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Financial inclusion, regulation, financial literacy, and financial education in Tajikistan

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ADB Working Paper Series

**FINANCIAL INCLUSION, REGULATION,
FINANCIAL LITERACY, AND FINANCIAL
EDUCATION IN TAJIKISTAN**

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Abstract

This paper provides an analysis of financial inclusion, literacy, and education issues in the Republic of Tajikistan. It discusses the recent progress in financial inclusion and the sector's response to the major external shock associated with the sharp fall in Tajik labor migrants' remittances. The policies dealing with different aspects of financial inclusion are analyzed with a focus on the regulatory framework, penetration of new financial technologies, and the existing barriers to inclusion. The paper provides a set of recommendations for improving the situation with financial inclusion and financial literacy in the country.

Keywords: financial inclusion, financial literacy and education, Tajikistan

JEL Classification: G21, G28, O16

Abbreviations

ADB	Asian Development Bank
AMFOT	Association of Microfinance Organizations of Tajikistan
ASPRT	Agency on Statistics under the President of the Republic of Tajikistan
ATM	automated teller machine
CIBT	Credit Information Bureau Tajikistan
CJSC	closed joint-stock company
DIF	deposit insurance fund
EBRD	European Bank for Reconstruction and Development
GDP	gross domestic product
GNI	gross national income
IFC	International Finance Corporation
IMF	International Monetary Fund
LiT	Life in Transition III
MCF	microcredit fund
MCO	microcredit organization
MDO	microcredit deposit organization
MFI	microfinance institution
MNO	mobile network operator
NBT	National Bank of Tajikistan
NDS	National Development Strategy of Tajikistan – 2030
NPS	national payment system
OECD	Organisation for Economic Co-operation and Development
OJSC	open joint-stock company
P2B	person-to-business
P2P	peer-to-peer
PFI	partner financial institution
POS	point of sale (terminal)
PPP	purchasing power parity
PSP	payment service provider
RT	Republic of Tajikistan
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
SSB	State Savings Bank
TJS	Tajik somoni
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WDI	World Development Indicators

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1. INTRODUCTION

This paper has been prepared in the framework of the Asian Development Bank Institute study on financial inclusion in the countries of Central Asia and the South Caucasus. It covers topics related to financial inclusion and associated matters in the Republic of Tajikistan.

The paper is organized in the following way. Chapter 2 provides a brief overview of the financial system of Tajikistan. Chapter 3 describes the financial inclusion status of individuals and SMEs. Chapter 4 discusses the key barriers to financial inclusion that exist in Tajikistan. Chapter 5 briefly describes the financial sector's regulatory framework in the country. Chapters 6 and 7 analyze the government policies and financial sector stakeholders' activities aimed at promoting financial inclusion and financial education. Chapter 8 summarizes the key findings and provides recommendations for the development of financial inclusion.

The paper expresses the views and opinions of its authors only and does not reflect the position of the Asian Development Bank Institute, the University of Central Asia, or any other organizations.

2. OVERVIEW OF FINANCIAL SYSTEM

2.1 The Economy

The Republic of Tajikistan has a territorial area of 141,400 km² and a population of 8.7 million (2016). The country's GDP is \$7.0 billion (at the current exchange rate) and GDP per capita is \$796 (both values for 2016). In PPP terms, GDP per capita is 2,980 international dollars and GNI per capita is 3,500 international dollars (2016). The significant difference between GDP and GNI values is related to the fact that Tajikistan is one of the most remittance-dependent countries in the world: For several years it was number one in the world in terms of remittances-to-GDP ratio (last time in 2014), but in 2016 it slipped to fourth position due to the decline in remittances from the crisis-affected Russian Federation.

