



Interim Evaluation 2009 – Brief Report

Support to Microfinance Services in Rural Areas, Tajikistan

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This expert report was compiled by independent external experts.
It is solely a reflection of their opinions and assessments.

Eschborn and Bonn, May 2010

Tabular overview

The evaluation mission

Evaluation period	September 2009
Evaluating institute / consulting firm	Intercooperation
Evaluation team	Dr. Isabelle Dauner, International Team Leader Caroline Schlauffer, International Junior Consultant Alexey Fedorov, National Consultant

The development measure of GTZ

Title of the GTZ development measure according to the offer	Support of Microfinance Services in Rural Areas
Number of the GTZ development measure	2008.2168.6 2003.2207.3
Overall term broken down by phases	9 years Phase 1: 01/2004 – 12/2008 Phase 2: 01/2009 – 12/2011, extension until 12/2012
Total costs	6.000.000 EUR
Overall objective of the GTZ development measure as per the offer, for ongoing development measures also the objective for the current phase	Overall objective and 2 nd phase objective: The legal and institutional framework conditions for MFOs in Tajikistan have improved Phase 1 objective: The newly created microfinance association of Tajikistan is a demand oriented, well performing service provider for the microfinance sector
Lead executing agencies	Ministry of Economic Development and Trade National Bank of Tajikistan
Implementing organisations (in the partner country)	Association of Micro Finance Organisations of Tajikistan (AMFOT)
Other participating development organisations	DED (German Development Service)
Target groups as per the offer	Micro, small and medium entrepreneurs in urban and rural regions of Tajikistan and the agricultural sector.

The development measure of DED

Title of the DED development measure	Promotion of the microfinance sector in Tajikistan
Number of the DED development measure	DED EM TJK 1 - 3
Overall term	2006 - 2011
Total costs	520.200 EUR 62 months international senior experts 9.5 months international junior expert 74 months national experts for AMFOT
Overall objective of the DED development measure(s) as per offer	The geographical expansion of AMFOT in three regions has been successful and the internal management has been improved
Lead executing agency (in cooperative projects/programmes with the GTZ, see above)	Ministry of Economic Development and Trade National Bank of Tajikistan
Partner organisation(s)	Association of Micro Finance Organisations of Tajikistan (AMFOT), MFO (Microfinance Organisation) Oxus, MFO Haqiq
Other participating development organisations	GTZ
Target groups as per the offer	Low income population who has not access to financial services from the banking sector.

The rating

Overall rating <i>On a scale of 1 (very good, significantly better than expected) to 6 (the project/program is useless, or the situation has deteriorated on balance)</i>	2
Individual rating	Relevance: 1; Effectiveness:2; Impact: 2; Efficiency: 3; Sustainability: 3

The present report contains the results of the interim evaluation of the project “Support to Microfinance Services in Rural Areas of Tajikistan”. The evaluation was conducted by a team of two international experts, Isabelle Dauner and Caroline Schlauffer from Intercooperation (Swiss Foundation for International Development) and one national consultant, Mr. Alexey Fedorov. From 17 to 30 September 2009, the evaluators performed the field mission in Tajikistan during which they interviewed 59 representatives of the microfinance sector and the project. The results of the evaluation are based on these interviews, for which structured questionnaires were developed, as well as data and studies on the project and the microfinance sector.

The **project “Support to Microfinance Services in Rural Areas of Tajikistan”** was started in 2004 by GTZ (*Deutsche Gesellschaft für Technische Zusammenarbeit*) for a period of eight years and a budget of 6 million EUR. By the time of the evaluation, the project was in its second phase (01/2009-12/2011). Since 2006, DED (German Development Service) collaborates with GTZ for the promotion of the microfinance sector in Tajikistan with a budget of approximately 520'000 EUR until 12/2011. GTZ's overall objective is to improve the legal and institutional framework conditions for MFOs in Tajikistan. DED aims at promoting the geographical expansion of the national association of microfinance organisations and improving the internal management of the association.

