Tajikistan

Indebtedness of Individuals

Roy Pratt
September 2016
Survey Framework

Location
Dushanbe, Khatlon, Sogd, RRP, GBAO
City, Rural, Urban

Demographics
Personal – Family
Employment
Lifestyle

Lending Institution
Client Profile
Loan Products
Lending

Financial
Income – Expenditure
Loan – Other Finance

Impact of Loan
Affordability
Usage - Benefits
Lifestyle

Attitudes
Debt Dependency
Risk Profile
Financial Experience

Surveys
2014 and 2016
4,000 Individuals

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Some Headlines …

- Increased pressure on domestic budgets and continuing austerity
- Structural redistribution of loan portfolios towards higher incomes
- Slow-down in lending in January-June 2016
- Increased arrears, despite strengthened operational credit
- Structural portfolio risk increased in major client segments
- Strong increase in recognition of debt problems by borrowers
- Increased debt dependency
- Increased social pressures as a result of problem debt
Net Income – little margin for error for how many borrowers?

<table>
<thead>
<tr>
<th>Total Expenditures as % of Income</th>
<th>&lt;25%</th>
<th>26-50%</th>
<th>51-75%</th>
<th>76-100%</th>
<th>&gt;100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI : 2016</td>
<td>2 %</td>
<td>13 %</td>
<td>31 %</td>
<td>42 %</td>
<td>13 %</td>
</tr>
<tr>
<td>MFI : 2014</td>
<td>2 %</td>
<td>11 %</td>
<td>29 %</td>
<td>33 %</td>
<td>25 %</td>
</tr>
<tr>
<td>Bank : 2016</td>
<td>2 %</td>
<td>10 %</td>
<td>33 %</td>
<td>41 %</td>
<td>13 %</td>
</tr>
<tr>
<td>Bank : 2014</td>
<td>1 %</td>
<td>11 %</td>
<td>29 %</td>
<td>34 %</td>
<td>25 %</td>
</tr>
</tbody>
</table>

Graphs based on rolling 50 average
# Structural Redistribution of Lending across Income Ranges

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Distribution of Borrowers</th>
<th>Distribution of Outstanding Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1,200</td>
<td>17 %</td>
<td>12 %</td>
</tr>
<tr>
<td>1,201 – 1,800</td>
<td>18 %</td>
<td>19 %</td>
</tr>
<tr>
<td>1,801 – 2,600</td>
<td>28 %</td>
<td>26 %</td>
</tr>
<tr>
<td>2,601 – 3,400</td>
<td>14 %</td>
<td>17 %</td>
</tr>
<tr>
<td>&gt; 3,400</td>
<td>23 %</td>
<td>26 %</td>
</tr>
</tbody>
</table>

Distribution of Clients:

- **2014**
  - < 1,200: 17%
  - 1,201-1,800: 18%
  - 1,801-2,600: 23%
  - 2,601-3,400: 14%
  - > 3,400: 23%

- **2016**
  - < 1,200: 12%
  - 1,201-1,800: 19%
  - 1,801-2,600: 17%
  - 2,601-3,400: 17%
  - > 3,400: 23%

Distribution of Outstanding Loans:

- **2014**
  - < 1,200: 10%
  - 1,201-1,800: 13%
  - 1,801-2,600: 28%
  - 2,601-3,400: 18%
  - > 3,400: 23%

- **2016**
  - < 1,200: 4%
  - 1,201-1,800: 7%
  - 1,801-2,600: 26%
  - 2,601-3,400: 19%
  - > 3,400: 61%
Increased problems for higher income households

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Loan Arrears 2014</th>
<th>Loan Arrears 2016</th>
<th>Utility Arrears 2014</th>
<th>Utility Arrears 2016</th>
<th>Repayments more than can afford 2014</th>
<th>Repayments more than can afford 2016</th>
<th>Food expenditure reduced to make loan payments 2014</th>
<th>Food expenditure reduced to make loan payments 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1,200</td>
<td>4 %</td>
<td>9 %</td>
<td>7 %</td>
<td>13 %</td>
<td>25 %</td>
<td>52 %</td>
<td>38 %</td>
<td>51 %</td>
</tr>
<tr>
<td>1,201 – 1,800</td>
<td>3 %</td>
<td>12 %</td>
<td>7 %</td>
<td>15 %</td>
<td>30 %</td>
<td>50 %</td>
<td>48 %</td>
<td>42 %</td>
</tr>
<tr>
<td>1,801 – 2,600</td>
<td>4 %</td>
<td>17 %</td>
<td>6 %</td>
<td>12 %</td>
<td>33 %</td>
<td>49 %</td>
<td>50 %</td>
<td>39 %</td>
</tr>
<tr>
<td>2,601 – 3,400</td>
<td>4 %</td>
<td>16 %</td>
<td>8 %</td>
<td>11 %</td>
<td>32 %</td>
<td>51 %</td>
<td>39 %</td>
<td>39 %</td>
</tr>
<tr>
<td>&gt; 3,400</td>
<td>3 %</td>
<td>17 %</td>
<td>8 %</td>
<td>9 %</td>
<td>25 %</td>
<td>48 %</td>
<td>28 %</td>
<td>36 %</td>
</tr>
</tbody>
</table>
### Foreign Currency loans: a severe higher risk concentration