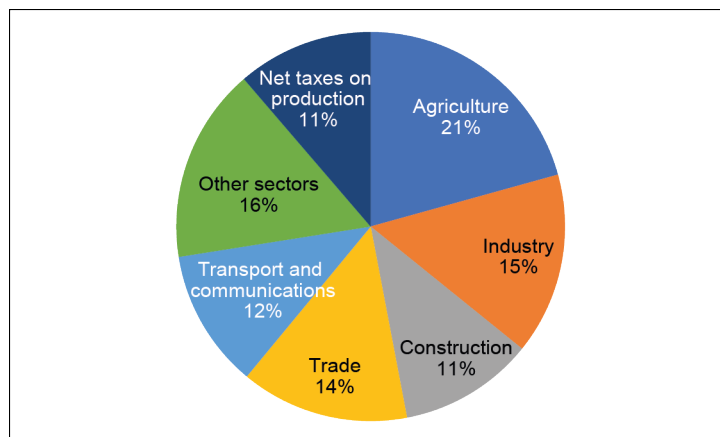
The fall in international energy prices that caused the crisis in the Russian Federation and some other countries in the region had a major spillover effect on the economy and the financial sector of Tajikistan. Remittances of labor migrants to Tajikistan fell from \$3.7 billion in 2013 and \$3.4 billion in 2014 to \$2.3 billion in 2015 and \$1.9 billion in 2016 (half the 2013 level; source: World Bank's World Development Indicators). This required a major devaluation of the Tajik currency, the somoni (TJS), from 4.77 TJS/US dollar at the end of 2013 to 7.87 TJS/US dollar at the end of 2016. This created serious challenges for all financial and nonfinancial institutions, which had a mismatch between assets and liabilities denominated in national and foreign currencies.

The key sectors of the economy of Tajikistan are agriculture and industry (of which a large part is just one enterprise – the aluminum melter Talco); construction and mostly nontradable services are also large sectors of the economy (Figure 1). A very large part of the economy is informal (especially agriculture, retail trade, and consumer services) and is based on cash settlements. This economic structure, of course, has major implications for financial sector development and objectively limits its depth and the pace of development. As already mentioned above, Tajikistan is a labor-migrant-sending country; the total number of labor migrants is not known, but available

estimates have in the order of 1 million people (\pm several hundred thousand) or some 30–40 % of the country's total labor force.

The relatively low level of GDP per capita, with the population having little ability to save, results in a rather small national savings rate of 11.4% of GDP (2013, source: WDI) – perhaps the lowest in the region of Central Asia and the South Caucasus.

Figure 1: GDP Structure by Sector, 2016



Source: ASPRT.

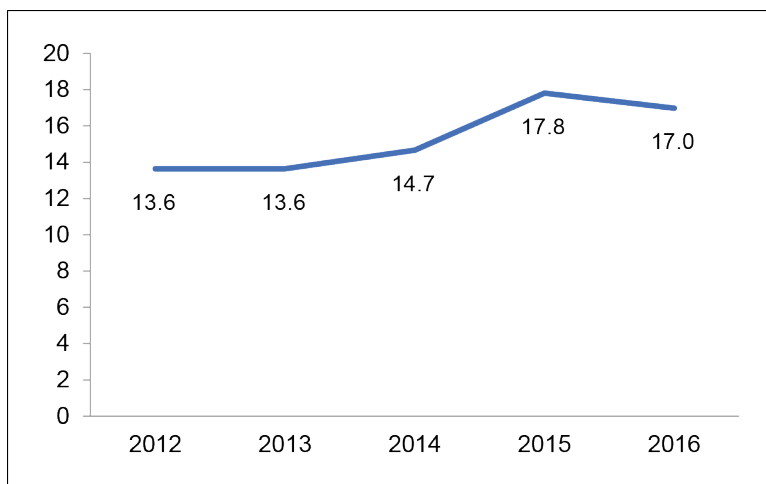
2.2 Key Financial Development Indicators

The credit system of Tajikistan comprises the National Bank of Tajikistan (NBT, the regulatory and supervisory body), 16 commercial banks, and 80 microfinance organizations (as of 30 June 2017, source: NBT). Of these banks, one belongs to the state, five are domestic private, and 10 have foreign participation in the statutory capital. The microfinance institutions include 34 microcredit deposit organizations (MDOs), 13 microcredit organizations (MCOs), and 33 microcredit funds (MCFs).

The commercial banks have 274 branches (compared to 355 at the end of 2015) and 1,122 banking service centers. Until the end of 2015, there were also currency exchange points and money transfer points. In December 2015, the Board of the National Bank of Tajikistan issued instructions on the procedure for carrying out foreign currency transactions, which required closure of all currency-exchange points in the country. All foreign currency transactions, including currency exchange, must be carried out at banking service centers, branches of banks in the regions, and head offices of lending agencies. The NBT ordered the closure of private currency-exchange points on the grounds that some employees of currency-exchange points overvalued foreign currency.

