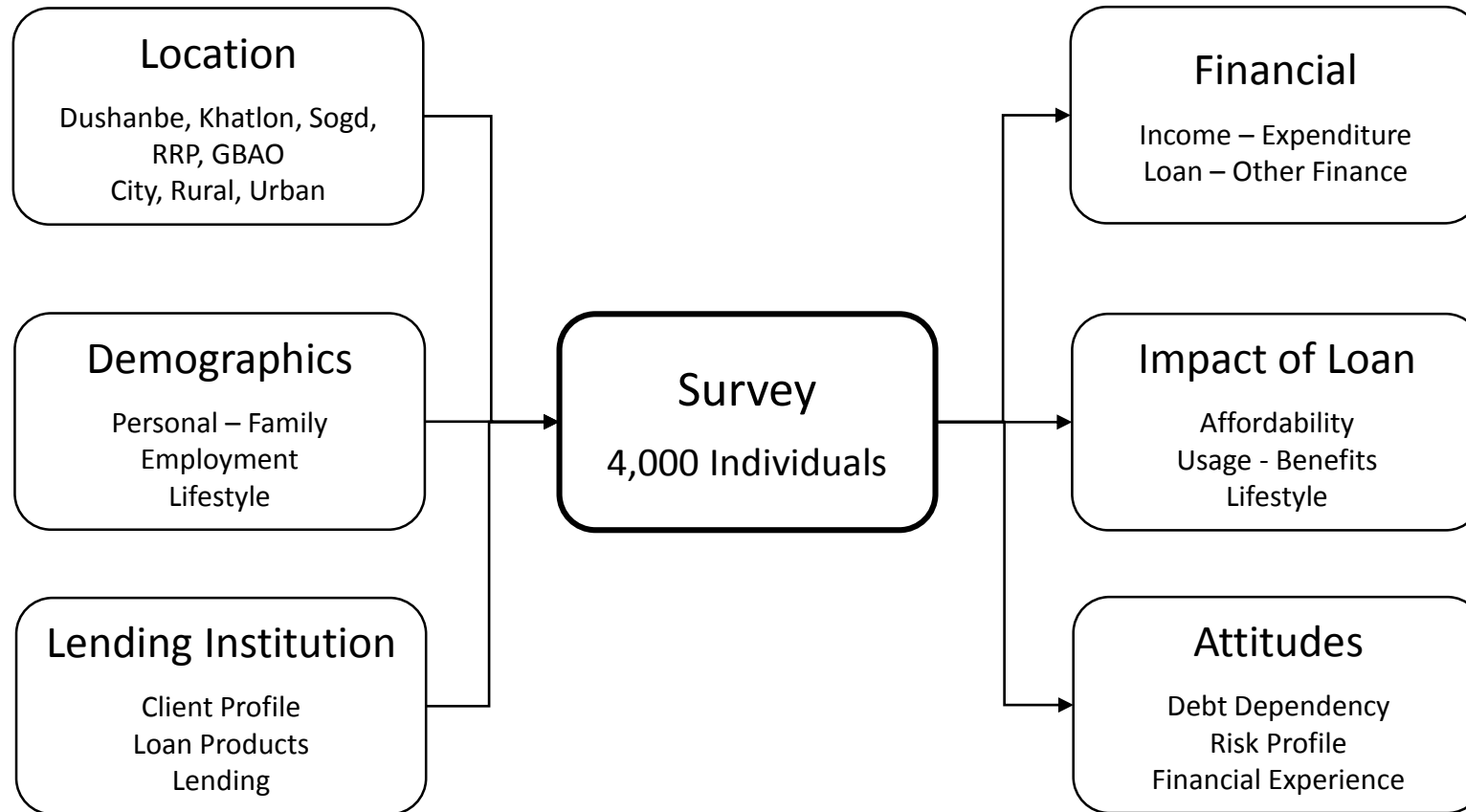

Tajikistan

Indebtedness of Individuals

Roy Pratt

September 2014

Survey Framework



Tajikistan : Regions



Income : Expenditure - Regional

<i>TJS</i>	Household Income	Household Costs	Utility Costs	Loan Repayment	Net Income
Dushanbe	4,200	1,400	200	1,200	1,400
Khatlon	2,600	850	150	900	700
Sogd	2,350	1,100	100	650	500
RRP	2,400	1,400	100	600	300
GBAO	2,100	900	100	900	200

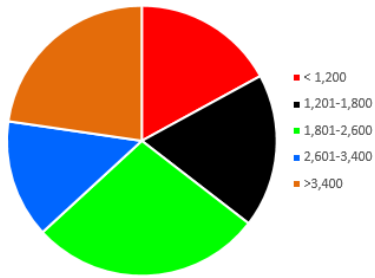
Income : Expenditure : City – Urban - Rural

<i>TJS</i>	Household Income	Household Costs	Utility Costs	Loan Repayment	Net Income
City: MFI	3,100	1,200	150	900	850
City : Bank	3,300	1,300	150	1,100	750
Urban : MFI	2,250	1,150	100	700	300
Urban : Bank	2,700	1,300	100	900	400
Rural : MFI	2,200	1,000	100	600	500
Rural : Bank	2,500	1,000	100	900	500

Income : Expenditure – Trade Sector of Source of Income

<i>TJS</i>	Household Income	Household Costs	Utility Costs	Loan Repayment	Net Income
Agriculture	2,400	1,050	100	700	550
Building / Property	2,800	1,300	100	800	600
Retail	3,400	1,300	150	1,250	700
Service	2,550	1,100	150	900	400
Service	2,500	1,150	100	600	650

Income : Client Distribution



Income – Debt Affordability

	Number of Earners per Household	Household & Utility Costs	Loan Repayment	Net Income (After Loan)	Average Outstanding Loan
< 1,200	2.0	600	500	(150)	4,200
1,201 – 1,800	2.4	900	600	100	5,500
1,801 – 2,600	2.3	1,250	700	250	6,200
2,601 – 3,400	2.5	1,450	750	750	7,000
> 3,400	2.7	2,000	1,500	2,000	13,500

Different lending strategies ... but similar affordability pressures

Household Income	Average Outstanding Loan - TJS		Loan Repayment as % of Net Disposable Income		Net Disposable Income (after Loan) - TJS	
	MFI	Bank	MFI	Bank	MFI	Bank
< 1,200	4,100	5,000	145 %	150 %	(150)	(200)
1,201 – 1,800	5,400	5,800	88 %	89 %	100	100
1,801 – 2,600	5,500	7,600	67 %	82 %	300	200
2,601 – 3,400	5,800	8,500	46 %	55 %	800	700
> 3,400	13,400	14,000	39 %	49 %	2,200	1,800

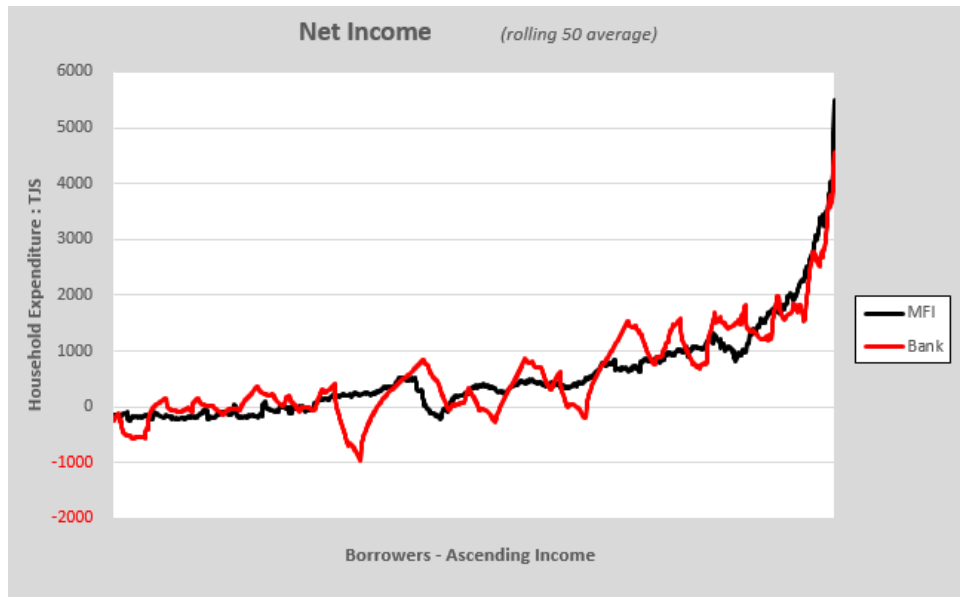
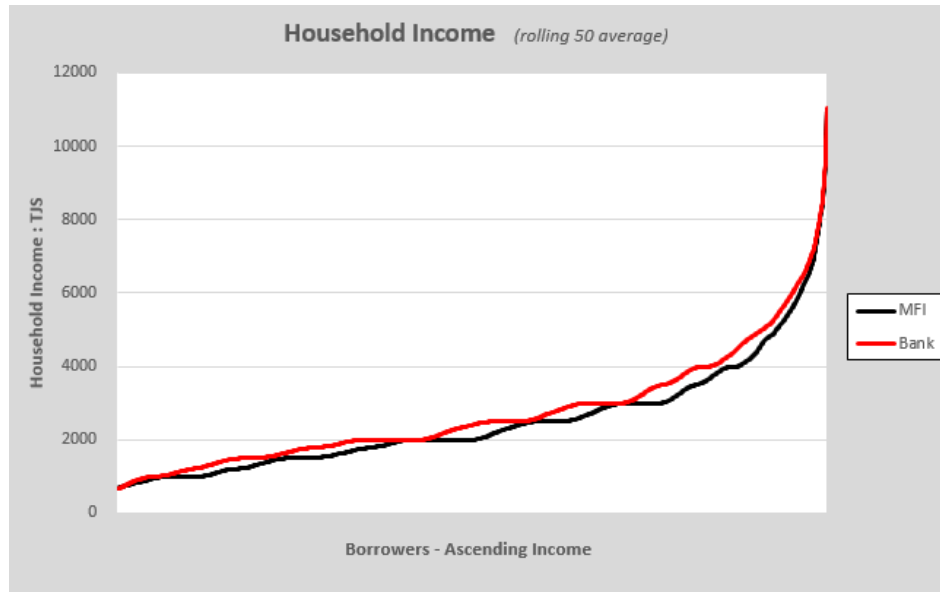
Loan Repayment as % of Net Disposable Income : International Comparison