<table>
<thead>
<tr>
<th></th>
<th>Household Income</th>
<th>Net Disposable Income (after loan)</th>
<th>Average Loan</th>
<th>Loan Arrears</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MFI: TJS Currency</strong></td>
<td>2,400 2014</td>
<td>600 2014</td>
<td>5,100 2014</td>
<td>2 % 2014</td>
</tr>
<tr>
<td><strong>MFI: Foreign Currency</strong></td>
<td>3,400 2014</td>
<td>850 2014</td>
<td>12,400 2014</td>
<td>5 % 2014</td>
</tr>
<tr>
<td><strong>Bank: TJS Currency</strong></td>
<td>2,800 2014</td>
<td>700 2014</td>
<td>7,400 2014</td>
<td>4 % 2014</td>
</tr>
<tr>
<td><strong>Bank: Foreign Currency</strong></td>
<td>3,100 2014</td>
<td>400 2014</td>
<td>11,400 2014</td>
<td>5 % 2014</td>
</tr>
</tbody>
</table>
Collateralised loans: a strong higher risk concentration

<table>
<thead>
<tr>
<th></th>
<th>Household Income</th>
<th>Net Disposable Income (after loan)</th>
<th>Average Loan</th>
<th>Loan Arrears</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI: Collateral</td>
<td>2,700</td>
<td>3,300</td>
<td>500</td>
<td>700</td>
</tr>
<tr>
<td>MFI: Non-Collateral</td>
<td>2,600</td>
<td>2,600</td>
<td>750</td>
<td>800</td>
</tr>
<tr>
<td>Bank: Collateral</td>
<td>3,100</td>
<td>3,400</td>
<td>600</td>
<td>750</td>
</tr>
<tr>
<td>Bank: Non-Collateral</td>
<td>2,700</td>
<td>2,800</td>
<td>600</td>
<td>750</td>
</tr>
</tbody>
</table>
Source of Income

Regular Work

- Manufacture
- Food Production
- Engineering
- Agriculture
- Public Sector
- Other

- 58%

Own Business

- Manufacture
- Food Production
- Engineering
- Agriculture
- Public Sector
- Other

- 62%

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### Own Business

<table>
<thead>
<tr>
<th></th>
<th>Microfinance Institution</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2016</td>
</tr>
<tr>
<td><strong>Household Income : TJS</strong></td>
<td>3,200</td>
<td>3,600</td>
</tr>
<tr>
<td><strong>Net Disposable Income (after loan payments) : TJS</strong></td>
<td>750</td>
<td>900</td>
</tr>
<tr>
<td><strong>Average Loan : TJS</strong></td>
<td>9,900</td>
<td>13,100</td>
</tr>
<tr>
<td><strong>Loan Arrears</strong></td>
<td>3 %</td>
<td>20 %</td>
</tr>
<tr>
<td><strong>Loan repayments as % of net disposable income</strong></td>
<td>59 %</td>
<td>57 %</td>
</tr>
<tr>
<td><strong>Borrowers with foreign currency loan</strong></td>
<td>27 %</td>
<td>8 %</td>
</tr>
</tbody>
</table>
## ‘Own Business’

<table>
<thead>
<tr>
<th></th>
<th>Microfinance Institution</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2016</td>
</tr>
<tr>
<td>Retail and Service Trade Sectors</td>
<td>77 %</td>
<td>93 %</td>
</tr>
<tr>
<td>Business failure in last 6 months</td>
<td>20 %</td>
<td>37 %</td>
</tr>
<tr>
<td>Loans improve the quality of life</td>
<td>96 %</td>
<td>66 %</td>
</tr>
<tr>
<td>Borrowers with informal credit from retailers</td>
<td>22 %</td>
<td>22 %</td>
</tr>
<tr>
<td>Loan repayments more than can afford</td>
<td>24 %</td>
<td>51 %</td>
</tr>
<tr>
<td>Need assistance to resolve problems with lenders</td>
<td>23 %</td>
<td>51 %</td>
</tr>
</tbody>
</table>
Stronger recognition of debt problems