The level of deposits in the financial system of Tajikistan is relatively low; it had been slowly growing until 2015 (Figure 2), but had somewhat declined in 2016. About two thirds of these deposits are denominated in foreign currency, and 96% are kept in commercial banks; some 60% of them belong to individuals, with the rest being owned by legal entities. The dollarization of deposits is gradually declining – from 68% of total deposits in 2013 to 62% in 2016 (source: NBT).

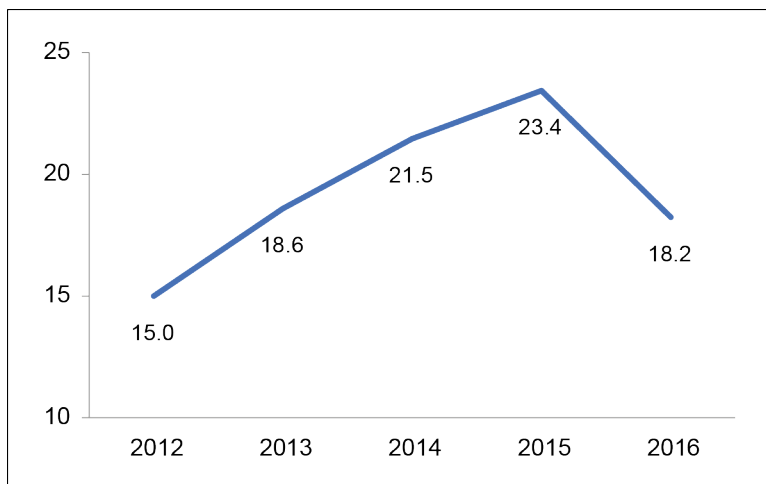
Figure 2: Deposits, % GDP



Source: NBT.

Similar to deposits, the amount of loans issued by commercial banks was growing until 2015, but it declined in 2016 (Figure 3). This dynamic of both deposits and loans is related to the negative shock affecting the financial system as a result of the fall in remittances and associated devaluation of the Tajik somoni.

Figure 3: Loans, % GDP



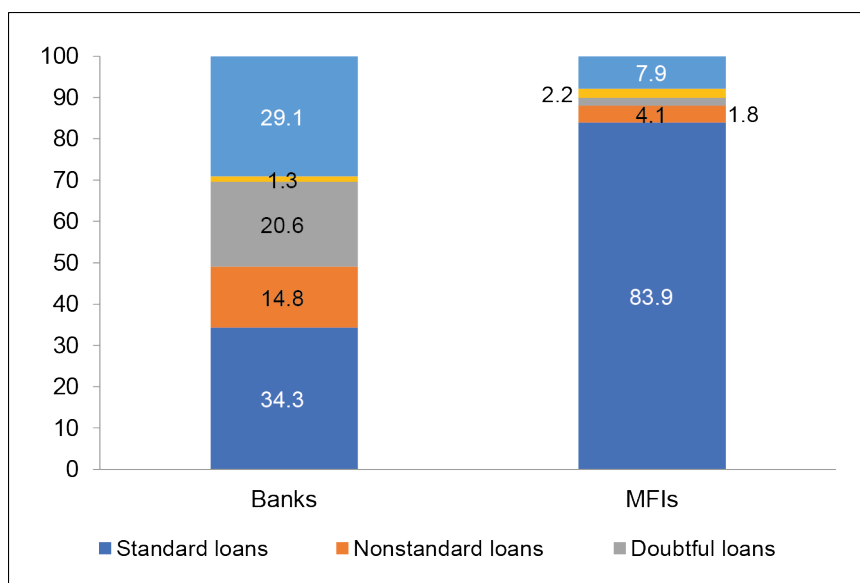
Source: NBT.

The loans are mostly denominated in foreign currency (62% in 2016). The role of microfinance organizations in credit activity is higher than in deposits (17% of the total amount of loans vs. 4% of the total amount of deposits). The main types of borrowers are private enterprises, individual entrepreneurs, and individuals; however, in 2016 their joint share in total loan amount contracted, so the share of loans to state-owned enterprises somewhat increased (from 14% in 2015 to 17% in 2016). The key sector of the economy receiving loans is industry (27% of total amount of loans), with agriculture, construction, foreign trade, and personal consumption also being large loan recipients.