Household Income	Tajikistan		Kyrgyzstan		BiH
	MFI	Bank	MFI	Bank	Total
< 1,200	145 %	150 %	83 %	99 %	71 %
1,201 – 1,800	88 %	89 %	57 %	74 %	41 %
1,801 – 2,600	67 %	82 %	40 %	56 %	25 %
2,601 – 3,400	46 %	55 %	37 %	56 %	20 %
> 3,400	39 %	49 %	32 %	48 %	17 %

Collateral of Pledged Assets – Collateral = Higher Loans

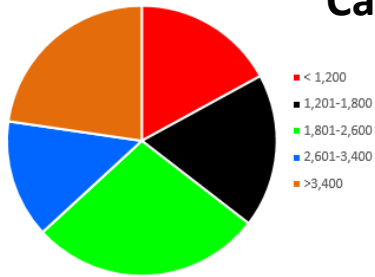
TJS	Household Income	Household & Utility Costs	Loan Repayment	Net Income (After Loan)	Average Outstanding Loan
MFI : Collateral	2,700	1,150	1,050	500	10,700
MFI : Non-Collateral	2,700	1,300	600	750	4,700
Bank : Collateral	3,100	1,200	1,300	600	12,500
Bank : Non-Collateral	2,700	1,400	700	600	5,900

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



Net Disposable Income (after loan payment)					
	<250	251-500	501-750	751-1,000	>1,000
MFI	44 %	14 %	10 %	7 %	25 %
Bank	43 %	13 %	10 %	7 %	27 %

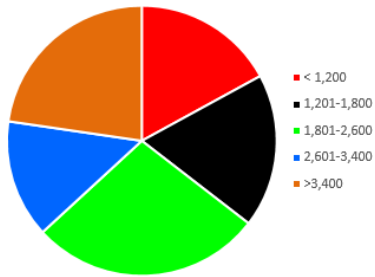
Income : Client Distribution



Can Borrowers Afford Their Debt ? ... 30 % have Difficulties in MFIs and Banks

	Loan repayments are more than I can afford		I borrowed too much		Reduced Food Expenditure	
	MFI	Bank	MFI	Bank	MFI	Bank
Total	29 %	28 %	26 %	25 %	41 %	40 %
< 1,200	24 %	28 %	20 %	26 %	36 %	43 %
1,201 – 1,800	29 %	30 %	23 %	18 %	49 %	45 %
1,801 – 2,600	33 %	31 %	26 %	26 %	49 %	50 %
2,601 – 3,400	31 %	34 %	26 %	22 %	41 %	35 %
> 3,400	28 %	21 %	34 %	31 %	28 %	28 %

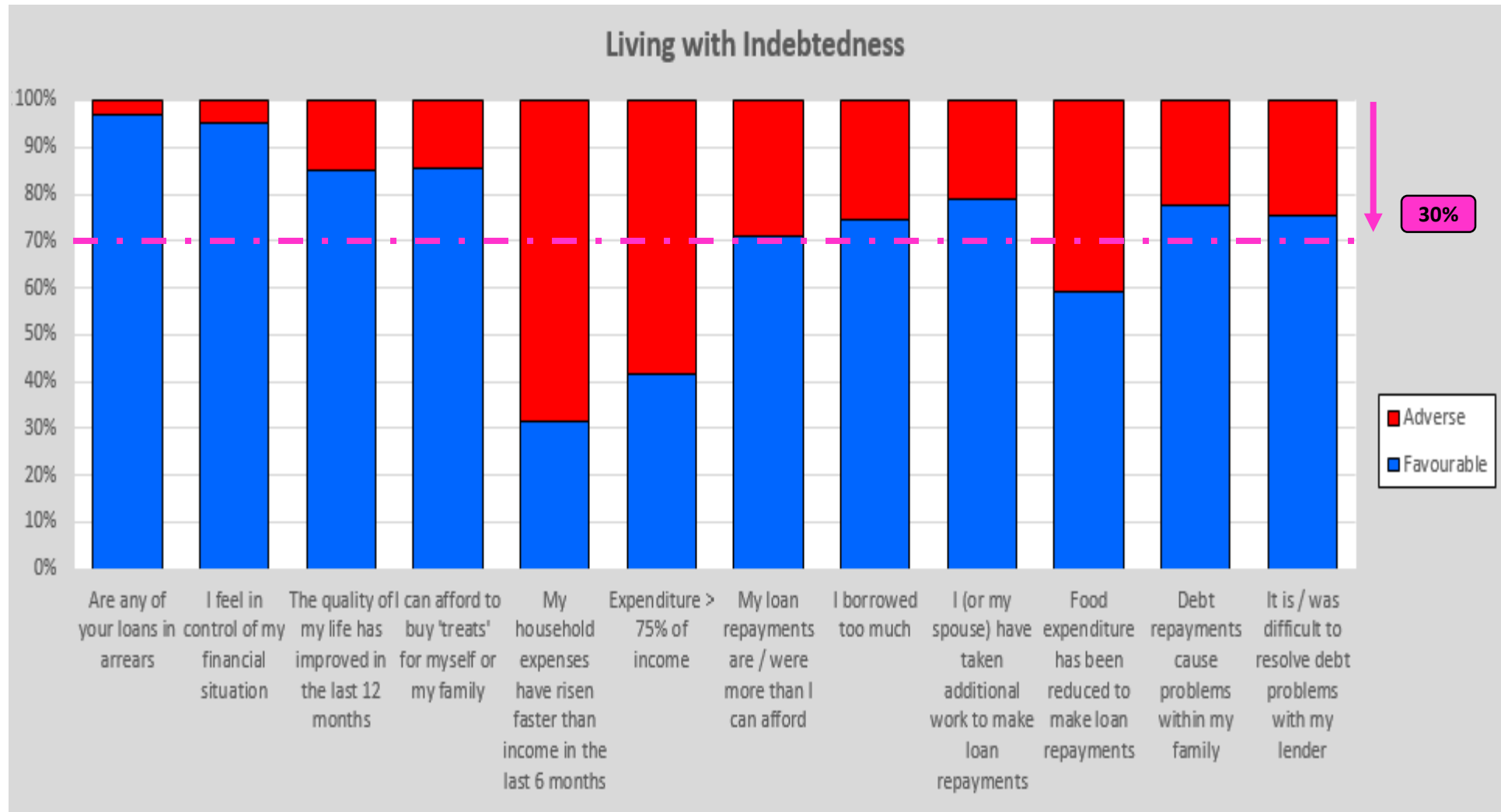
Income : Client Distribution



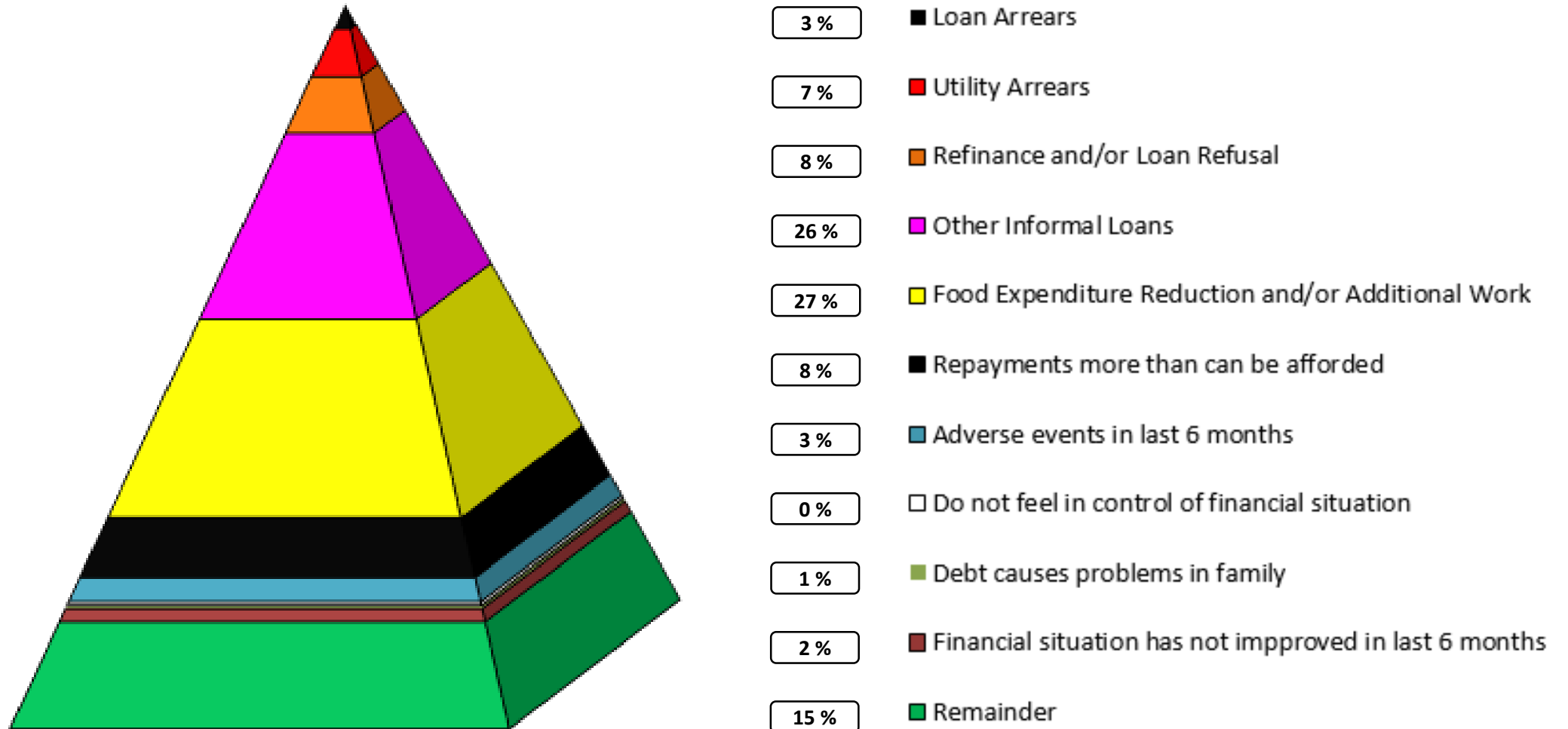
Sources of Loan Funds

	Net Income after Loan Payment TJS	Loan from Family	Loan Payments by Family	Loan from Retailer	Reduced Food Expenditure
MFI Clients	650	15 %	14 %	22 %	41 %
Bank Clients	600	14 %	13 %	23 %	40 %
Income : < 1,200	(150)	12 %	14 %	40 %	38 %
Income : 1,201 – 1,800	100	12 %	16 %	29 %	48 %
Income : 1,801 – 2,600	250	15 %	15 %	15 %	50 %
Income : 2,601 – 3,400	750	20 %	14 %	18 %	39 %
Income : > 3,400	2,000	14 %	10 %	14 %	28 %

