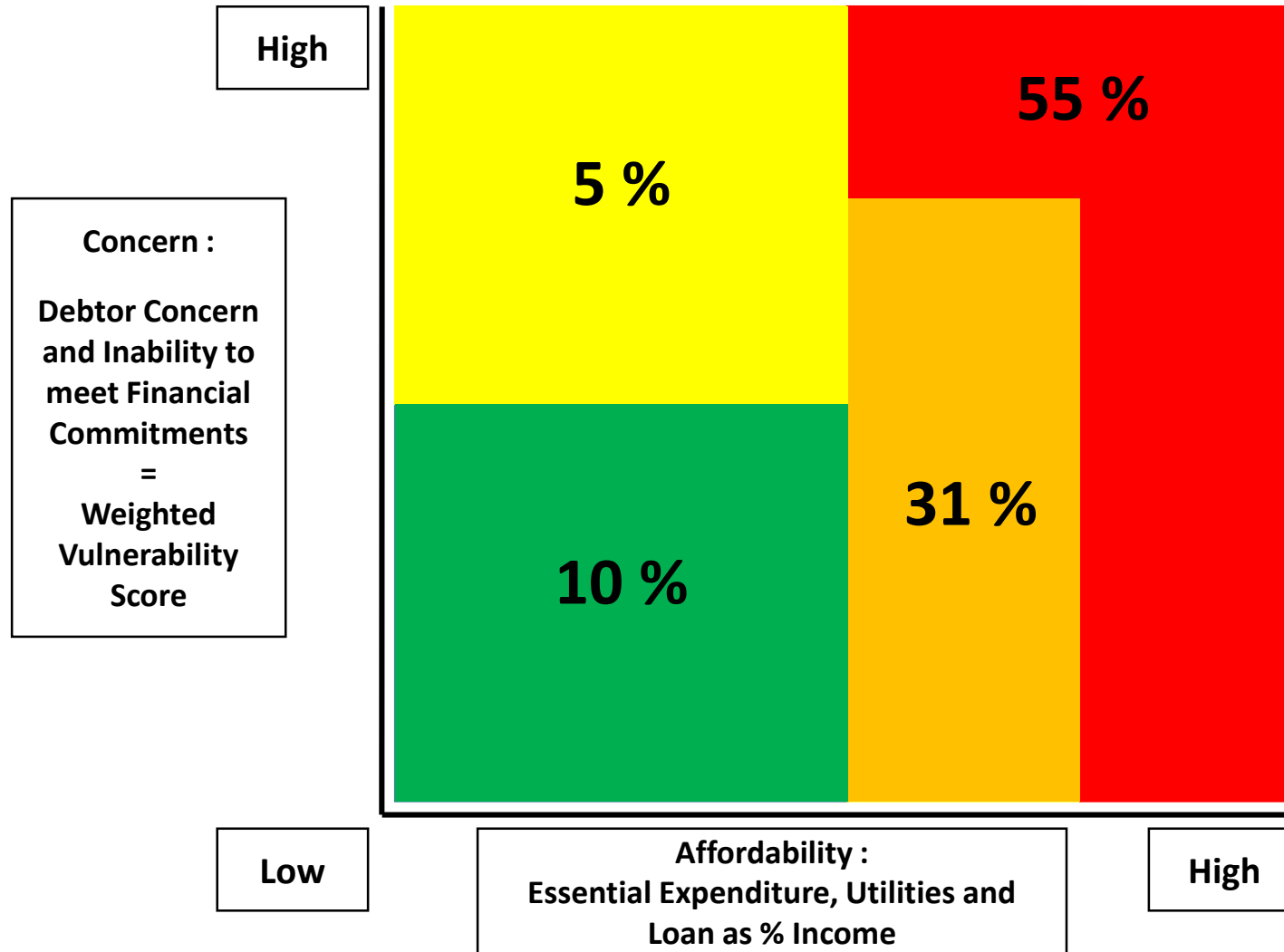
## Risk Segmentation ... affordability and risk recognition