As of 2017, the six largest banks accounted for 81% of total bank assets, and the majority of foreign-owned banks account for just 10.5%. Two commercial banks have been announced bankrupt and their licenses were revoked by the National Bank of Tajikistan. In the microfinance sector, the five largest MFIs account for around 70% of total assets, which is comparable with the share of banks in the SME sector.

Due to the crisis, the quality of loans has deteriorated dramatically (Figure 4). Substandard banking loans constitute just one third of all loans while different nonperforming loans account for some 66% of the total amount of loans. These nonperforming loans have been mostly issued to large borrowers – industrial and other enterprises. The credit portfolio of microfinance institutions is much healthier, with nonperforming loans accounting for 16% of the total amount of loans issued by these institutions.

Figure 4: Loan Structure by Performing/Nonperforming Status, End of 2016 (%)



Source: NBT.

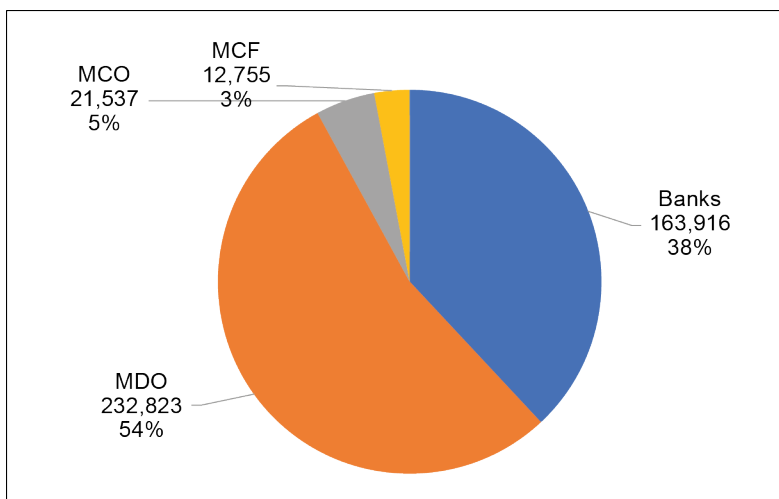
The size of loans also varies according to the types of credit organizations. For instance,¹ MCFs can provide up to 250,000 somoni (\$28,375) to individuals and 350,000 somoni (\$39,727) to legal entities; MCOs can provide up to 250,000 somoni (\$28,375) to individuals and 400,000 somoni (\$45,402) to legal entities; MDOs can provide up to 250,000 somoni (\$28,375) to individuals and 500,000 somoni (\$56,753) to legal entities; and commercial banks can provide credit up to 20% of regulatory capital. As of mid-2017, the credit organizations of Tajikistan had provided loans for the amount of TJS9,561 million² (\$1,085 million). Microfinance organizations can provide loans of up to \$3,000 to individuals without collateral; over this amount, they require a warrantor or collateral. For SMEs, this limitation starts from \$500. The banks provide credit to individuals and SMEs for up to \$500 without collateral or a warrantor; over that amount, collateral and a warranty are needed.

¹ NBT Instructions #196, #197, and #198.

² National Bank of Tajikistan, Banking statistics bulletin (issue 2017 #4).

The average interest rates on bank loans are 30.04% per annum in local currency and 20.80% in foreign currency.³ For MFIs, these rates are 38% in local currency and 28% in foreign currency.⁴ The number of borrowers from MFIs and banks at the end of 2016 is shown in Figure 5.

Figure 5: The Number of Clients in Different Financial Institutions



Source: NBT.

The interest rates are high in Tajikistan, because most of the MFIs' resources are attracted from abroad; hedging of most investments is conducted by TCX,⁵ which considers Tajikistan to be a high-risk economy. The current rate of hedging for Tajikistan is 15.3%, while in 2009 it was 33%. Starting from the beginning of 2017, the TJS devalued against the US dollar by 10%,⁶ which confirms the high risk perception. About 60% of the credit portfolio of MFIs are foreign investments.