Between 2004 and 2008, the **real GDP** (Gross Domestic Product) of Tajikistan grew by 8% on average. Despite this steady growth, GDP per capita is still the lowest among the former Soviet Republics and the economy of the country is very weak. GDP growth has mainly been driven by internal consumption supported by remittances of migrants working primarily in Russia and Kazakhstan. The Government has taken major steps to establish a policy framework for achieving the Millennium Development Goals (MDGs). From 1997 to 2007 the percentage of people living below the poverty line of 2.15 USD a day decreased from 81% to approximately 60%. Nevertheless, Tajikistan is still ranked the poorest country among all former Soviet Republics.

Poverty varies substantially across regions of Tajikistan and is the highest in rural areas. Those regions with better infrastructure and easier access to markets, in particular around the capital Dushanbe, have higher per capita income and better poverty indices. On the other hand, areas with harsh climate and poor infrastructure, like the Gorno-Badakhshan Autonomous Province (GBAO), have higher poverty rates and lower economic growth.

Microfinance activities were initiated in Tajikistan in the early 1990's by international donors and NGOs (Non Governmental Organisations) as microcredit components of

humanitarian aid or rural development programmes. The microfinance law introduced by the Republic of Tajikistan in 2004 obliged all microcredit providers to transform into formal Microfinance Organisations (MFOs). As of September 2009, Tajikistan has 106 MFOs, of which 19 are Microdeposit Organisations (commercial companies which can take deposits), 44 are Microloan Organisations (commercial microcredit companies not allowed to take deposits) and 43 are Microloan Funds (non-commercial microcredit institutions). The microfinance sector has a total portfolio (excluding banks) of approximately 48.6 million EUR and 150'000 borrowers (2% of the population), and is thus still relatively small compared to international standards.

The growth of the sector was supported by a steady improvement of the institutional and legal framework since 2004, donor support and the growth of the global microfinance industry. The majority of MFOs are united in the Association of Microfinance Organisations of Tajikistan (AMFOT) which was established in 2001 as a national forum for cooperation among MFOs and registered as an association in January 2004.

Besides GTZ and DED, other donors supporting the microfinance sector include the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the German Development Bank (KfW), the Aga Khan Foundation (AKF), the United States Agency for International Development (USAID), the Department for International Development (DFID) and the United Nations Development Program (UNDP). Many donors, such as EBRD, KfW, ADB and AKF focus their financial and technical support on banks (downscaling) or MFOs, and assist them to target micro enterprises or low income households. USAID finances the Central Asian Microfinance Alliance (CAMFA), a regional project based in Bishkek.

Many MFOs have in the context of the current financial and economic crisis experienced an increase in arrears in addition to the losses occurred through the 30% devaluation of the Tajik currency in the first trimester of 2009. The increase in arrears is mainly due to the decline in the inflow of remittances, which hampers the repayment capacity of many clients and reduces internal demand for goods and services. To cover the risk of devaluation most MFOs have indexed loans in their contracts with clients. Although indexation is not directly prohibited, the Tajik legislation is not clear on the issue and the room for interpretation has led to some insecurity among microfinance actors in recent months.

GTZ's development measure came at the right moment to improve the legal and institutional framework conditions for MFOs in Tajikistan. At the onset of the development measure in 2004, licensing and supervising MFOs was a new field of work for the National Bank of Tajikistan (NBT) and capacities inside the regulatory and supervisory authorities

were not sufficient. Transforming MFOs had an urgent need of support for improving their internal management capacities, developing new products and strengthening the lobbying capacities of AMFOT. GTZ took the right decision to intervene at all three levels of the microfinance sector: at the micro level, with technical assistance, grants and loans to MFOs; at the meso level with training and grants to AMFOT for developing the association's services and capacities; at the macro level, with technical assistance to develop the regulatory and supervisory capacities of the National Bank.

DED's contribution to the development measure focused mainly on the meso level, i.e. the geographical expansion of AMFOT in three regions: Khatlon, Sugd and GBAO. Due to its historical development, the microfinance sector of Tajikistan is relatively active in rural areas, some of which are barely accessible during the whole year. Therefore, DED's support to develop the offer of AMFOT services in a decentralised manner was very much welcome by the concerned MFOs. DED has also intervened at the micro level, financing two international experts for two MFOs between 2006 and 2009.