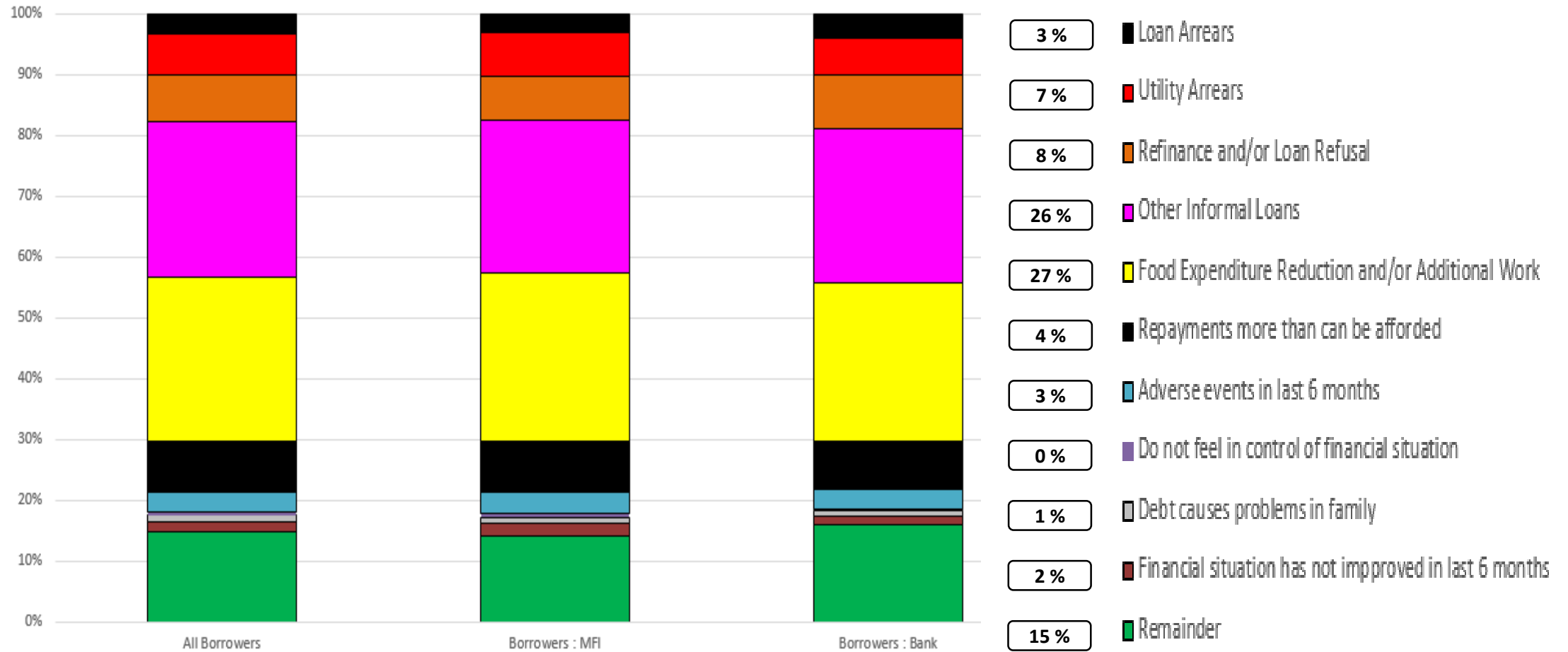
What do people think ? – How concerned are they?



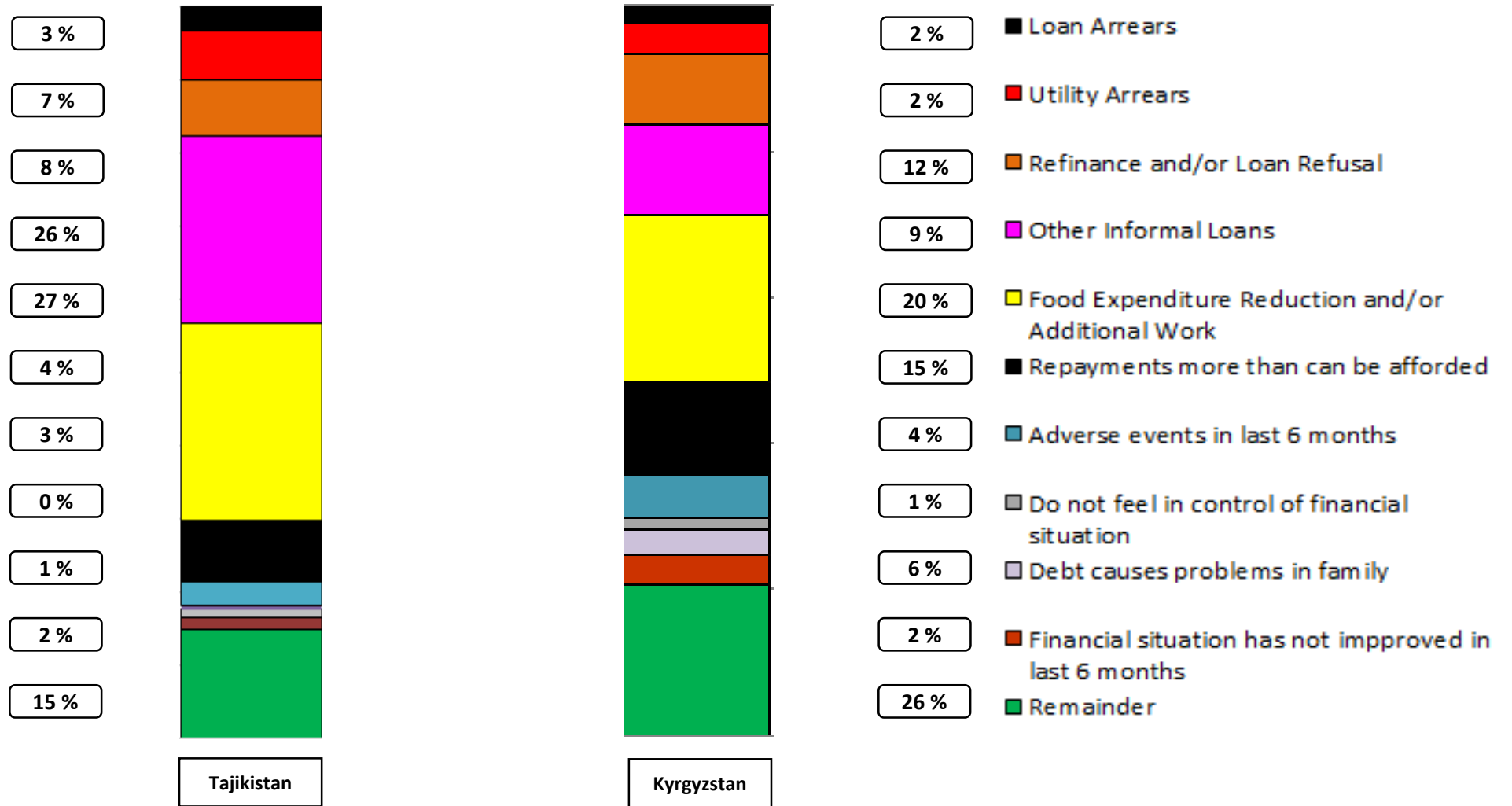
Arrears : only the tip of the Iceberg ... What is the depth of indebtedness below arrears