2.3 Cards

Currently credit institutions issue payment cards for the national payment system "Korti Milli," the international payment systems Visa and Mastercard, co-branding cards for the payment systems UnionPay and NPS "Korti Milli," and payment cards for local systems of the credit institutions. As of 1 July 2017, the total number of payment cards issued by the credit institutions was 1.69 million, which is 8.1% more than a year ago. Among these cards, the share of "Korti Milli" reached 80.5%, Visa and Mastercard 14.3%, payment cards for local credit institutions 4.7%, and UnionPay-"Korti milli" 0.5% (Figure 6).

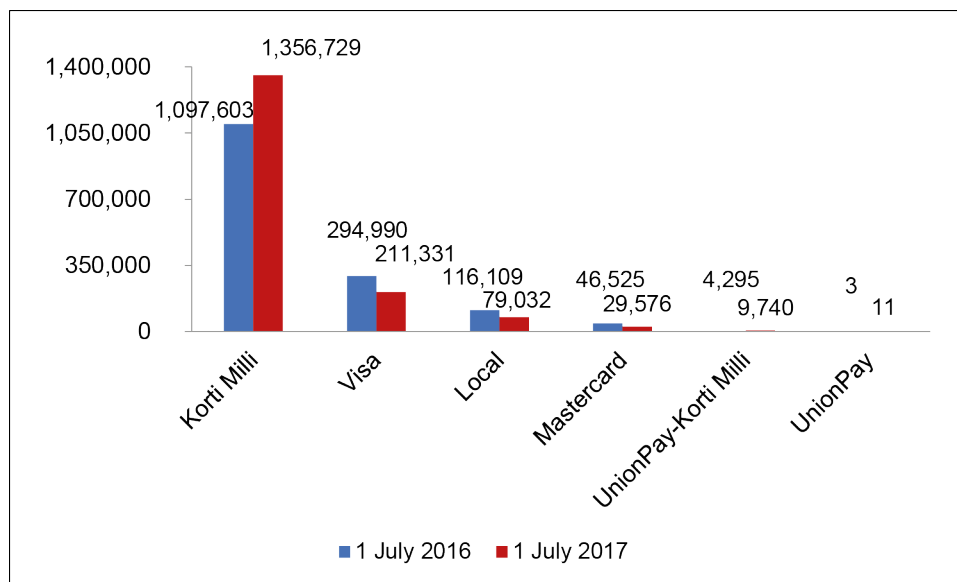
³ National Bank of Tajikistan, Banking statistics bulletin (issue 2017 #4) p. 70.

⁴ Association of Microfinance Organizations of Tajikistan, 4th quarter analysis 2016.

⁵ <https://www.tcxfund.com/countries/tajikistan>.

⁶ <http://nbt.tj/en/kurs/kurs.php?date=01.01.2017>.

Figure 6: Number of Banking Cards by System



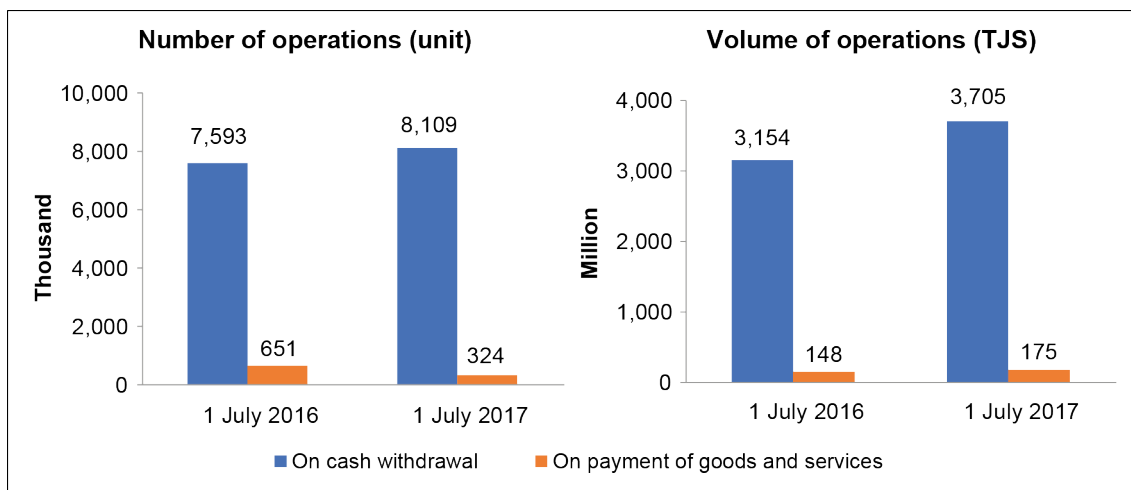
Source: NBT.