# Different risk and service propositions – it is not a simple financial formula



# Vulnerability : low capacity to absorb higher costs





## Risk : Comparison with Bosnia and Herzegovina

Distribution of Risk Categories	Affordable		Concerned		Vulnerable		Exposed	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
Expenditures (before loan payment)								
Kyrgyzstan	33 %	33 %	21 %	24 %	35 %	32 %	11 %	11 %
Bosnia and Herzegovina	36 %	39 %	15 %	14 %	26 %	26 %	23 %	21 %
Expenditures (after loan payment)								
Kyrgyzstan	10 %	9 %	5 %	5 %	34 %	27 %	51 %	59 %
Bosnia and Herzegovina	20 %	24 %	16 %	11 %	24 %	20 %	41 %	44 %

## Risk : A Delicate Balance of Performance and Vulnerability

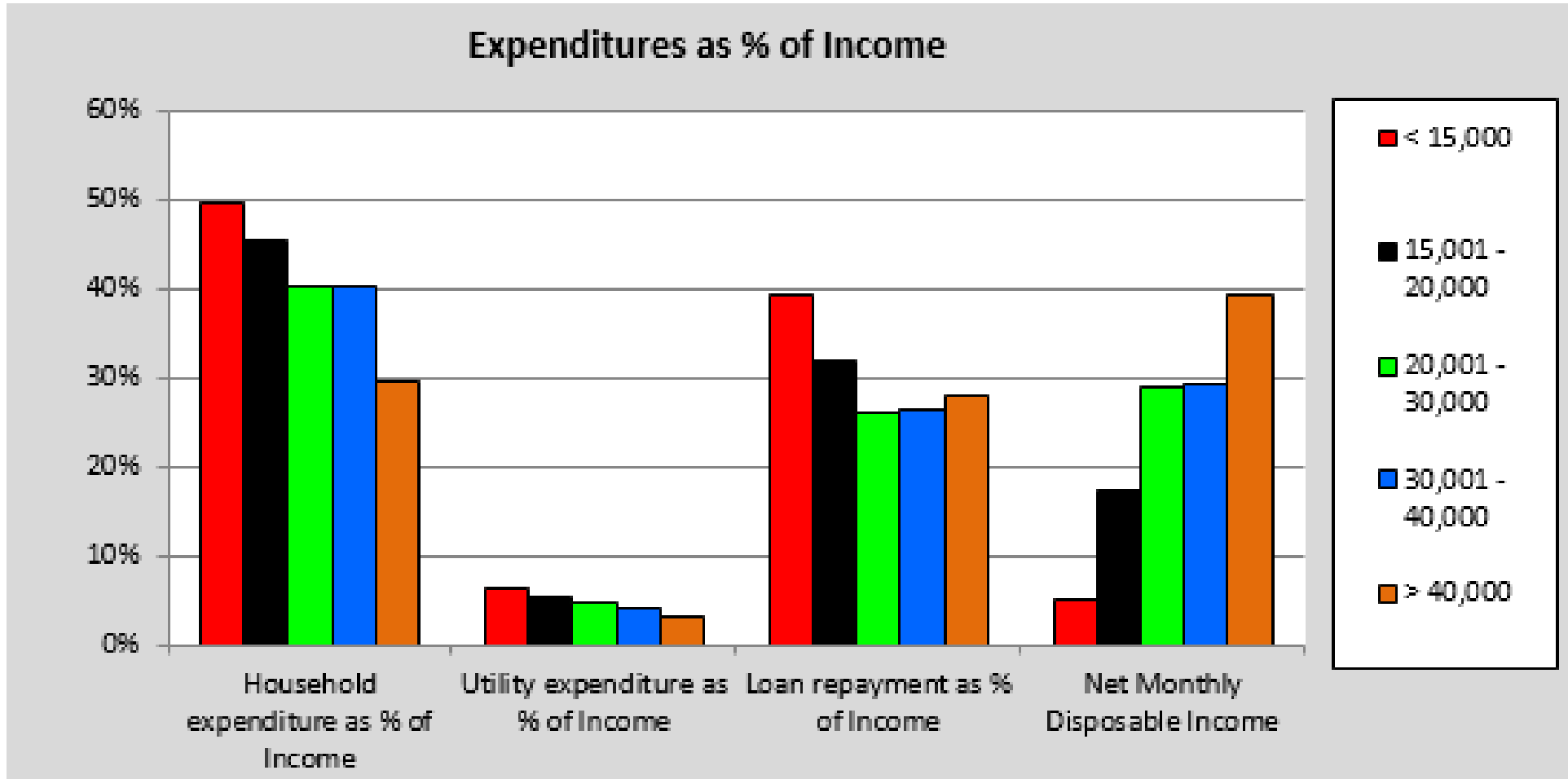
All Borrowers	Affordable		Concerned		Vulnerable		Exposed	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
Distribution	10 %	9 %	5 %	5 %	34 %	27 %	51 %	59 %
Net Disposable Income (pre loan)	27,000	35,000	29,400	34,900	14,200	19,400	7,900	11,900
Average Loan	36,000	110,000	48,000	96,000	43,000	89,000	60,000	142,000
Loan Repayment % of Net Income	16 %	28 %	19 %	19 %	35 %	40 %	92 %	98 %
Net Disposable Income (after loan)	22,500	25,000	23,900	28,200	9,200	11,600	700	200