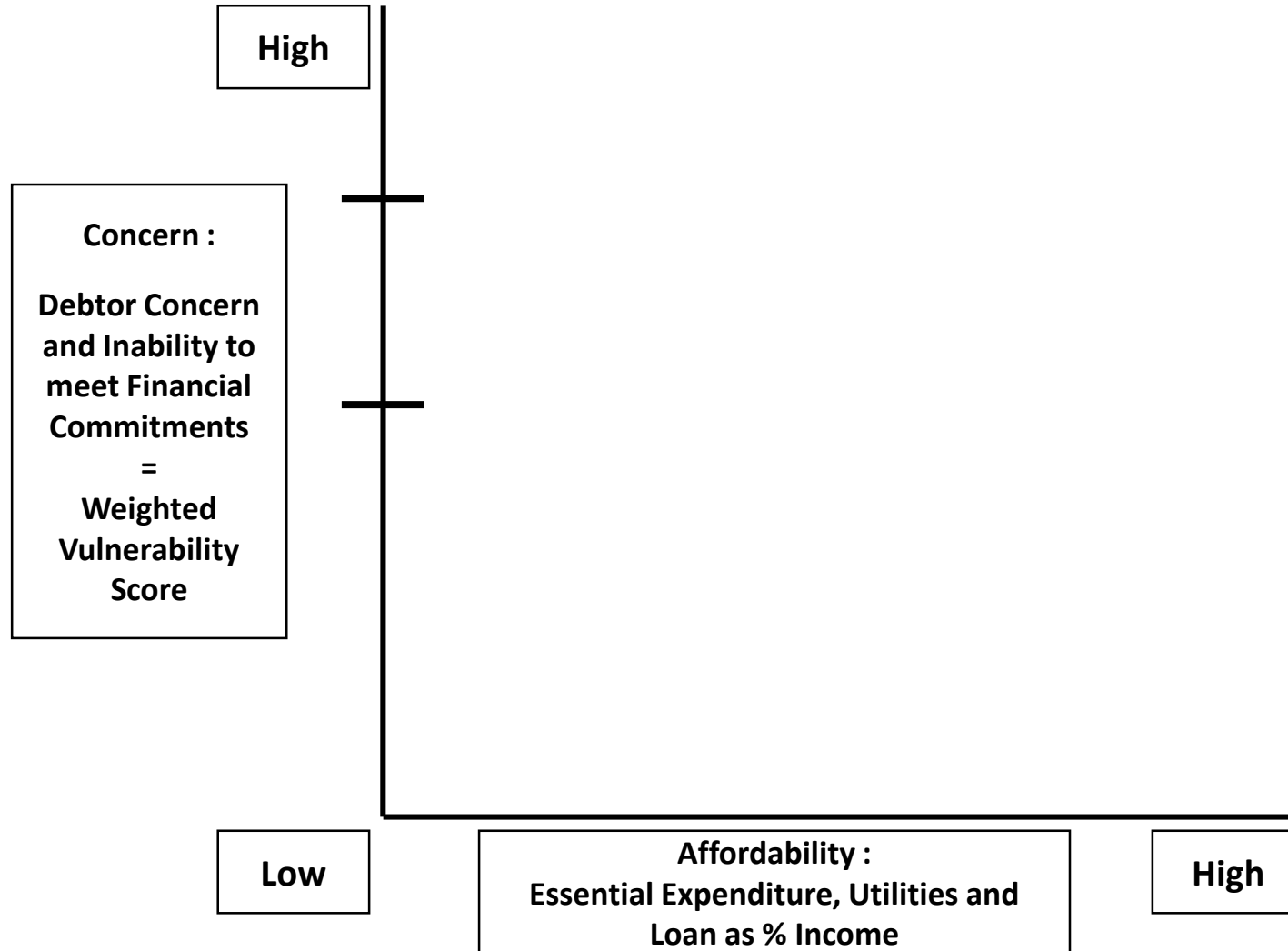
Similar Profiles for both MFI and Bank



Tajikistan and Kyrgyzstan



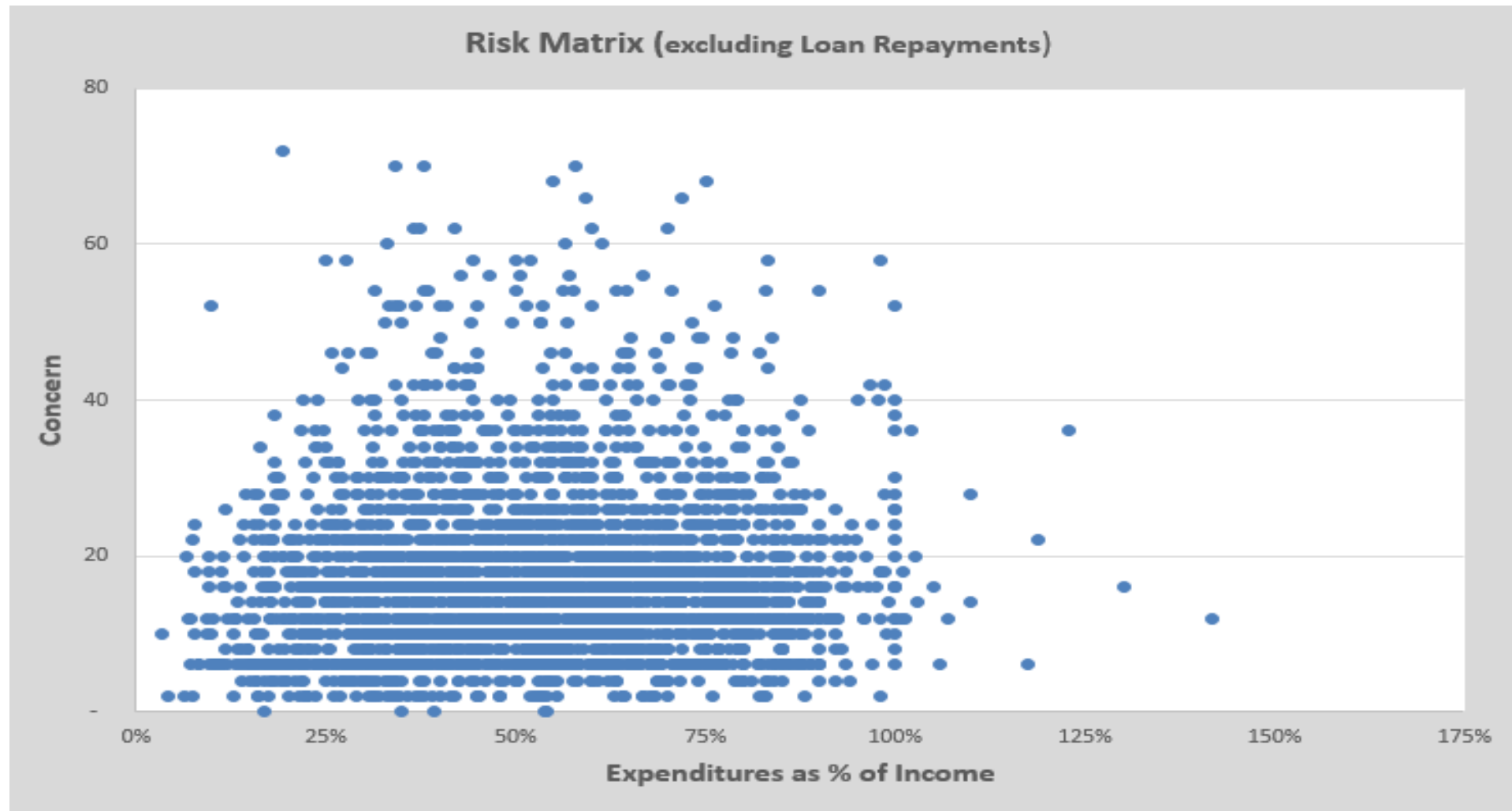
Concern and Affordability



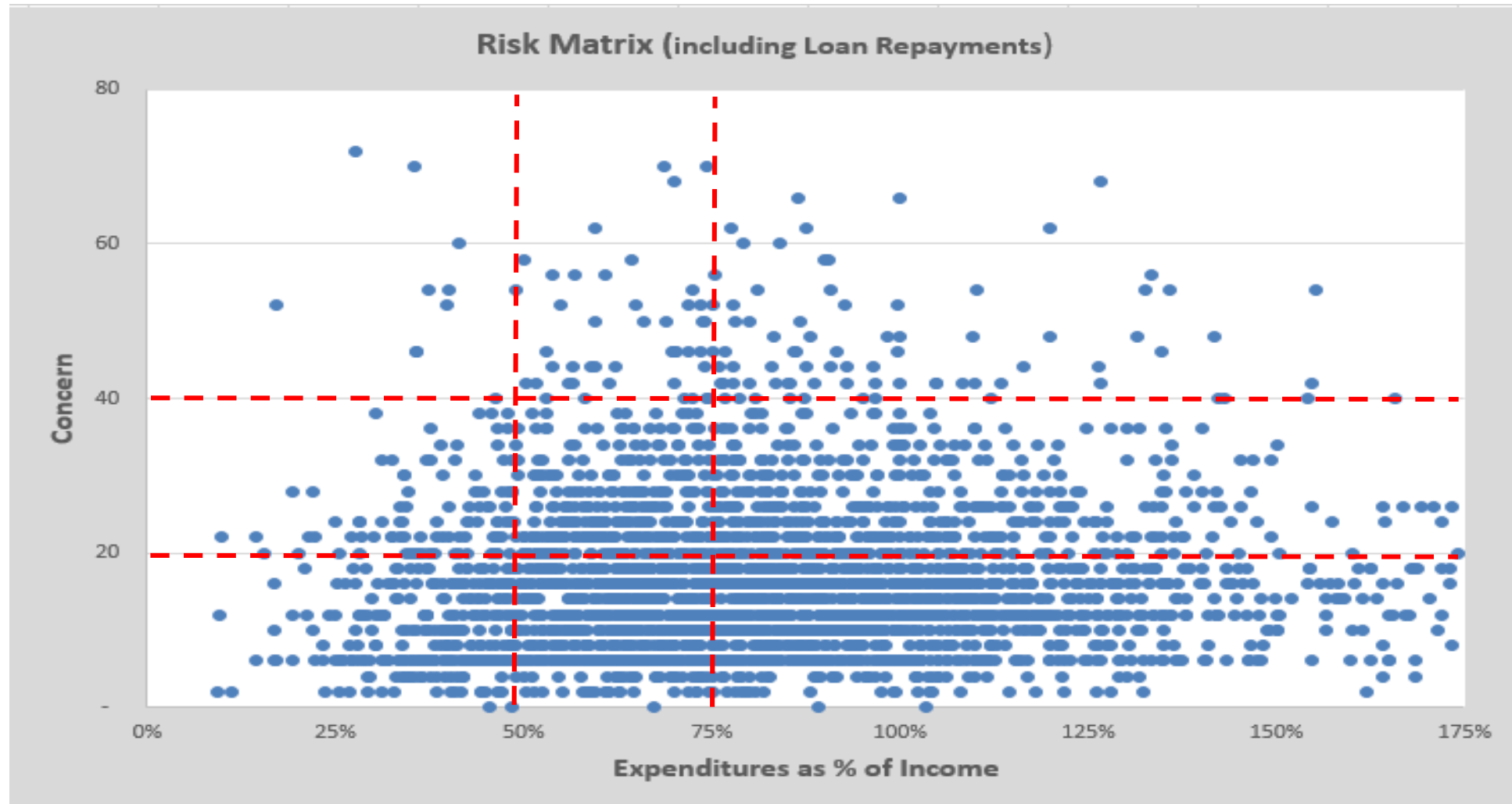
Concern : Questions and Responses

Component Issues and Score Distribution	0	1	2	3	4	5
Loan Arrears	97 %					3 %
Utility Arrears	93 %					7 %
Loan refinance & / or loan refusal	90 %			10 %		0.1%
Other loans	68 %		26 %	5 %	1 %	0.1%
Reduced food expenditure &/or additional work	51 %			36 %		13 %
Repayments more than I can afford	59 %	9 %	4 %	24 %		4 %
Adverse events in last 6 months	63 %	26 %		8 %	2 %	1 %
Do not feel in control of financial situation	24 %	70 %	1 %	4 %		1 %
Debt causes problems in family	13 %	63 %	2 %	18 %		4 %
Financial situation not improved in 6 months	14 %	69 %	3 %	13 %		1 %