Distribution: Clients

- Arrears: 21%
- Lender Refusal: 15%
- Repayment Difficulty: 10%
- Expenditure > 75%: 21%
- Remainder: 33%

Distribution: Loan Value

- Arrears: 28%
- Lender Refusal: 9%
- Repayment Difficulty: 21%
- Expenditure > 75%: 31%
- Remainder: 11%
# Borrowing Capacity – different segments with different capacities

<table>
<thead>
<tr>
<th></th>
<th>Arrears</th>
<th>Lender Refusal</th>
<th>Repayment Difficulty</th>
<th>Expenditure &gt; 75% Income</th>
<th>Remainder</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Repayment as % of Net Income</strong></td>
<td>70 %</td>
<td>45 %</td>
<td>53 %</td>
<td>81 %</td>
<td>23 %</td>
</tr>
<tr>
<td><strong>Net Disposable Income (after loan)</strong></td>
<td>600</td>
<td>800</td>
<td>700</td>
<td>250</td>
<td>1,600</td>
</tr>
<tr>
<td><strong>Average Outstanding Loan TJS</strong></td>
<td>16,000</td>
<td>9,000</td>
<td>8,000</td>
<td>8,600</td>
<td>3,600</td>
</tr>
<tr>
<td><strong>Food Expenditure Reduced to Pay Loan</strong></td>
<td>62 %</td>
<td>48 %</td>
<td>52 %</td>
<td>24 %</td>
<td>19 %</td>
</tr>
<tr>
<td><strong>Need to Borrow to Maintain Lifestyle</strong></td>
<td>86 %</td>
<td>82 %</td>
<td>92 %</td>
<td>71 %</td>
<td>64 %</td>
</tr>
<tr>
<td><strong>Loan from Friends</strong></td>
<td>27 %</td>
<td>16 %</td>
<td>14 %</td>
<td>10 %</td>
<td>5 %</td>
</tr>
<tr>
<td><strong>Retailer Loan: Domestic Needs</strong></td>
<td>21 %</td>
<td>25 %</td>
<td>20 %</td>
<td>11 %</td>
<td>12 %</td>
</tr>
</tbody>
</table>

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Strategic Issue: Quality of Loan Interest Income and Profit Impact

Risk Dimension: Committed Expenditures as % of Household Income

Size of circle reflects share of total outstanding loan exposure for each income segment. Arrears shown in Red.

Average Annual Interest Revenue at 35% per Average Loan per Income Segment:

- 6,000
- 3,000
- 1,500

Risk Dimension: Committed Expenditures as % of Household Income

- 28% Arrears
- 11% Lender Refusal
- 31% Repayment Difficulty
- 21% Expenditure >75% Income
- 9% Remainder

Percentage Distribution:

- 50%
- 75%
- 100%
## Guarantee Support … What value ? … What effect ?

<table>
<thead>
<tr>
<th>Number of Guarantees given by Borrower</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>&gt; 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrears 2014</td>
<td>65 %</td>
<td>18 %</td>
<td>14 %</td>
<td>1 %</td>
<td>2 %</td>
</tr>
<tr>
<td>Arrears 2016</td>
<td>5 %</td>
<td>58 %</td>
<td>32 %</td>
<td>3 %</td>
<td>1 %</td>
</tr>
<tr>
<td>Lender Refusal 2014</td>
<td>60 %</td>
<td>28 %</td>
<td>12 %</td>
<td>1 %</td>
<td>-</td>
</tr>
<tr>
<td>Lender Refusal 2016</td>
<td>19 %</td>
<td>57 %</td>
<td>20 %</td>
<td>3 %</td>
<td>1 %</td>
</tr>
<tr>
<td>Repayment Difficulty 2014</td>
<td>66 %</td>
<td>21 %</td>
<td>12 %</td>
<td>1 %</td>
<td>-</td>
</tr>
<tr>
<td>Repayment Difficulty 2016</td>
<td>8 %</td>
<td>72 %</td>
<td>20 %</td>
<td>1 %</td>
<td>-</td>
</tr>
<tr>
<td>Expenditure &gt; 75 % of Income 2014</td>
<td>64 %</td>
<td>25 %</td>
<td>9 %</td>
<td>1 %</td>
<td>-</td>
</tr>
<tr>
<td>Expenditure &gt; 75 % of Income 2016</td>
<td>12 %</td>
<td>66 %</td>
<td>21 %</td>
<td>1 %</td>
<td>-</td>
</tr>
<tr>
<td>Remainder 2014</td>
<td>65 %</td>
<td>23 %</td>
<td>10 %</td>
<td>2 %</td>
<td>-</td>
</tr>
<tr>
<td>Remainder 2016</td>
<td>9 %</td>
<td>75 %</td>
<td>15 %</td>
<td>1 %</td>
<td>-</td>
</tr>
</tbody>
</table>
# Social Impact of Loans