**Income**

- < 15,000
- 15,001 - 20,000
- 20,001 - 30,000
- 30,001 - 40,000
- > 40,000

## Segmentation : How Is Loan Repayment linked to Household Income ?



## Different lending strategies and market positions

	Household & Utility as % of Income		Loan Repayment as % of Household Income		Distribution of Borrowers	
	Kyrgyzstan	BiH	Kyrgyzstan	BiH	Kyrgyzstan	BiH
< 15,000	56 %	67 %	39 %	23 %	28 %	26 %
15,001 – 20,000	51 %	59 %	32 %	17 %	25 %	24 %
20,001 – 30,000	45 %	46 %	26 %	14 %	27 %	24 %
30,001 – 40,000	44 %	41 %	26 %	12 %	9 %	14 %
> 40,000	33 %	34 %	28 %	11 %	11 %	12 %

**The Lending Experience : Good for the Majority, but ... not for 33% ... and across all incomes**

	< 15,000	15,001 – 20,000	20,001 – 30,000	30,001 – 40,000	> 40,000
Loans Improve the Quality of Life	70 %	74 %	71 %	69 %	71 %
Repayments More than I Can Afford	37 %	30 %	33 %	30 %	37 %
Repayments Cause Family Problems	47 %	35 %	36 %	42 %	41 %
Need to Continue to Borrow for Family	33 %	30 %	29 %	27 %	33 %
Difficult to Resolve Problems with Lender	50 %	41 %	42 %	34 %	40 %

## The Lending Experience : Good for the Majority, but ... not for 33% ... and across different loans

	Group Loan		Business Loan		Individual Loan	
	MFI	Bank	MFI	Bank	MFI	Bank
Loans Improve the Quality of Life	72 %	61 %	73 %	73 %	72 %	74 %
Repayments More than I Can Afford	30 %	39 %	39 %	37 %	32 %	33 %
Repayments Cause Family Problems	42 %	41 %	37 %	45 %	38 %	40 %
Need to Continue to Borrow for Family	32 %	36 %	33 %	33 %	31 %	28 %
Difficult to Resolve Problems with Lender	43 %	50 %	44 %	46 %	40 %	43 %

## The Lending Experience : Good for the Majority, but ... not for 33% ... and across Trade Sectors

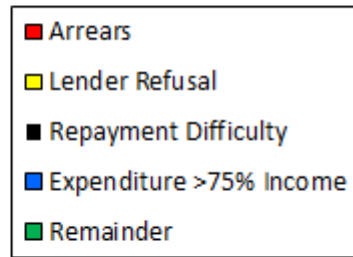
	Agriculture	Retail	Service	Engineering - Manufacture	Public Sector
Loans Improve the Quality of Life	77 %	70 %	71 %	66 %	69 %
Repayments More than I Can Afford	38 %	35 %	24 %	39 %	31 %
Repayments Cause Family Problems	45 %	40 %	33 %	43 %	37 %
Need to Continue to Borrow for Family	33 %	30 %	25 %	36 %	30 %
Difficult to Resolve Problems with Lender	46 %	46 %	34 %	46 %	44 %