Since 2006, both DED and GTZ have provided financial and technical support to AMFOT, but only in 2008 they presented a common proposal to the BMZ (German Federal Ministry for Economic Cooperation and Development) together with KfW. In this common proposal, however, GTZ and DED presented separate result chains, objectives and indicators. The evaluators consider that the **development measure concepts** of DED and GTZ complement each other at the meso (support to the microfinance association) and micro levels (support to individual MFOs). The support at the macro level (NBT and MET, Ministry of Economic Development and Trade) is done exclusively by GTZ.

The **results chain** can be summarised as follows: the provision of advice, training and lending to the microfinance sector at micro and meso levels and the provision of advice at the macro level (inputs) contribute to improve the management instruments of MFOs and the training and lobbying capacities of AMFOT staff, as well as to set up regional offices. The legislation and supervision for the microfinance sector are being adapted by the NBT (outputs). The increased capacities of all actors involved in the microfinance market are transformed into action: the supported MFOs pilot test and develop new financial products, and increase the volume and quality of their portfolio. These pilot tests with selected MFOs, together with the training provided to the whole sector, contribute to professionalise, transform and expand the microfinance sector. MFOs are now well organised and represented by AMFOT, which is an institutionally strong provider of support services (information, training, lobbying) to MFOs in the main regions of the country. GTZ's fund to provide loans to MFOs is institutionalised into the first Tajik APEX (refinancing unit), Bovari

va Hamkori. The NBT and the donor community consider AMFOT as the institution which represents the microfinance sector and take its advice and recommendations seriously (use of outputs). AMFOT is a demand oriented and professional service provider for the sector (GTZ's objective phase 1). It has a sound internal management structure, representations in three regions of the country and, together with MFOs and the NBT, contributes to improve the legal and institutional framework conditions for MFOs (GTZ and DED's overall objectives). If MFOs operate in a conducive institutional and legal environment, and if the overall performance of the economy is good, MFOs in Tajikistan will expand their financial services. High competition in urban centres and donor support should promote the expansion of microfinance into remote rural and mountainous regions. It is internationally recognised and shown through impact studies mandated by GTZ that increased access to financial services improves the well being of households (impact).

The evaluators rate the **relevance** of the development measures as **very good (level 1)**. First, GTZ's overall objective to improve the legal framework conditions for MFOs matches with the observation that access to financial services is a serious constraint to the economic development of the country and addressed in the Poverty Reduction Strategy Paper (PRSP) of 2002. In the PRSP of 2007, the simplification of the licensing of microfinance organisations and financial institutions is specifically mentioned as a necessary measure.

Second, the development measures correspond to international good practice in microfinance, promoted by the Consultative Group to Assist the Poor (CGAP), and to GTZ's approach in financial system development and microfinance according to which donors should intervene at all three levels of the financial sector to create inclusive financial systems. The support provided by DED complements GTZ's support on the micro and meso levels and is in line with the DED Performances on improved access to microfinance services that identifies weak management structures of MFOs and lack of access to information and re-financing as the key issues to be solved.

Last but not least, the development measures are in line with the BMZ sector concept on financial system development by focusing on strengthening capacities for service providers to MFOs and on improving the legal framework conditions and the supervision and regulation of MFOs. In terms of regional BMZ strategies, the support to economic reforms and to the development of a market economy continues to be a priority area for Central Asia.

The evaluators rate the **effectiveness** of the development measures as **good (level 2)**. For the joint development measures, out of the 12 indicators set at the level of overall objectives and first phase objectives, 4 have been reached so far, 6 are likely to be reached and 2 are unlikely to be reached by the end of the development measures (see annexe). GTZ's overall

objective according to which “the legal and institutional framework conditions for MFOs in Tajikistan have been improved” is on the good path to being reached by the end of 2011, provided that the political willingness to promote microfinance remains. Currently, 58% of AMFOT’s member MFOs considers the training and consultancy offer for MFOs in Tajikistan as good in qualitative and quantitative terms, against a target of 80%. 62% of member MFOs considers that their interests are well represented by AMFOT, against a target of 80%. Still 55% of MFOs consider that legal problems hinder a satisfactory development of their financial results, compared to a target of less than 20% at the end of 2011.