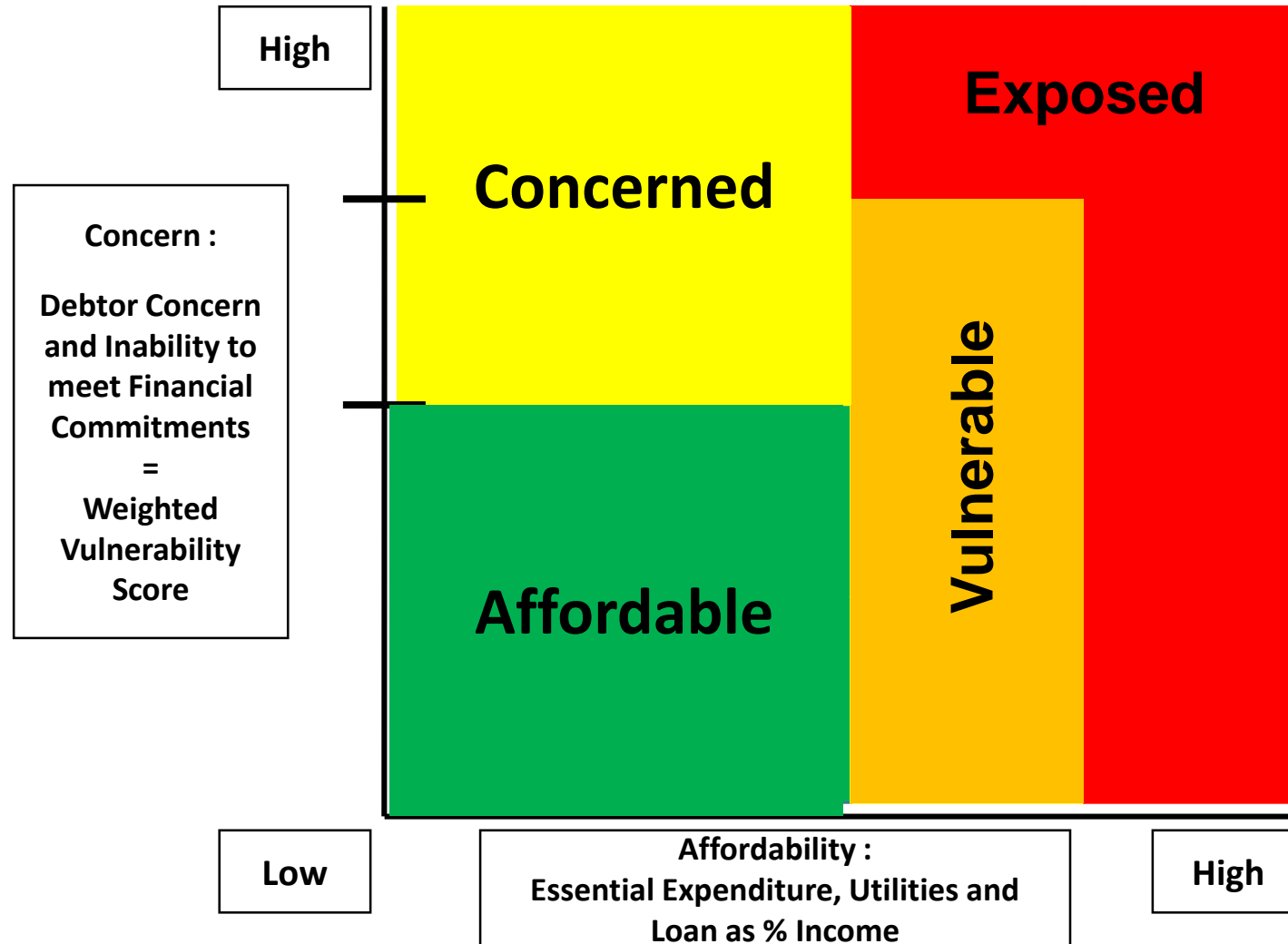
Borrowers are Different ... different affordability ... and ... different concerns



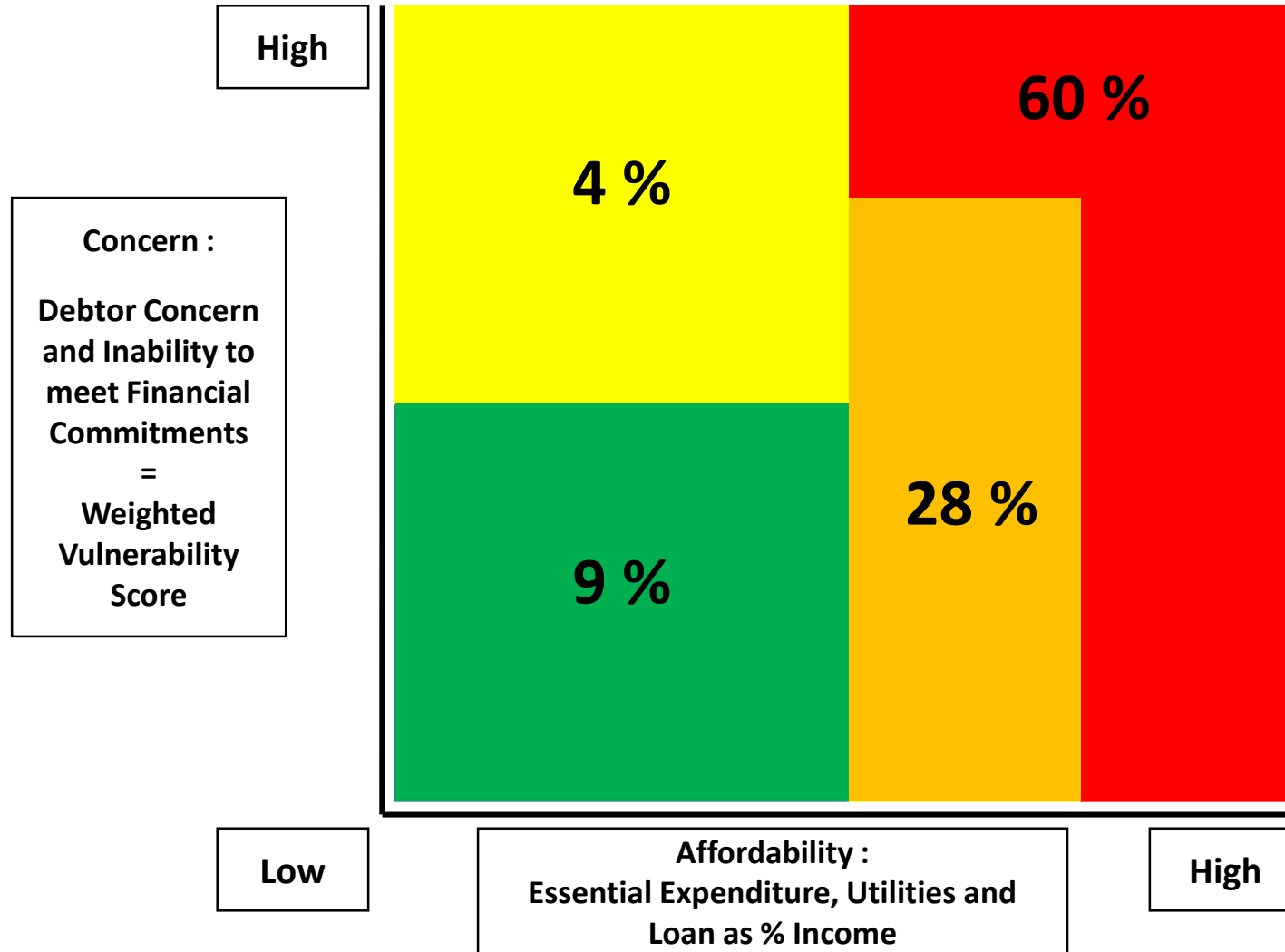
Borrowers are Different ... different affordability ... and ... different concerns