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Loans improve Quality of Life</th>
<th>Debt causes Family Problems</th>
<th>Most of my friends have difficulties meeting their domestic budget needs</th>
<th>Serious illness in last 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrears</td>
<td>85 %</td>
<td>49 %</td>
<td>53 %</td>
<td>67 %</td>
</tr>
<tr>
<td>Lender Refusal</td>
<td>84 %</td>
<td>65 %</td>
<td>40 %</td>
<td>49 %</td>
</tr>
<tr>
<td>Repayment Difficulty</td>
<td>93 %</td>
<td>61 %</td>
<td>51 %</td>
<td>76 %</td>
</tr>
<tr>
<td>Expenditure &gt;75% Income</td>
<td>95 %</td>
<td>80 %</td>
<td>9 %</td>
<td>16 %</td>
</tr>
<tr>
<td>Remainder</td>
<td>93 %</td>
<td>76 %</td>
<td>9 %</td>
<td>13 %</td>
</tr>
</tbody>
</table>
### Summary

#### Income / Expenditure
- Redistribution towards higher incomes
- Food and essential expenditure unchanged for 2 years
- Households under greater pressure across all incomes

#### Borrowing
- Stronger operational credit management, but portfolio risks
- External trends overwhelm actions of individual borrowers
- High risk portfolio segments: own business, collateral, currency

#### Affordability
- 15% with loan arrears ... but ...  
  - 60% of borrowers recognise repayment difficulty
  - Further 20% with basic expenditure over 75% of income

#### Impact of Loan
- Social impact adverse to family, health, quality of life
- Debt causes family problems for 50% of borrowers
- 35% of consumer loans used for domestic consumption
  - 80% need to borrow to maintain lifestyle
### Strategic Issue: Responsible Finance: “The Management of Hope”

<table>
<thead>
<tr>
<th>Actions by Lending Institutions</th>
<th>Attitudes of Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduced level of loan approvals in the last 6 months</td>
<td>• 80% of current and former borrowers consider loans necessary to maintain family lifestyle</td>
</tr>
<tr>
<td>• Operational credit ‘supported’ by collateral for many borrowers (particularly higher debts)</td>
<td>• Borrowers face the repossession / loss of assets, primarily house, and social stigma</td>
</tr>
<tr>
<td>• Operational credit ‘strengthened’ by greater levels of personal guarantees</td>
<td>• Many guarantors are borrowers who are under financial pressure on own debts</td>
</tr>
<tr>
<td>• Financial performance sustained by low loan arrears (but much higher than 2014)</td>
<td>• Repayment levels by expenditure reductions, domestic austerity and family problems</td>
</tr>
<tr>
<td>• Reputation (trust and integrity) diminished, but remains strong</td>
<td>• Client loyalty based on trust and expectation, but is this trust based on access to loans …</td>
</tr>
<tr>
<td>• … the drivers of commercial performance …</td>
<td>• … the drivers of client emotion and reaction …</td>
</tr>
</tbody>
</table>

The risk challenge of the “management of hope” … what is the ‘tipping point’
Clients show: “I am struggling ... I am trying to deal with it ... I need the right sort of help”

Different Borrowers

Segmentation

Capacity – Need = Product – Service

Risk Management

Operational

Portfolio

Structural

Strategy

Institution

Industry

Stability

Client

Social Impact

Financial

Behaviour

Economy

Market

Client

External

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

- Risk Management
  - Operational
  - Portfolio
  - Structural

- Risk Vulnerability
  - Employment Income
  - Own Business
  - Collateralised Lending
  - Social Attitude

- Financial Capacity
  - Problem Recognition
  - Highly Committed
  - Affordable

- Usage
  - Business
  - Consumption
  - Family Support
  - Development
  - Long-term debt repayment
### 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?  
| | • “The management of hope”  
| 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?  
| Own Business | • Core client segment – what governance and operational focus  
| | • Operational credit management capacity and skills – what process  
| | • ‘Low entry – low exit’ barriers – what client relationship  
| Lending to Consumers | • Food purchase – health – education: what differentiation  
| | • Monthly loan interest cost equivalent in cost of food per person  
| | • Monthly budget monitor and consumer sensitivity  

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