The majority of payment cards in circulation have been issued by the state savings bank of Tajikistan Amonatbank, which serves the pensioners. The total share of cards issued by Amonatbank is 75.9%. In 2009, Tajikistan introduced an electronic system of payments for pensioners; this was one of the first experiences in Central Asia. Later, the Ministry of Labor and Social Protection of the Population and Amonatbank decided to: (i) reduce the average time for releasing funds from the State Agency for Social Insurance and Pensions to beneficiaries; (ii) improve the quality of services provided to pensioners; (iii) reduce the costs of administering pension payments and eliminate opportunities for fraud and misuse of funds through a secure channel of automation; and (iv) promote financial inclusion. By 2012, the electronic system had been implemented in 15 out of 68 districts covering roughly 192,000 out of Tajikistan’s 596,000 pensioners. Districts were selected for the new system according to the local availability of financial infrastructure and a stable electricity supply to ensure that pensioners would have a sufficient number of points where they could access their funds.⁷

The cards are used mostly for cash withdrawals while the amount of payments with cards has a tendency to increase (Figure 7). The number of ATMs did not grow during the period between 1 July 2016 and 1 July 2017 while the number of POS terminals increased (Figure 8). The growth in the number of POS terminals and in the volume of transactions through them is going to continue as several large state-owned utility companies, including Barqi Tojik (power supply), Vodokanal (water), and Tajik Telecom (fixed-line telephone operator), focus on electronic payments via POS terminals throughout the country.

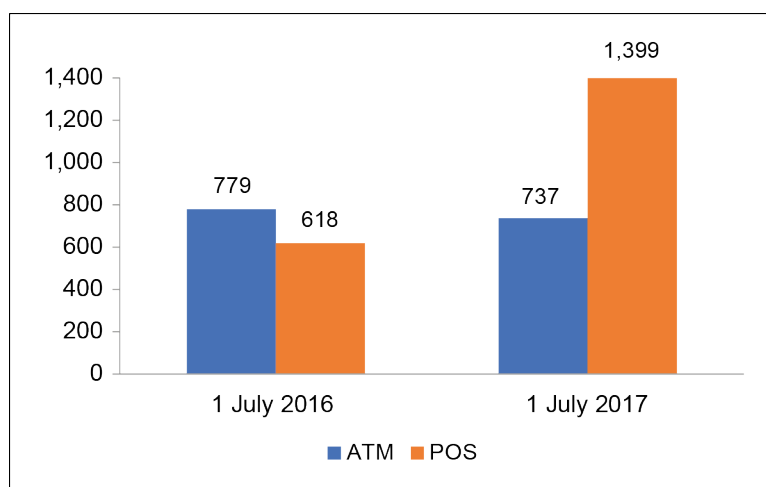
⁷ ADB “Evaluation of electronic pension payment system in Tajikistan” 2013.

Figure 7: Number and Volume of Transactions via Payment Cards



Source: NBT.

Figure 8: Development of Card Infrastructure, Units



Source: NBT.

2.4 Insurance

Insurance companies in Tajikistan conduct their activity based on the Law “On insurance activity.”⁸ There are 21 insurance companies registered in Tajikistan. Previously, insurance companies were supervised by the State Insurance Supervisory Service of the Ministry of Finance; starting from 1 January 2017, in accordance with the Order of the President of RT #851 dated 13 March 2017, the supervisory role was transferred to the National Bank of Tajikistan. Based on the law, the minimum capital requirement for insurance companies is TJS500,000 (\$56,753). Out of the 21 insurance companies, two are state-owned and one is foreign-owned. The total assets of these companies were TJS197.2 million⁹ in 2014. The sector collected TJS138 million somoni (0.34% of GDP) in 2013 in insurance premiums. Two state-

⁸ #681, in new edition, 29 December 2010.

⁹ World Bank. Finance sector assessment report 100521, May 2015.

owned companies mostly concentrate on vehicle insurance, which is mandatory in Tajikistan. There are a few reasons why the population hesitates to cooperate with them: Individuals and SMEs do not trust these companies, because there have been situations where costs have not been covered in insurance cases; also, the costs of their services are very high. Obtaining information about the costs of services of insurance companies is not a simple process (e.g. the companies do not provide this info online), which is a barrier for individuals and SMEs in gaining access to insurance services. Apart from that, the sector suffers from the absence of actuaries, underwriters, and loss adjustors.

