



CREDIT GUARANTEE FUND TAJIKISTAN

## **Institutional Profile:**

# **CGFT – Credit Guarantee Fund Tajikistan GmbH**

## **1 Background**

Tajikistan is a low-income developing country and is considered to be the poorest in Central Asia. More than 31.6% of its GDP (2017) is based on remittances from Tajik citizens working abroad, with the majority of Tajiks working from Russia. This creates a generally high dependency on the Russian economy, thus leaving Tajikistan's economy vulnerable to shocks and volatilities. This trend has defined the fragility of the financial sector in Tajikistan and has negatively influenced the development of the small and medium enterprise (SME) sector, which is a source of income for more than 50% of the Tajik domestic labor force.

SMEs in Tajikistan are severely constrained in getting access to formal credit from lending financial institutions due to their elevated levels of actual and perceived risks. The SMEs that do manage to obtain credit, many times face unfavorable loan conditions that are inconsiderate towards their level of maturity and growth potential. Tajik financial institutions are cautious of lending to SMEs because of their low success rates, and conversely, the low success rates can be attributed to the SMEs lack of access to credit. SME owners in Tajikistan have historically remained disadvantaged due to this viscous cycle.

Furthermore, limited access to finance reduces the stabilization role that the SME sector can play in the economy of Tajikistan. Improved access to finance would enable SMEs to expand in turn creating additional job opportunities and facilitating retention of existing employees. In OECD areas 70% of employment is generated by the MSME sector<sup>1</sup>, whereas Tajikistan's private sector as a whole generates only 12% of the total employment<sup>2</sup>.

Since 2015, CGFT has actively intervened to improve access to finance for SMEs by sharing the risk of default with its PFIs using the financial instrument of credit guarantees and complementing it with TA services.

## **2 CGFT – Credit Guarantee Fund Tajikistan GmbH**

CGFT is a Berlin-based company dedicated to improving access to finance for Tajik SMEs by sharing credit risk via credit guarantees and providing technical assistance to Tajik Partner Financial Institutions (PFIs). CGFT became operational in 2015 in the middle of a deep economic

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<sup>1</sup> OECD. (2017). Enhancing the Contributions of SMEs in a Global and Digitalised Economy. Paris. Retrieved from <https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf>

<sup>2</sup> World Bank 2018, Tajikistan Systemic Analysis



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crisis and until now practices the proven secondary business model of ACGF – Afghan Credit Guarantee Foundation, a sister project in Afghanistan.

- **Credit guarantees** provided by CGFT cover a significant share of the default risk of loans provided by Tajik PFIs to local SME clients. In case of a borrower's default, the PFIs recover the value of the guarantee from CGFT. Credit guarantees are an economical and effective tool for enabling Tajik PFIs to provide loans to SMEs in risky lending environments.
- **Technical assistance (TA)** services provided by CGFT are dedicated to strengthening the capacity of Tajik PFIs for SME lending through specific training, support in product development and the overall improvement of risk management processes.

According to this model, CGFT uses credit guarantees as instruments for benefiting borrowers (MSMEs) through intermediary vehicles (PFIs). CGFT issues individual letters of guarantees for loans, which the PFIs provide to MSMEs. The value of eligible loans ranges between USD 2,000 and USD 500,000 or equal value in the Tajik Somoni. Eligible loan purposes are fixed assets and working capital. In case of borrowers' default on the guaranteed loans and after having carried out the contractually agreed upon delinquency management procedures without success, PFIs can claim the guarantee after 180 days past due. CGFT then appraises the guarantee claim and pays out its share in the lost principal in the amount of an agreed percentage of the credit's value. Recoveries collected by the PFIs after the claims pay-out are shared with CGFT. Currently, CGFT has recently started to provide blanket guarantees in addition to individual guarantees.