# What is 'Over-Indebtedness' ?

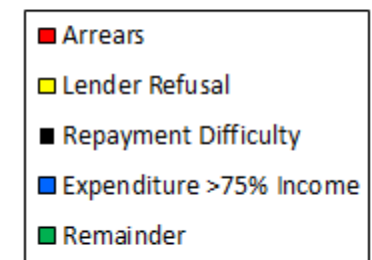
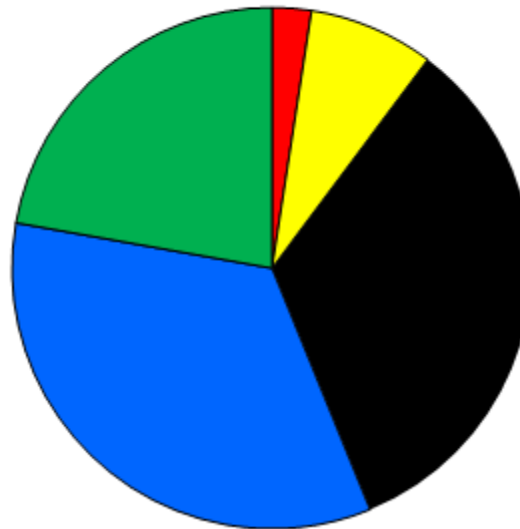
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## Distribution of Loans : Clients

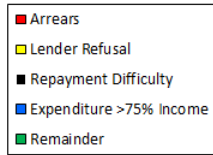


## Distribution of Loans : Value



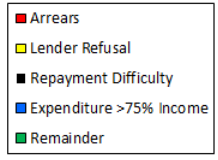
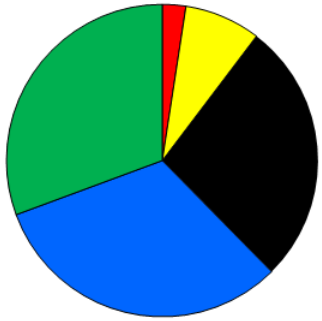