“The newly created microfinance association of Tajikistan is a demand oriented, well performing service provider for the microfinance sector” was GTZ’s objective for the first phase. The results of the evaluation confirm that this objective has been almost reached. Interviewed member MFOs are steadily demanding advice and information to AMFOT, on legal issues, clients on the black list and training offers. The GTZ and DED projects, through AMFOT, were also effective in helping MFOs to transform from microcredit components into licensed MFOs. Nevertheless, the projects have failed to contribute to an increase of members’ contributions to cover AMFOT’s operational expenses, maintaining a high dependence of the association on donor funding.

For DED, the project aims at successfully expand AMFOT in three regions and improving the internal management of the association. Out of the six indicators for this objective, two have reached their target, two are on the way to reach them and two are unlikely to reach them by the end of 2011. The total number of offices (branches, sub-offices, outlets) of MFOs has increased by 10% in 2007 and 15.4% in 2008, compared to the target of 15% increase in “remote mountainous regions” on average during the project period. While the term “remote mountainous regions” was not understood the same by all interviewees, a majority of MFOs judge that the coverage of remote and mountainous regions with microfinance services is good in Tajikistan. 79% of interviewed MFOs consider that AMFOT’s training and education offer is adapted to the needs of their institution, against a target of 80%.

The two indicators which are on a good way to reach their target refer to the increase in portfolio in the microfinance sector and to the creation of the APEX institution. Since 02/2005, the total portfolio of AMFOT member MFOs has steadily increased by 100% per year on average. This trend might witness a slowdown in the short term due to the economic crisis that hits the country and affects the portfolio quality of MFOs. Nevertheless, most MFOs should return to positive portfolio growth after the crisis. The APEX Bovari va Hamkori has been created at the beginning of 2009 and currently refinances 12% of the medium and small MFOs against a target of 15% by the end of 2010.

Finally, the two indicators for DED's objective, which will not be reached, refer first to AMFOT's capacity to cover its costs with its own generated income and the decrease in the interest rate of credits for end borrowers. In 09/2009, the evaluators estimated that AMFOT could cover only 13% of its expenditures with income from membership fees and service payments, against a target of 150%. Two years before the end of the project, this target regarding AMFOT's financial self sufficiency is far from being reached. The last indicator of DED's objective has a target of maintaining the interest rate for MFO clients at the level of 01/2005. Proxy indicators for the interest rate show that the effective interest rate has steadily increased since then, which is not so much a surprise in a context of transformation and institutional development of the microfinance sector. This trend, however, might reverse with the economic crisis in the short term and increased competition in the medium term.

The evaluating team rates the **impact** of the development measure as **good (level 2)**. DED's and GTZ's joint support to the microfinance sector in Tajikistan has undoubtedly contributed to the overarching development goal of increasing access to financial services in rural areas. In this achievement, DED and GTZ have been complemented by contributions from the donor community and the efforts of the MFOs and the Government. Credit impact studies mandated every year by GTZ have shown direct links between access to credit, on one hand, and higher business growth and improved housing conditions, on the other hand.

Macroeconomic indicators and data on MDGs and poverty support the indication that the livelihoods of the rural population in general has improved, because they demonstrate that Tajikistan has experienced constant economic growth and a decrease in poverty since 1997.

While the Tajik microfinance sector has without doubt become more professional and performing, international good practice in social performance monitoring and client protection are not yet implemented by the majority of MFOs in Tajikistan. AMFOT could play a more active role in promoting social performance reporting and client protection measures.

The evaluating team rates the **efficiency** of the development measure as **satisfactory (level 3)**. The relationship between the project's inputs (technical assistance and grants) and outputs (advice, training, capacity building and regional expansion of AMFOT, creation and dissemination of information, conferences, study tour, working groups, APEX Bovari va Hamkori) show a very reasonable balance, also considering the substantial results achieved. Compared to other projects with similar financial volumes (EBRD, KfW, ADB, DFID) which target individual MFOs or banks, the evaluators conclude that the leverage of GTZ's and DED's support to the sector has been substantial.

