Case Study

Tajikistan: Building a modern credit infrastructure system from scratch requires time and commitment

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Schweizerische Eidgenossenschaft
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Swiss Confederation

Federal Department of Economic Affairs,
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IFC International Finance Corporation
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About IFC

IFC — a member of the World Bank Group — is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2024, IFC committed a record $56 billion to private companies and financial institutions in developing countries, leveraging private sector solutions and mobilizing private capital to create a world free of poverty on a livable planet. For more information, visit www.ifc.org.

About SECO

The State Secretariat for Economic Affairs (SECO) implements Switzerland's economic and trade policy measures for the benefit of developing countries. It coordinates its activities with the Swiss Agency for Development and Cooperation (SDC) and the Peace and Human Rights Division (PHRD) of the FDFA. The three administrative offices implement Switzerland's international cooperation together. For more information, visit www.seco-cooperation.ch

Introduction

From 2009 to 2019, IFC and the Swiss State Secretariat for Economic Affairs, SECO, collaborated to support Tajikistan in developing sustainable credit information sharing systems to increase access to finance for individuals and micro, small and medium enterprises (MSMEs). This project was part of the Global Financial Infrastructure Program, a long running partnership of IFC and SECO to accelerate financial inclusion in emerging markets.

In 2009, when IFC and SECO set out to assist Tajikistan in building a robust modern credit infrastructure, the country faced significant economic challenges. Despite a notable increase in gross domestic product (GDP) following the end of the civil war in 1997, Tajikistan remained the poorest country in Central Asia. A relatively small banking sector did not sufficiently meet the needs of a private sector dominated by MSMEs. Entrepreneurs faced limited access to finance and high interest rates, with most loans secured by traditional collateral such as land and buildings. Financial institutions, for their part, struggled with high rates of non-performing loans (NPLs).

The project, part of IFC's Regional Program for Azerbaijan and Central Asia Financial Infrastructure (ACAFI), aimed to develop modern credit infrastructure in Tajikistan to improve access to finance, promote financial stability, and advance inclusive economic growth. Credit infrastructure consists of a framework of laws and institutions that enable individuals and businesses to secure lending from financial institutions based on their credit histories or movable property such as machinery and accounts receivable as collateral. Modern credit infrastructure supports financial stability by diversifying financial products and services and enhancing credit risk management practices.

Key Achievements:

- By the end of 2023, 4.7 million individuals and MSMEs had received a loan with a total of $1.5 billion in financing.
- Successfully spearheaded legislative reforms that laid the foundation for a modern credit reporting system and collateral registry, significantly expanding access to finance for individuals and MSMEs and strengthening the capabilities of financial institutions to assess and manage credit risk.
- Over 7 million individuals and MSMEs have been recorded in a credit bureau database.
- Modernized credit scoring processes have significantly improved efficiency and reduced operating costs for financial institutions by an estimated $35 million and led to a 25 percent reduction in non-performing loans (NPLs) in the MSME sector.
- More than 412,000 individuals have benefitted from financial literacy consultations, of which more than 200,000 were women.
- Laid the foundation for digitalized processes for credit information sharing and the collateral registry, potentially paving the way for future credit innovation to further enhance access to finance.

By 2019, Tajikistan had successfully established a well-functioning credit bureau and an online collateral registry, which substantially facilitated access to quality credit. Hundreds of thousands of Tajik entrepreneurs had benefited from financial literacy training, empowering them to effectively leverage these new tools to grow their businesses. By the end of 2023, over 7 million individuals and MSMEs had been recorded in a credit bureau database, and 4.7 million had been reported as receiving some type of lending facility with a total of $1.5 billion in financing. Improved credit reporting system oversight and data transparency have contributed to the reduction of system wide NPLs from 56 percent at its peak to 34 percent. Financial institutions have improved their ability to assess risk and control over-indebtedness.

4.7M

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Building Financial Infrastructure from Scratch: A phased approach

ACAFI ran from 2009 to 2019 on a budget of $2.7 million in Tajikistan alone. Through the project, IFC equipped relevant public and private sector entities with the expertise needed to establish modern credit infrastructure in the form of a fully functioning credit bureau and the establishment of the collateral registry. The program pioneered a programmatic approach in three phases that included the passage of enabling legislation, prioritized comprehensive systemic solutions, and provided the required capacity-building to ensure effective utilization of credit bureaus and the collateral registry.

Phase 1: Legislative Framework

The first phase of the program focused on the legislative framework that sets the rules of conduct for the financial sector. The credit reporting system was in a very nascent stage. The project introduced the concept and raised awareness among stakeholders about the importance of financial infrastructure. With project support, the adoption of the Law on Credit Histories in 2009 laid a strong foundation for modern credit reporting systems, ensuring a leading role for private credit bureaus. Subsequently, in 2015, the team helped the National Bank of Tajikistan (NBT) formulate further reforms aimed at achieving full data coverage. The project also launched legislative reforms for Secured Transactions, enabling the unlimited use of movable property as collateral for secured loans and thereby expanding credit opportunities for MSMEs. These reforms led to the adoption of nine legislative acts, finalized in 2019, including the Law on Secured Transactions and the Civil Code.