Currently, reinsurance services are provided by foreign insurance companies. Recently, the NBT informed local insurance companies about the plan to establish a new local reinsurance company with an initial capital of TJS5 million (\$576,536). This company is going to be too small to cover the claims of large clients; thus, after this plan has been implemented the insurance companies may have issues with reinsurance.

3. STATUS OF FINANCIAL INCLUSION FOR INDIVIDUALS AND SMES

3.1 Accounts

There are no complications in opening an account at credit organizations in Tajikistan. Servicing accounts is based on the laws “On banking activities” and “On microfinance organizations,”¹⁰ which allow commercial banks and microcredit deposit organizations to service banking accounts. Data on access to different financial instruments in Tajikistan are provided in Table 1, which shows the results of the Global Findex Study 2014.¹¹

According to these data, as of 2014, 11.5% of the population over 15 had a bank account (2.5% in 2011). However, according to the NBT statistics, at the end of June 2017 the number of individuals’ accounts achieved the level of 3.28 million (the number of people over 15 in the country is 5.8 million). Even considering the fact that one individual can have more than one account, the comparison of the Findex data with official statistics hints at a dramatic increase in the number of accounts in the last three years. This increase is mostly due to the government’s efforts to transfer pensions and other payments to individuals to the banking system.

A few banks and large microfinance organizations provide Internet and mobile banking services; as of 30 June 2017, the total number of online managed accounts was 67,600 and the number of accounts accessible from mobile devices was 59,300 (source: NBT).

¹⁰ NBT <http://nbt.tj/en/laws/>.

¹¹ Global Findex database <http://datatopics.worldbank.org/financialinclusion/>.

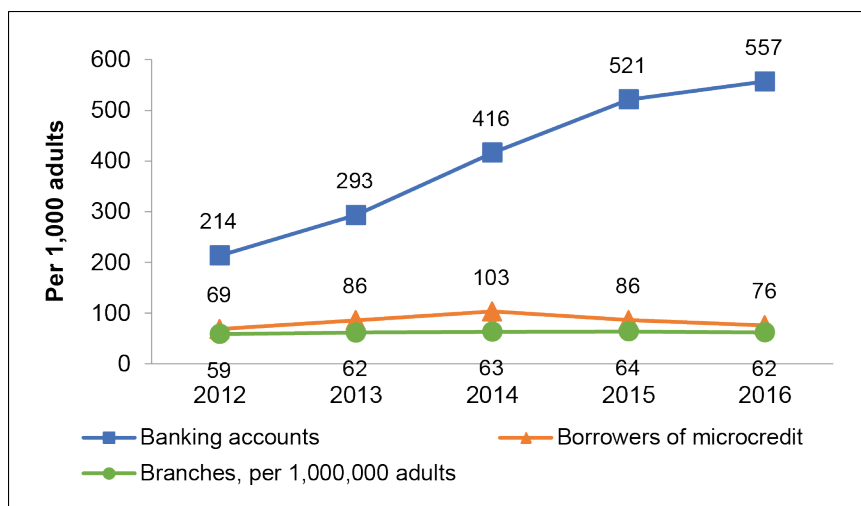
Table 1: Financial Inclusion Indicators, 2014