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



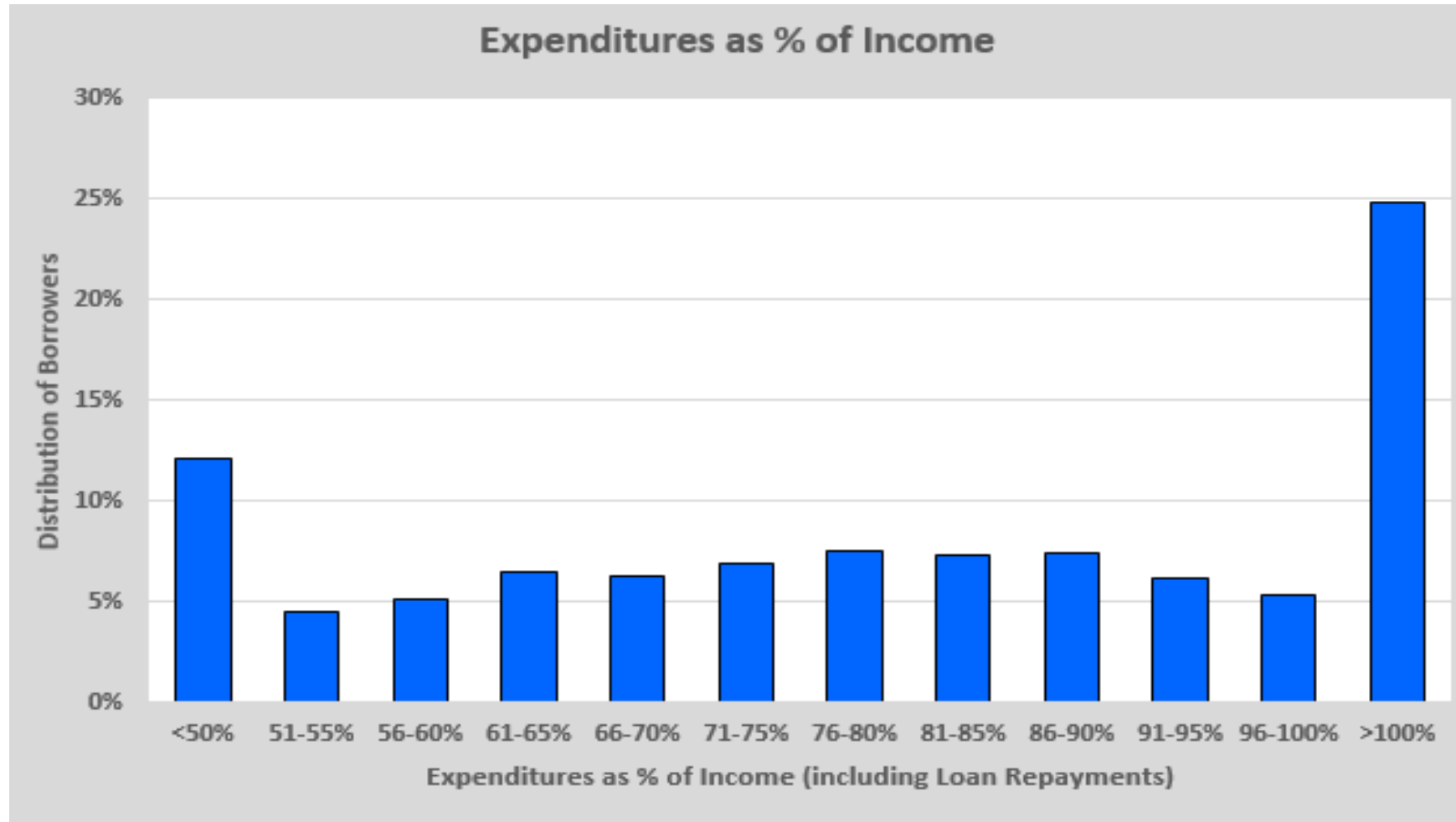
Vulnerability : low capacity to absorb higher costs



Sensitivity of the 'Concerned' and 'Expenditure Ratio' axes

Distribution of Risk Categories	Affordable	Concerned	Vulnerable	Exposed
	9 %	4 %	28 %	60 %
Thresholds + 10 %	11 %	6 %	34 %	49 %
Thresholds + 20 %	15 %	7 %	40 %	38 %

Sensitivity of the 'Expenditure Ratio' axis



Risk : Comparison with Kyrgyzstan and Bosnia i Herzegovina

Distribution of Risk Categories	Affordable		Concerned		Vulnerable		Exposed	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
Expenditures (before loan payment)								
Tajikistan	29 %	34 %	15 %	14 %	38 %	37 %	19 %	16 %
Kyrgyzstan	33 %	33 %	21 %	24 %	35 %	32 %	11 %	11 %
BiH	36 %	39 %	15 %	14 %	26 %	26 %	23 %	21 %
Expenditures (after loan payment)								
Tajikistan	9 %	9 %	4 %	3 %	27 %	28 %	59 %	60 %
Kyrgyzstan	10 %	9 %	5 %	5 %	34 %	27 %	51 %	59 %
BiH	20 %	24 %	16 %	11 %	24 %	20 %	41 %	44 %

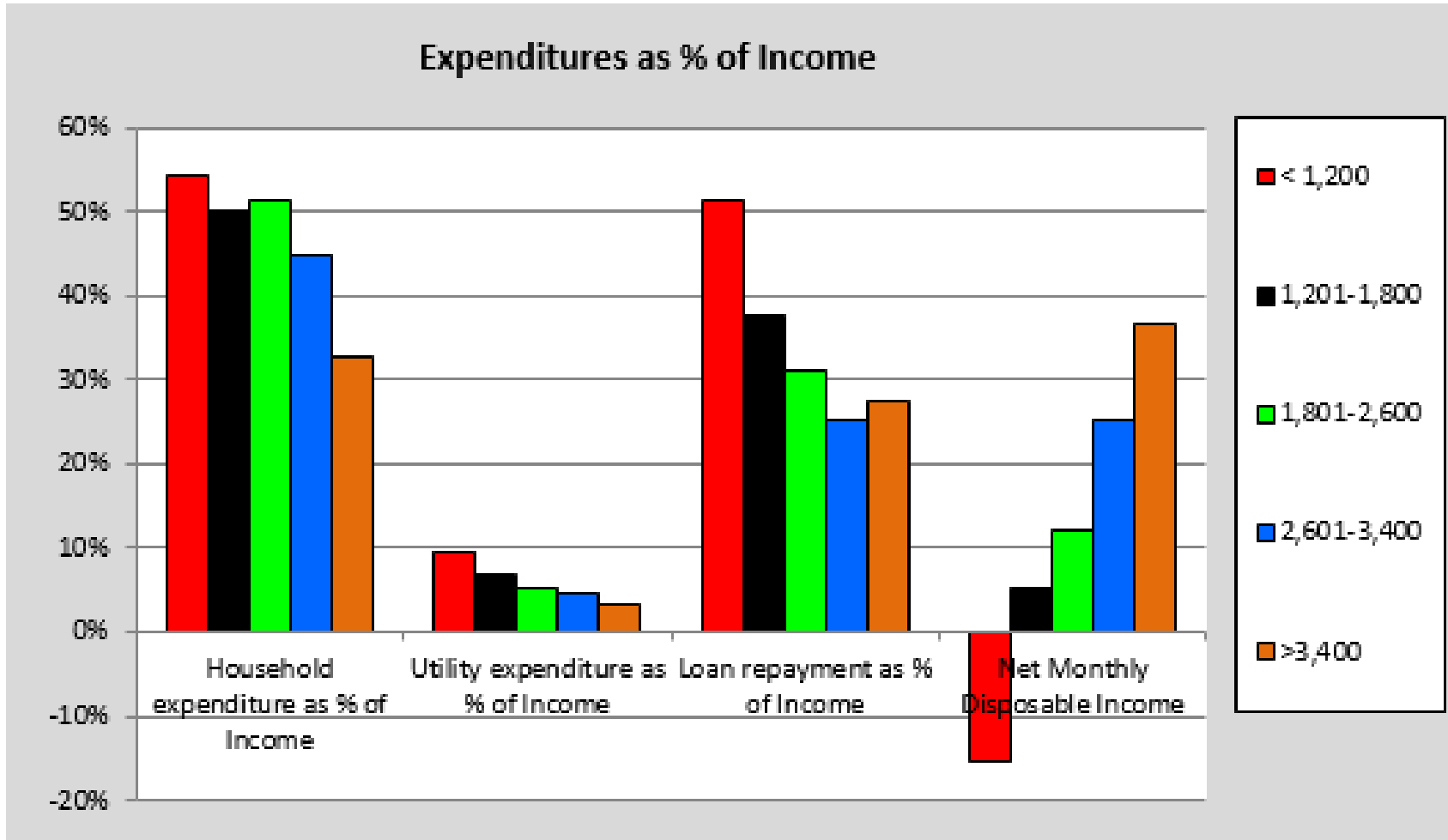
Risk : A Delicate Balance of Performance and Vulnerability

All Borrowers	Affordable		Concerned		Vulnerable		Exposed	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
Distribution	9 %	9 %	4 %	3 %	27 %	28 %	59 %	60 %
Net Disposable Income (pre loan)	4,000	3,300	3,000	3,500	1,700	2,000	800	1,000
Average Loan	5,200	6,200	5,100	6,900	5,500	6,300	8,000	10,300
Loan Repayment % of Net Income	15 %	19 %	14 %	16 %	35 %	37 %	109 %	110 %
Net Disposable Income (after loan)	3,400	2,700	2,600	3,000	1,100	1,300	(100)	(100)



- < 1,200
- 1,201-1,800
- 1,801-2,600
- 2,601-3,400
- >3,400

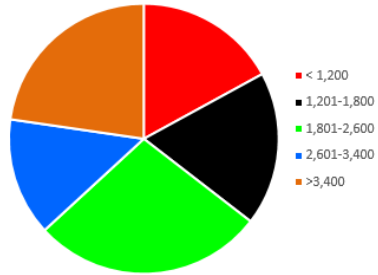
Segmentation : How Is Loan Repayment linked to Household Income ?