This model allows CGFT to enable a balance of interests among its target groups, in order to ensure that PFIs secure their loan portfolios and allow borrowers to benefit from easier access to finance. Such a set-up facilitates CGFT in being a reliable partner for its PFIs, with quick and uncomplicated payout mechanisms.

Since the start of its operations in August 2015, the following results were achieved (as per the end of Q2 2019):

- USD 49m amount of guaranteed loans disbursed by PFIs
- USD 19m outstanding guaranteed portfolio
- 25% of guaranteed loans disbursed to women borrowers
- 1.35% (approx.) of Portfolio at Risk (PaR>30) showing the excellent quality of guarantee portfolio
- 1200 MSMEs supported
- 5,800 jobs supported
- Six PFIs – Bank Eskhata, IMON International, AccessBank, MDO Arvand, MDO Humo and the FirstMicroFinanceBank-Tajikistan

In addition to credit guarantees, CGFT provides technical assistance (TA) to its PFIs. TA aims to strengthen SME lending capacities and, in this context, CGFT provides two types of TA services:

- **Specific TA** – tailor-made advisory services designed according to the demands and weaknesses/strengths of each PFI. For example, aspects of risk management, corporate governance, development of new financing products (such as overdraft-facilities) and measures for improving profitability. Under the supervision of CGFT management, these measures are carried out by service providers, consultants and training providers (individuals and companies).
- **Ongoing TA** – improving PFI's capacity for SME lending and its credit guarantee business operations. This includes, but is not limited to; providing consulting services, on-the-job training of credit officers and in-house trainers of the PFIs, hands-on support of PFIs through Tajik Credit Support Partner (TCSP) trainers in the improvement of credit processes, systemic review of environmental and social aspects, improvement of risk evaluations and delinquency management.

Through its TA services, as per the end of Q2 2019, CGFT has trained a total of 750+ Tajik PFI staff in workshops/presentations; 550+ loan officers and 20+ TCSP staff members.

### 3 Organizational Set-Up

On an international level, CGFT is associated with LANDT GmbH (“LANDT”), a Berlin- based company, with over 60 international staff members, focused on the set-up and operating credit guarantee funds as well as providing TA. Functioning under the framework of LANDT allows CGFT to benefit from synergies with ACGF – Afghan Credit Guarantee Foundation as well as other companies of LANDT.

CGFT is managed by LANDT. The managers of CGFT, LANDT and ACGF are Bernd Leidner and Dirk Josef Thiesen, who jointly have more than 50 years of experience working in finance sectors across more than 15 countries.

LANDT GmbH owns Tajik Credit Support Partner LLC (TCSP), the local consulting company to LANDT. TCSP has 18 employees and two offices – in Dushanbe and Khujand.

CGFT is sponsored by three majority European development finance institutions:

- DEG - Deutsche Investitions- und Entwicklungsgesellschaft GmbH (investment of EUR 5 m), a member of KfW Group
- OeEB - Oesterreichische Entwicklungsbank AG (investment of EUR 5 m)
- FMO - Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (investment of EUR 2.5 m).

The three investors meet biannually and decide on CGFT's most important strategic matters. In addition, the three investors also provide funding for the TA facility of approximately EUR 1m.



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## 4 Outlook

Despite the challenging political and economic environment of Tajikistan, CGFT strives drive further sustainable economic growth.

CGFT is continuously pursuing opportunities for further enhancement of its approaches to risk mitigation, such as exploring opportunities to develop and establish further partnerships with new PFIs in order to facilitate expansion and diversification of its portfolio and increase its developmental impact. In addition, CGFT aims to develop new products in order to better reach underserved target groups.

The growth of CGFT correlates with increased benefits for its PFIs. CGFT requires high standards for its operations and reporting from its PFIs, hence CGFT closely participates in supporting its PFIs to reach these high standards through strategic TA activities. In addition, CGFT encourages PFIs to introduce and advance unique needs for capacity development through specific areas of TA, which will be co-funded by the PFIs themselves. These measures are aimed at securing CGFT's long-term sustainability.