Phase 2: Building Infrastructure

The second phase of the project focused on the actual creation of a private credit bureau and an online collateral registry. The project team supported the creation of the first private credit bureau by strengthening its management team and then engaging with a range of financial institutions and the regulator to ensure its operational stability. The project team also assisted local shareholders in establishing a partnership with the renowned international private credit bureau firm, CRIF. Consequently, the Credit Information Bureau of Tajikistan (CIBT) was registered as a commercial entity in April 2010 and started operating three years later. In parallel, the project team assisted in the upgrade of the existing paper-based collateral registry to a centralized, digital collateral registry online

Phase 3: Financial Literacy

The third, and final, phase of the project sought to promote the use of the established credit bureau infrastructure by all relevant financial market actors. Since 2014, over 44,325 individuals in Tajikistan underwent financial literacy trainings, and over 412,975 people have benefited from face-to-face financial literacy consultations. Out of these, over 200,000 participants were women. Based on these results, with the project's support, the government of Tajikistan incorporated the financial literacy component into the Strategy of Development of the Republic of Tajikistan through 2030.

Results: Increased Access to Finance and Financial Stability

By supporting the launch of the credit bureau, the project helped over 4.7 million individuals and MSMEs gain access to a total of $1.5 billion in financing by 2023. The credit bureau continues to operate sustainably, with over 7 million individuals and MSMEs listed in its database and handling 4 million enquiries per year. It relies on a network of over 80 data providers, including banks, non-bank financial institutions, microfinance institutions, leasing companies, and mobile network operators, representing significant market coverage.

The bureau has fundamentally reshaped lending processes in financial institutions, offering modern credit assessments and risk management tools based on factual and predictive data. As a result, financial institutions have strengthened their ability to assess risk exposure and control over-indebtedness. This is reflected in a positive trend in non-performing loans (overdue by more than 30 days). As of March 31, 2024[1], this figure stood at 12.7 percent of the total loan portfolio, a significant improvement from 26.4 percent in 2019 and 56 percent in 2016.

A survey conducted by the project across eight major banks revealed that nearly 90 percent of loans now rely on credit bureau data and scoring products. The bureau's automated technology and models have re-engineered loan processing by eliminating paperwork and redundant data entry, shortening turnaround times and increasing accuracy. This has led to reduced operating costs and improved efficiency, with the total time required to collect, analyze, and process borrower information decreased by an average of 1-3 days.

The credit bureau has also catalyzed the emergence of new financial products. For example, Alif Capital, a new microfinance firm, has introduced Sharia-compliant financing through a digital platform. Utilizing credit bureau data, such as credit scores and risk profiles, the firm delivers data-driven, speedy, and automated lending solutions via a mobile app. Potential borrowers can apply for a loan and receive a response within two minutes, while the actual loan processing time ranges from 1 to 24 hours for new customers and 5 to 30 minutes for repeat customers. This contrasts sharply with the previous loan underwriting processes that took several days to weeks. Additionally, several commercial banks have piloted "express lending" products based on credit reports generated by the credit bureau.

The project gave birth to the Association of Credit Information Providers in Eurasia (ACIPE) that strives to strengthen credit reporting practices and cross-border data-sharing to facilitate credit infrastructure development in the region. ACIPE assists in the process of exchanging information about loans and debt obligations in connection with the intensive movement of people and companies in Eurasia and offers an opportunity for members to tap into each other's expertise both from the regulatory and implementation perspectives and share innovative technological solutions and modern approaches to credit reporting.

1 Banking Statistics Bulletin for April, 2024

Impact: Mohirahon Nurmatova Opens a Tailor Shop

Customer credit history inquiries have surged as borrowers have become increasingly aware of the benefits of loan repayment discipline. In some banks, a good credit history qualifies applicants for interest rate discounts of up to 4 percent. There has also been a 20 percent increase in the share of long-term loans, allowing borrowers more time to fulfill their repayment obligations and decreasing borrower default rates.

35-year-old Mohirahon Nurmatova from Goziyon village is among the 412,975 individuals who benefited from the financial literacy training program. Having learned about the program, she enrolled in a free course organized by Arvand, a micro-credit deposit-taking organization and partner of the project. The training gave Mohirahon the skills she needed to manage her finances and save for courses in sewing, which ultimately enabled her to open her own tailor shop. She also successfully applied for a micro loan of approximately $100 that she repaid. Building a good credit history, she was then able to access larger amounts of finance and became a repeat client of the bank as she gradually expanded her business, buying additional sewing machines and hiring women from her village. In an interview with the project's partners, Mohirahon said: "I've always dreamed of starting my own tailor business. Thanks to the financial literacy trainings offered by Arvand, my dream came true." Committed to giving back to her community and sharing her newly gained knowledge, Mohirahon now trains others to become skilled seamstresses. By reaching out to individuals like Mohirahon, the project and its partners continue to advance financial stability, foster a resilient and inclusive financial sector, and promote a strong credit and savings culture in Tajikistan.

Results in numbers

7M

individuals and MSMEs listed in the credit bureau database (2023)

4.7M

loans supported by credit bureau data (2023)

$1.5B

total amount of financing facilitated by the project in five years to 2023

25%

reduction in NPLs in MSME sector for loans based in credit bureau data compared to general rate

$35M

estimate of operational cost savings by financial institutions due to credit bureau data

Next steps

The first phase of the Global Partnership for Financial Infrastructure ran from 2015 to 2021. It is followed by a second phase from 2022 to 2027, with IFC and SECO as founding partners. The second phase of the program focuses on strengthening credit information systems, secured transaction reforms, insolvency and debt resolution, and innovative product development based on big data analytics. It aims to expand responsible access to finance and facilitate financial inclusion for individuals and MSMEs underserved by the market.