Different lending strategies and market positions

Income Segment US Dollar equivalent			Household & Utility as % of Income			Loan Repayment as % of Household Income			Loan Repayment as % of Net Income		
Tajiki - stan	Kyrgyz - stan	BiH	Tajiki - stan	Kyrgyz - stan	BiH	Tajiki - stan	Kyrgyz - stan	BiH	Tajiki - stan	Kyrgyz - stan	BiH
< US\$ 250	< US\$ 300	< US\$ 700	64 %	56 %	67 %	51 %	39 %	23 %	145 %	89 %	71 %
US\$ 250 - 375	US\$ 300 - 400	US\$ 700 - 1,000	57 %	51 %	59 %	38 %	32 %	17 %	88 %	64 %	41 %
US\$ 375 - 550	US\$ 400 - 600	US\$ 1,000 - 1,400	56 %	45 %	46 %	31 %	26 %	14 %	72 %	47 %	25 %
US\$ 550 - 700	US\$ 600 - 800	US\$ 1,400 - 1,750	49 %	44 %	41 %	25 %	26 %	12 %	50 %	47 %	20 %
> US\$ 700	> US\$ 800	> US\$ 1,750	36 %	33 %	34 %	28 %	28 %	11 %	43 %	42 %	17 %

Income : Client Distribution



The Lending Experience : Loan Benefit ... but at what price ?

	< 1,200	1,201 – 1,800	1,801 – 2,600	2,601 – 3,400	> 3,400
Loans Improve the Quality of Life	93 %	96 %	94 %	91 %	92 %
Household Expenses Risen Faster than Income - Six Months	57 %	61 %	75 %	73 %	75 %
Repayments Are More than I Can Afford	25 %	30 %	33 %	32 %	25 %
Need to Continue to Borrow for Family	49 %	51 %	56 %	48 %	35 %
Reduced Food Expenditure to make Loan Repayment	38 %	48 %	50 %	39 %	28 %

The Lending Experience : Loan Benefit ... but at what price ?

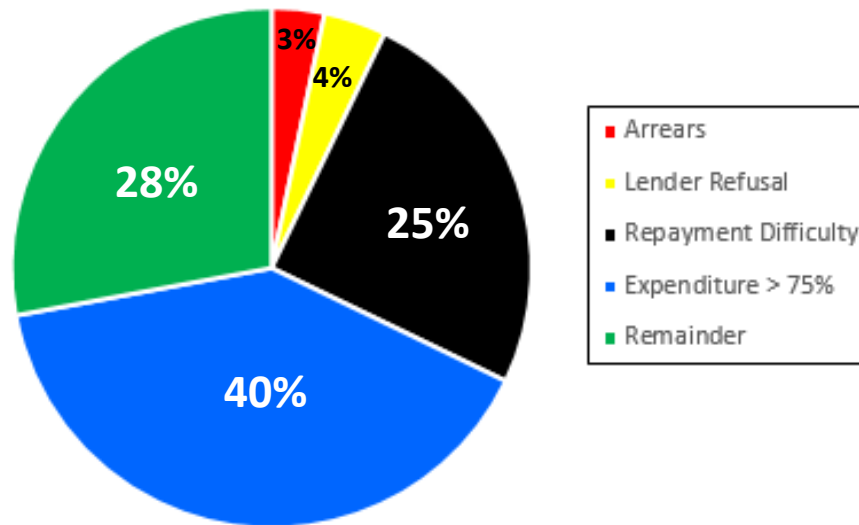
	Loan with Collateral		Loan with No Collateral		Loan : Foreign Currency		Loan : TJS Currency	
	MFI	Bank	MFI	Bank	MFI	Bank	MFI	Bank
Loan Payment % Net Income	67 %	70 %	45 %	53 %	58 %	76 %	52 %	54 %
Loans Improve the Quality of Life	93 % = 93 %	93 % = 93 %	93 % = 93 %	93 % = 93 %	90 %	94 %	94 % = 93 %	94 % = 93 %
Household Expenses Risen Faster than Income - Six Months	66 % ← 61 %	70 % → 74 %	70 % → 74 %	70 % → 74 %	77 % ← 72 %	77 % ← 72 %	66 % = 67 %	66 % = 67 %
Repayments Are More than I Can Afford	33 % ← 27 %	28 % = 28 %	28 % = 28 %	28 % = 28 %	32 % ← 26 %	32 % ← 26 %	29 % = 29 %	29 % = 29 %
Need to Continue to Borrow for Family	51 % ← 40 %	49 % = 49 %	49 % = 49 %	49 % = 49 %	47 % = 48 %	47 % = 48 %	50 % ← 44 %	50 % ← 44 %
Reduced Food Expenditure to make Loan Repayment	38 % = 39 %	42 % = 41 %	42 % = 41 %	42 % = 41 %	37 % → 46 %	37 % → 46 %	42 % ← 37 %	42 % ← 37 %

The Lending Experience : Loan Benefit ... but at what price ?

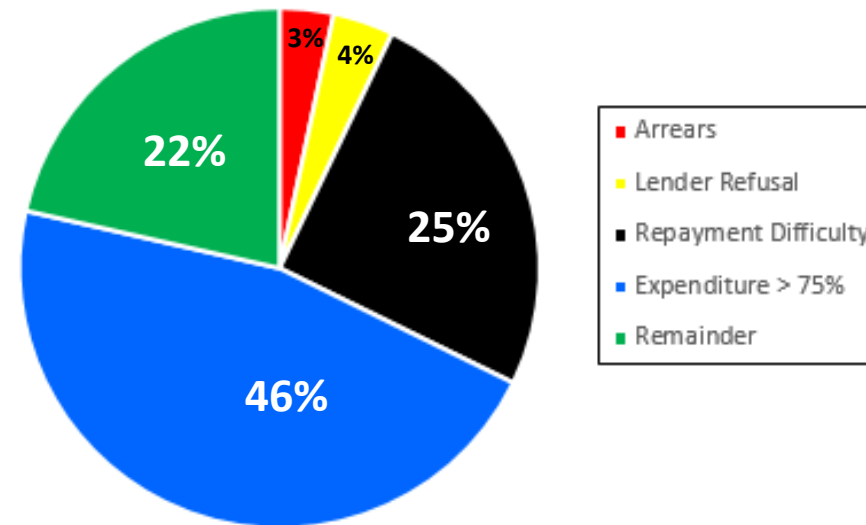
	Agriculture	Building - Property	Retail	Service	Public Sector
Loans Improve the Quality of Life	96 %	94 %	95 %	90 %	92 %
Household Expenses Risen Faster than Income - Six Months	70 %	78 %	74 %	61 %	71 %
Repayments Are More than I Can Afford	29 %	29 %	29 %	22 %	28 %
Need to Continue to Borrow for Family	53 %	54 %	52 %	34 %	49 %
Reduced Food Expenditure to make Loan Repayment	48 %	49 %	45 %	36 %	38 %

What is 'Over-Indebtedness' ?

Distribution of Loans : Clients

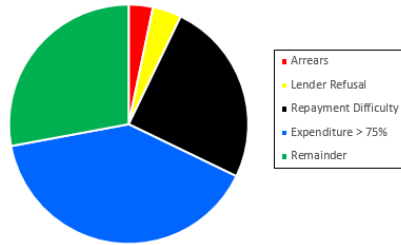


Distribution of Loans : Value



Borrowing Capacity – different segments with different capacities

Distribution of Loans : Clients

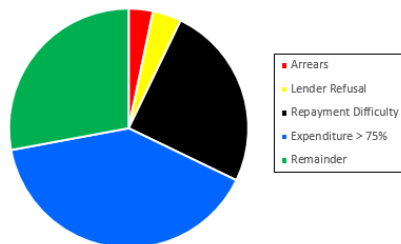


- Arrears
- Lender Refusal
- Repayment Difficulty
- Expenditure > 75%
- Remainder

	Arrears	Lender Refusal	Repayment Difficulty	Expenditure > 75% Income	Remainder
Loan Repayment as % of Net Income	72 %	51 %	59 %	109 %	28 %
Net Disposable Income (after loan)	350	850	500	(100)	1,800
Average Outstanding Loan TJS	7,600	7,300	7,600	8,700	5,800
Food Expenditure Reduced to Pay Loan	39 %	54 %	46 %	45 %	28 %
Need to Borrow to Maintain Lifestyle	71 %	34 %	75 %	45 %	27 %
Loan from Family or Friends	27 %	17 %	23 %	10 %	12 %

Borrowing Capacity – what differentiation of loan proposition ?

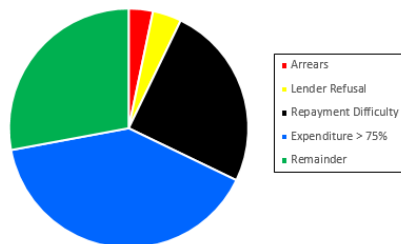
Distribution of Loans : Clients



		Arrears	Lender Refusal	Repayment Difficulty	Expenditure > 75% Income	Remainder
Loan Repayment as % of Net Income	Tajikistan	72 %	51 %	59 %	109 %	28 %
	Kyrgyzstan	57 %	58 %	56 %	92 %	31 %
Food Expenditure Reduced to Pay Loan	Tajikistan	39 %	54 %	46 %	45 %	28 %
	Kyrgyzstan	47 %	32 %	35 %	19 %	20 %
Need to Borrow to Maintain Lifestyle	Tajikistan	71 %	34 %	75 %	45 %	27 %
	Kyrgyzstan	51 %	33 %	58 %	16 %	18 %

What outlook for the lending portfolios ?