## Borrowing Capacity – different segments with different capacities



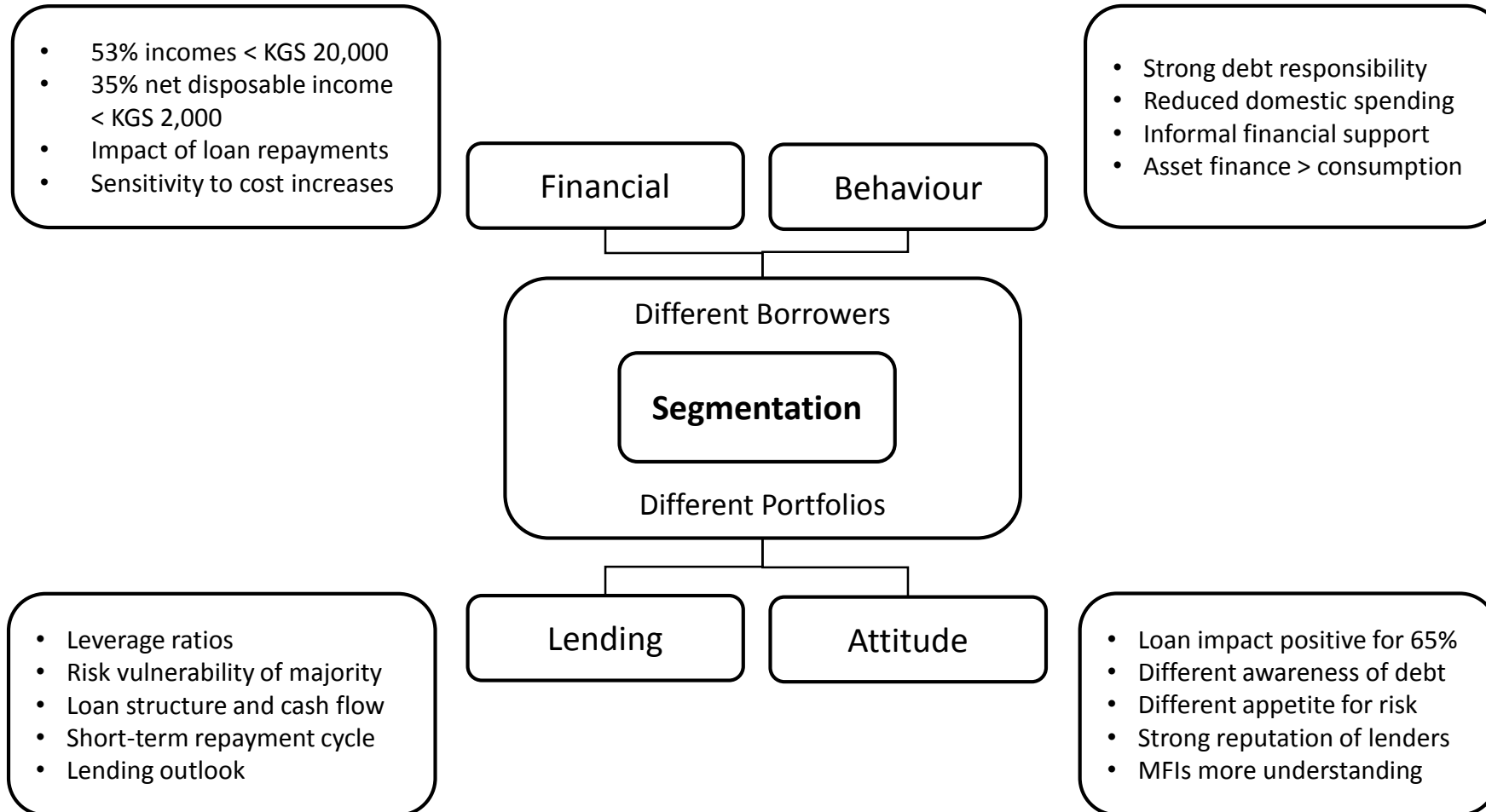
	Arrears	Lender Refusal	Repayment Difficulty	Expenditure > 75% Income	Remainder
Loan Repayment as % of Net Income	57 %	58 %	56 %	92%	31 %
Net Disposable Income (after loan)	6,300	5,600	7,000	750	13,600
Average Outstanding Loan KGS	83,400	82,200	102,500	89,000	60,400
Food Expenditure Reduced to Pay Loan	47 %	32 %	35 %	19 %	20 %
Additional Work to Pay Loan	37 %	32 %	35 %	18 %	15 %
Loan from Family or Friends	23 %	21 %	15 %	10 %	5 %

## What outlook for the risk portfolios ?



	Arrears	Lender Refusal	Repayment Difficulty	Expenditure > 75% Income	Remainder
Loan Improved Quality of Life	53 %	51 %	63 %	76 %	82 %
Loan Used for Asset Acquisition & Property	58 %	52 %	65 %	57 %	60 %
% with only <b>one</b> loan in last 2 years	33 %	60 %	59 %	57 %	61 %
I need to continue to borrow for family	51 %	33 %	58 %	16 %	18 %
Debt Repayments cause Family Problems	56 %	55 %	79 %	19 %	19 %

## Summary : Low loan arrears mask the depth of repayment pressures



# Summary

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## Risk Profile and Social Impact :

- High financial vulnerability of majority of borrowers, strongly impacted by debt leverage
- High loan maturity / turnover within 12 months
- Debt problems recognised by 35 % of borrowers – and a further 35% with low disposable income
- What is the lender / client proposition : transactional or relationship
- What social and economic implications result from lending strategy and debt levels

## Low Income Households and Budget Management :

- Major client segment (28%) with incomes up to KGS 15,000 ... but ... minimal residual net disposable income
- Highly vulnerable to adverse changes in costs of basic essentials ... but ... already
- Reductions in food expenditures to meet loan payments ... and ... higher incidence of illness
- Monitor costs against a 'basket' of essential expenditures ... Guidelines for nutritional adequacy
- Strategic implications of 'financial inclusion' ... differentiation of financial proposition

## Segmentation :

- Client segmentation : [i] income; [ii] financial awareness; [iii] income source; [iv] mobility between lenders
- Differentiated needs and financial capacity : [i] debt problem recognition / resolution; [ii] loan structure; [iii] financial products
- How can the different client propositions be recognised, marketed and delivered