

## Developing Microfinance in Central Asia

### Context

Microcredit – the business of small-scale lending – has become a widespread commercial activity in Central Asia. This commercial character, however, does not reflect its original intent as a socially responsive counterweight to commercial banking, offering economically active poor people sustainable access to simple, affordable and fair financial services in general.

The regional GIZ programme on Support to Microfinance in Central Asia aims to improve the environment for the growth of microfinance, while contributing to the broader welfare of individuals and communities. This means enabling state regulation, while strengthening private actors in an increasingly diversified financial services industry beyond microcredit alone and beyond urban areas – unmet demands in all of Central Asia. It also means increasing customer information about financial services and trust in microfinance institutions, which requires a developed sector infrastructure and well-qualified staff. Beyond a few prosperous institutions with some happy clients, a well-developed microfinance sector depends on the sector's environment – a reason why this GIZ programme came into being.

**Commissioning party:** German Federal Ministry of Economic Cooperation and Development (BMZ)

**Main partners:** Central banks, industry associations

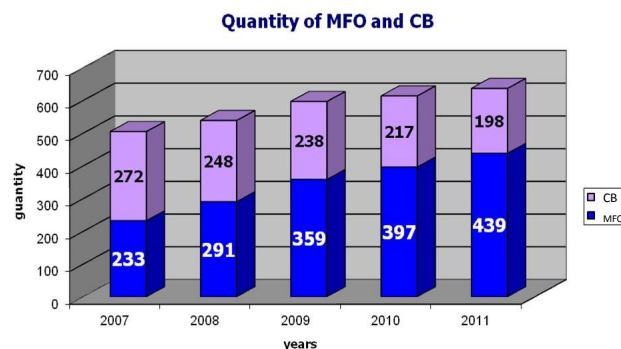
**Countries:** Kyrgyzstan, Tajikistan, Uzbekistan

**Duration:** 2010-2013

**Budget:** 2 500,0 Millionen €

### Objectives

Recent financial crises, which left some microfinance clients unable to serve their soaring debt, have demonstrated the world-wide need of microfinance actors, central banks and regulators to survey credit risks and to inform clients fully about financial services and risks. The programme cooperates with central banks and industry associations to promote risk-based surveillance, improve transparency and fair practices in the sector as well as client information and protection.



Tendency of development of MFO in Kyrgyzstan

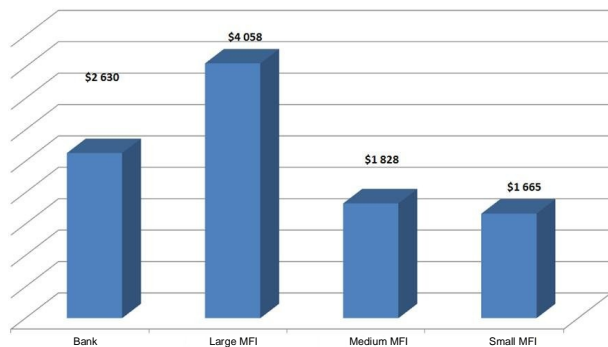
The sector needs to adapt to growing demand for financial services beyond simple loans. The programme therefore aims to build up the capacity of the emerging industry associations to provide consulting, promote new products and services and become more sustainable. Further sector infrastructure is needed; it does not seem to appear on its own.

Microfinance appeared in Central Asia only relatively recently, and practitioners and policy makers can profit from cooperation with interlocutors from Asia, the Americas and Europe, where similar developments have already taken place.

Commission by:

Implemented by:

The different trajectories that the countries' financial sectors have taken since independence now allow them to learn from each other - the necessary know-how is often not far away. At the same time, the existing legal frameworks, organizational workflows and – still – the use of the Russian language are similar between the countries. The programme therefore supports cooperation schemes for new products and policies in Kyrgyzstan, Tajikistan and Uzbekistan.



The average size of loans, allocated by microfinance institutions of Tajikistan in fourth quarter of 2011

## Measures

One line of work of the GIZ programme focuses on strengthening the regulator by enabling central banks to regulate, supervise and strategically guide the sector. In Tajikistan, reporting to the Central Bank is simplified and a regulatory framework for new services is being introduced. In Uzbekistan, this reporting is now operated through an electronic data line, and the programme provides training for central bank inspectors in recent methods of financial surveillance. Kyrgyzstan recently adopted a National Strategy for the Development of Microfinance, where the programme provides contributions to policy formulation and implementation, based on broad participation from public and private, Kyrgyz and international contributors.

A second line of work that the programme is pursuing is the support of industry associations within the microfinance

sector, strengthening their capacity to provide services for their local markets. In Kyrgyzstan, the programme supports microfinance associations to access funding sources from local commercial banks. In Uzbekistan, the programme supports local initiatives for affordable banking software and helps to build up training capacity for staff of microfinance institutions. In all three countries, the programme is active to strengthen credit bureaus and credit unions. Finally, the programme works towards the infrastructure for mobile-phone-based banking operations as new channels for the delivery of financial services.

## Results to date

Tajikistan is now a pilot country for developing mobile banking, since 92% of its citizens of Tajikistan use mobile phones, but only a small fraction has access to financial services. Clients in Tajikistan are especially interested in financial services in line with Islamic principles. Industry associations and the Central Bank are cooperating much more closely, supporting the government for a better financial infrastructure.

Regarding regional collaboration, Tajikistan is considering the introduction of credit unions, based on Kyrgyzstan's experience where credit unions have been well established for more than a decade. Based on this, credit unions have become important parts of the financial infrastructure in all three countries. At the same time, Tajikistan shows good examples of commercial banks active in the microfinance sector, which, in return, is of interest to Kyrgyzstan. All of these cases are good examples for knowledge transfer and replication between countries.

Finally, the programme has established successful and fruitful examples of cooperation with national and international agencies, sharing the same goals - namely, increased access to financial services for those segments of the population in Central Asia that are active economically, but, as of now, not yet included financially in the countries' economies.

## Imprint

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