Distribution of Loans : Clients



	Arrears	Lender Refusal	Repayment Difficulty	Expenditure > 75% Income	Remainder
Foreign Currency : MFI <i>Clients : 25% - Loan : 44%</i>	5 %	3 %	28 %	36 %	29 %
TJS Currency : MFI <i>Clients : 75% - Loan : 56%</i>	2 %	4 %	25 %	41 %	28 %
Foreign Currency : Bank <i>Clients : 32% - Loan : 42%</i>	5 %	3 %	22 %	47 %	24 %
TJS Currency : Bank <i>Clients : 68% - Loan : 58%</i>	4 %	5 %	24 %	36 %	31 %
Collateral : MFI <i>Clients : 37% - Loan : 57%</i>	4 %	5 %	28 %	37 %	26 %
Non-Collateral : MFI <i>Clients : 63% - Loan : 43%</i>	2 %	3 %	25 %	42 %	29 %
Collateral : Bank <i>Clients : 42% - Loan : 61%</i>	5 %	7 %	22 %	40 %	27 %
Non-Collateral : Bank <i>Clients : 58% - Loan : 39%</i>	3 %	3 %	25 %	40 %	30 %

Summary

Income / Expenditure

- 35 % with incomes less than TJS 1,800
- Household expenditure range 36% - 52% of income
- 40% reduced food expenditure to make loan repayment

Borrowing

- 90 % by fixed term loans – 40 % for domestic consumption
- 40 % loan balances in foreign currency – higher average loan
- 60% loan balances with collateral – higher average loan

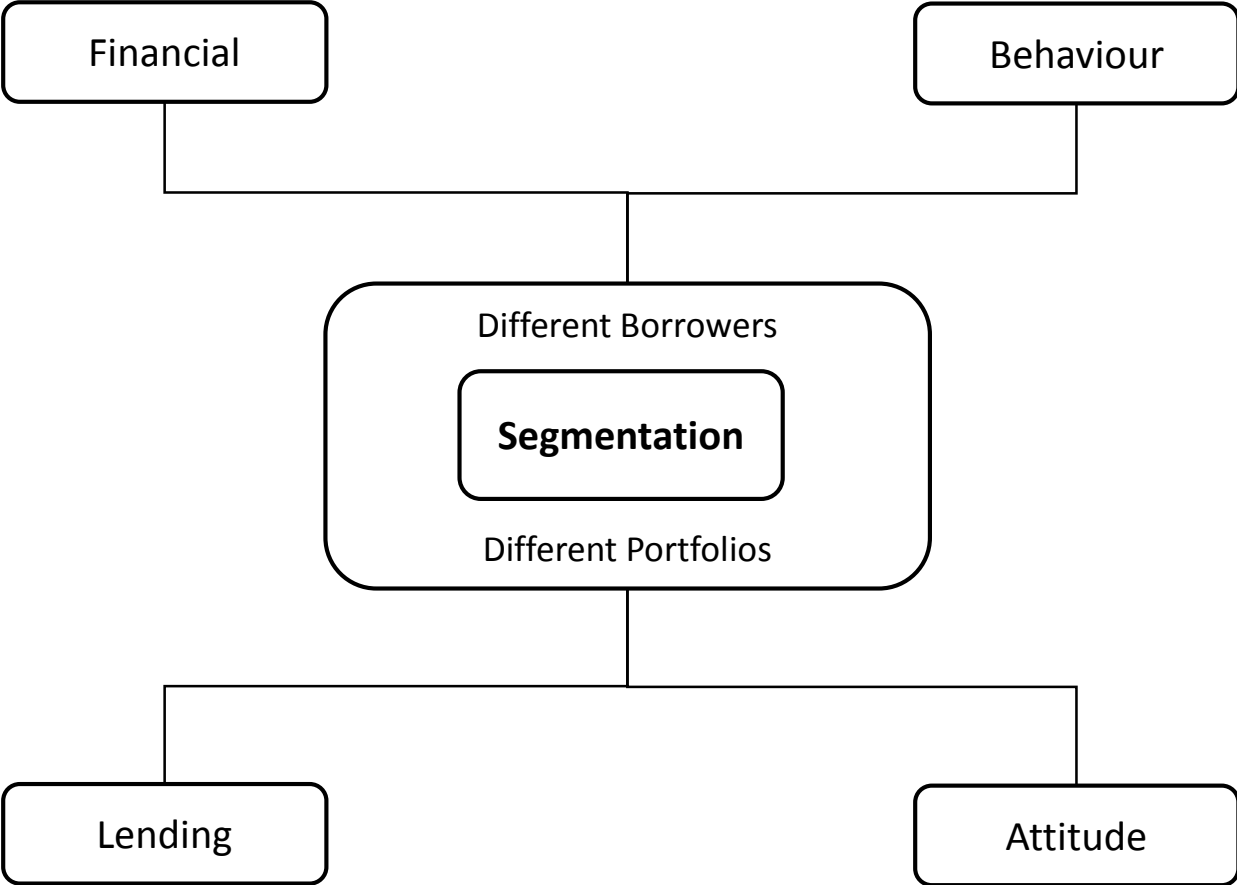
Affordability

- Only 3 % with loan arrears ... but ...
- 30 % recognise difficulty of loan repayments
- Further 40 % have committed expenditure over 75 % of income

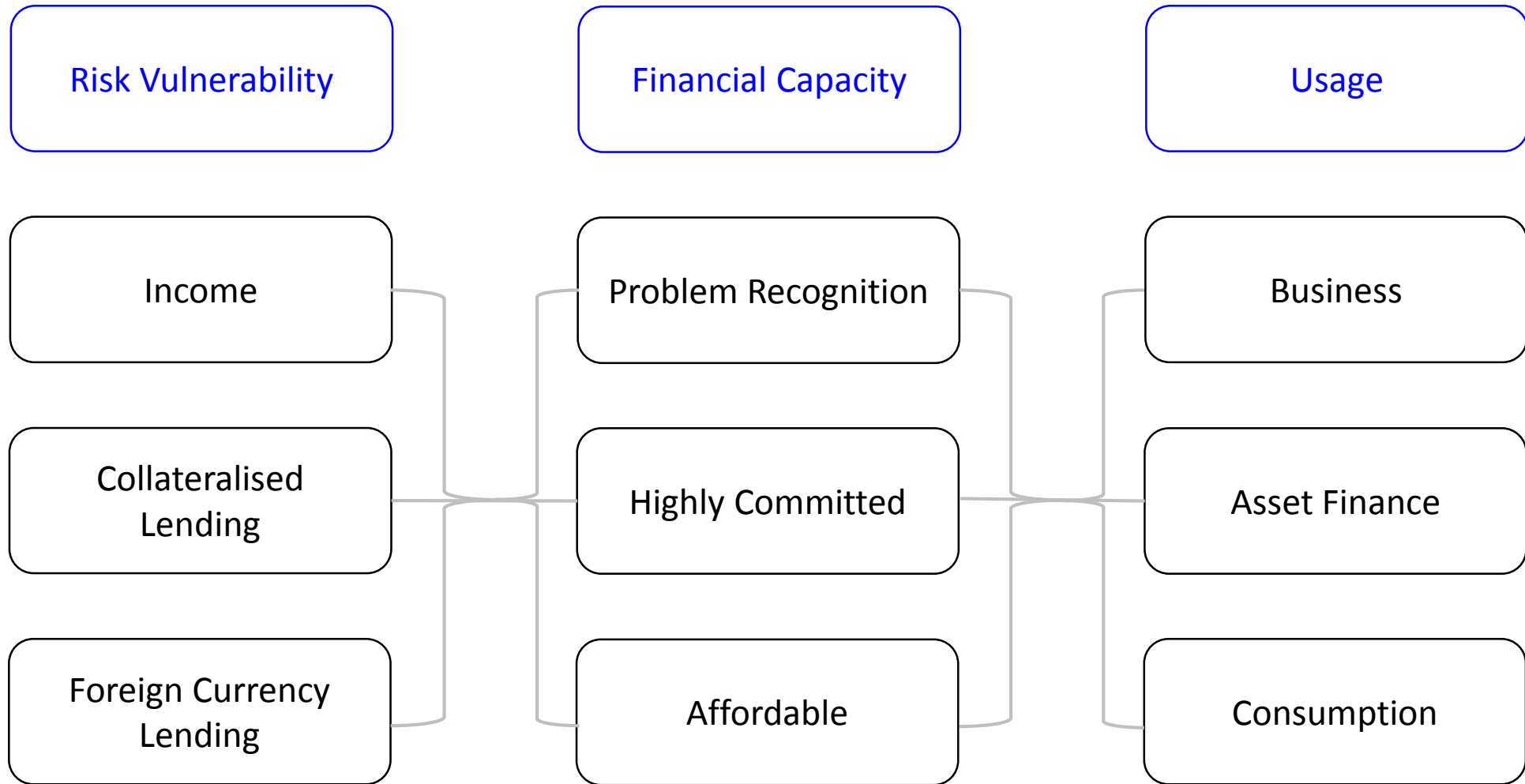
Impact of Loan

- 90 % - loans improve the quality of life
- 50 % need to continue to borrow to maintain lifestyle
- Debt causes family problems for 22 % of borrowers

Summary : Low loan arrears mask the depth of repayment pressures



Segmentation : What strategies ... what differentiation ... what outlook ?



Strategic Considerations

Risk Profile and Social Impact

- Dependency and trust by borrowers – what lender responsibility?
 - Debt capacity of borrowers – what business outlook?
 - Stability of lending market – what structure and processes?

Segmentation

- Identification of capacities and attitudes – what differentiation?
- Risk management and business development – how integrated?

Financial and Social Inter-dependency

- Formal and informal financial dependency – how assessed?
 - Stability of local economies – what role of the lender?
 - Social impact of lending strategy – how coordinated?

Low Income

- Dynamics of low income budget – how assessed : what guidelines?
 - Loan repayment : food adequacy – whose responsibility?
- Loan finance – short-term solution or medium-term enablement?

Issues for Consideration by Stakeholders

- **How should the MFI differentiate its client service and product propositions**
- **How does the MFI assess the debt capacity of its clients**
- **How does the MFI assess the structural risks of its client segments**
- **How does the MFI assess the sensitivity of its loan portfolio to external factors (beyond the direct control of borrowing clients)**
- **What are the responsibilities of the MFI in its resolution of problem lending**
- **What are the expectations and obligations for ‘responsible lending’**
 - **by, and from, the lender**
 - **by, and from, the borrower**

Some 'basic questions' to MFIs by Stakeholders to assess structural risk sensitivity

- If [some] clients are over-borrowed, the MFI is, to some extent, over-lent
 - How much ?
- If [some] clients are over-borrowed, how many are involved
 - What responsibility of MFI to the over-borrowed clients ?
 - What is the target profile of new clients ?
- What is the scale of the available borrowing market
 - What is the quality of the incremental business being undertaken and lost
 - How is sustainable differentiation to be established ?

Tajikistan

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