Nevertheless, of GTZ's total expenses during the evaluated period, only 36% have been financial contributions to partners. 64% of expenses of the project are used to pay the staff and running the office of the project executing unit. This is partly justified by the fact that GTZ's staff provides consultancy and training services. Nevertheless, the consultants consider that these tasks should be outsourced stepwise to Tajik institutions until the end of the project and that GTZ should shift from an implementing to a facilitating role.

The coordination between donors active in the microfinance sector of Tajikistan is weak. Only recently, AMFOT has mobilised donors to participate in meetings with the NBT and strengthen herewith the lobbying in favour of the sector. Also the coordination between GTZ's microfinance project and GTZ's Small Enterprise (SME) Promotion project has been almost nonexistent up to date. The evaluators observed some confusion about the understanding of KfW's role in the development measures. GTZ and Bovari had the expectation that KfW would become a shareholder of Bovari, although the funds under consideration belong to the government of Tajikistan.

The evaluating team rates the **sustainability** of the development measures as **satisfactory (level 3)**. This rating is mostly related to the very low level of self sustainability of the projects' main implementing partner, AMFOT, after five years of GTZ's constant and increasing direct support from EUR 34'325 in 2005 to EUR 148'660 in 2008 plus the provision of training to AMFOT members and DED's support for the regional expansion.

This rather negative picture is balanced by a high level of sustainability of GTZ's intervention at the micro level. Beneficiary MFOs all agreed that GTZ's technical assistance, grants and loans for the development and piloting of new products has had long lasting effects on their portfolio and institutional capacity. Also DED's support at the micro level, though limited in time, has received positive rating as to its positive effects on the MFOs internal management.

For the provision of technical assistance and training, the microfinance sector is very dependent on GTZ's project staff. Nowadays, it is very difficult to find qualified national consultants which are not employed by GTZ or any donor funded project. The offer of independent consulting services for microfinance institutions in the country is almost inexistent.

In summary, the project has shown good results so far. The **overall rating of GTZ's and DED's development measures is good**.

Based on their conclusions, the evaluators **recommend the BMZ** that in development measures where three German organisations support the same sector with funds from the BMZ, the full potential of cooperation between DED, GTZ and KfW has to be used and

coordination ensured from the beginning. The evaluators also recommend the BMZ to clearly define a phasing out strategy in their negotiations with local implementing partners. Finally, the BMZ should motivate GTZ to work with leaner project structures and put more emphasis on the capacity development of local partner organisations.

The evaluators thus **recommend GTZ's project unit** to outsource the training and advisory services provided by its staff to AMFOT or independent consultants. Slowly, GTZ should become a client of AMFOT, asking for its training services and facilitating access to these training services instead of implementing them. The studies on credit impact and AMFOT member satisfaction should be performed in collaboration with national consultants, in order to develop their research capacities, and translated into the local language.

Evaluators **recommend DED** to provide a clear message to AMFOT about the termination of its support. In the remaining time of the project, both DED and GTZ should reinforce AMFOT's lobbying capacities with the contribution of a lobbying expert. Evaluators also recommend providing an international expert on microfinance associations in order to support AMFOT in its transition to a financially sustainable institution. The evaluators are of the opinion that AMFOT could self-sustain its lobbying and information services with member contributions. Nevertheless, for the provision of training, alliances should be sought with other donors and service providers. At the macro level, GTZ should make sure to coordinate well its support to the NBT with GTZ's Regional Program on Support to Microfinance in Central Asia and with other potential donors.

Although the communication between GTZ, DED and AMFOT is frequent and transparent, it only takes place bilaterally. The evaluators recommend that all three institutions should come together for a new strategic planning meeting to re-define and harmonise the objectives and indicators of the development measures and clarify responsibilities

Finally, the evaluators **recommend AMFOT** to clearly define its priorities, as to which services it could provide and with which decentralised structure, and develop its business model accordingly. For the provision of training, AMFOT should partner with a strong international organisation in order to ensure a diversified and high quality offer. Evaluators also recommend AMFOT to steadily improve the access of MFOs to good practice documents and case studies in Russian and Tajik. Finally, AMFOT should become a strong awareness builder and promoter of international good practice like the use of social performance monitoring by MFOs, the implementation of client protection principles and the reporting on the MixMarket.