	Tajikistan	Europe and Central Asia
Account (% age 15+)		
All adults	11.5	51.4
All adults, 2011	2.5	43.3
Women	9.1	47.4
Poorest 40%	4.3	44.2
Rural	9.3	45.7
Young adults (% ages 15-24)	4.5	35.5
Mobile account (% age 15+)		
All adults	0.0	0.3
Debit card (% age 15+)		
Has debit card	4.2	36.9
Has debit card, 2011	1.8	36.4
Use of account in the past year (% age 15+)		
Used an account at a financial institution to pay utility bills	2.6	12.5
Used an account to receive government transfers	0.7	7.3
Used an account to receive wages	4.1	22.5
Other digital payments in the past year (% age 15+)		
Used a debit card to make payments	1.5	22.9
Used a credit card to make payments	0.6	14.9
Used the internet to pay bills or buy things	0.9	11.9
Domestic remittances in the past year (% age 15+)		
Sent remittances	6.0	12.9
Received remittances	14.9	15.5
Received remittances through a financial institution (% recipients)	18.4	22.1
Received remittances through a mobile phone (% recipients)	3.4	1.0
Received remittances through a money transfer service (% recipients)	38.0	15.6
Saving in the past year (% age 15+)		
Saved at a financial institution	1.5	8.4
Saved at a financial institution, 2011	0.3	4.9
Saved using a savings club or a person outside the family	3.5	6.6
Saved any money	31.3	38.5
Saved for old age	7.0	11.8
Saved to start, operate, or expand a farm or business	3.7	5.1
Saved for education or school fees	9.8	12.1
Credit in the past year (% age 15+)		
Borrowed from a financial institution	3.8	12.4
Borrowed from a financial institution, 2011	4.8	7.8
Borrowed from family or friends	12.2	23.6
Borrowed from a private informal lender	1.9	2.1
Borrowed any money	24.8	39.5
Borrowed to start, operate, or expand a farm or business	3.0	2.8
Borrowed for education or school fees	6.2	6.2
Outstanding mortgage	3.7	10.2

Source: Global Findex study.

The dynamics of banking service penetration is presented in Figure 9. While the number of banking accounts is growing fast, the number of borrowers from microfinance organizations went down, with the number of bank branches being more or less stable for the last five years. The decline in the number of borrowers can be attributed to the financial crisis associated with the fall in remittances and devaluation of the national currency (see Section 2.1).

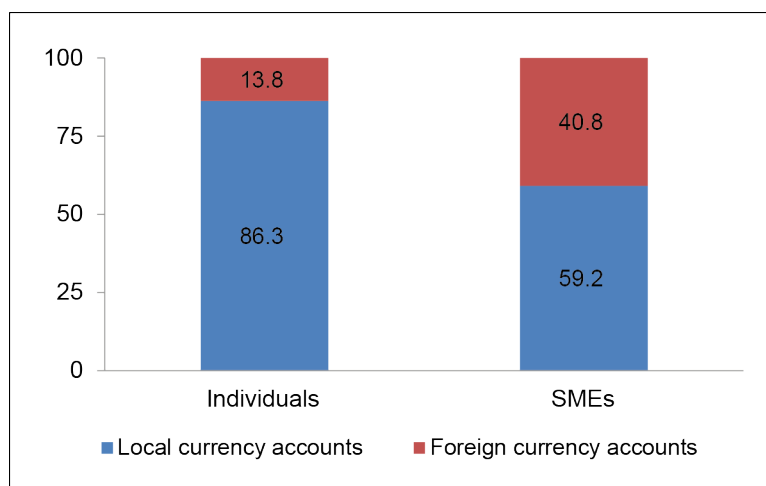
Figure 9: Banking and Microfinance Penetration Indicators



Source: NBT.

Individuals' banking accounts are mostly denominated in somoni (Figure 10), while SMEs use foreign currency accounts more frequently than individuals.

Figure 10: Currency Structure of Banking Accounts (%)



Source: NBT.

In Tajikistan, only legal entities can use a checkbook and those checks are used only for cash-out operations at the banks. No businesses, grocery stores, or shops accept checks instead of cash.

3.2 Pensions

Pensions are provided based on the law “About pension support of population of RT” (adopted 25 June 1993). In Tajikistan, retirement compensation is paid from the Pension Fund. As of end-2016, there were 642,000 pensioners or 7.6% of the population; at the same time, the average pension was TJS274/month (\$35 or 23% of the average wage in the country). The retirement age is 63 for males (with a registered working history of at least 25 years) and 58 for females (with a registered working history of not less than 20 years). According to the law “On state social insurance,” 1% of the deductions from the gross salaries of employees are forwarded to the Pension Fund.

As mentioned above, Tajikistan has implemented a transition to electronic payments to pensioners. This change had positive effects, especially on perceived convenience and wait times. However, not all pensioners have benefited equally from the change in the payment system. In particular, rural pensioners have had challenges and experienced increased wait and travel times. Currently, all pensioners have been moved to an electronic system of payment through the state-owned bank, but not all pensioners know how to use this system and face long lines with only one ATM at each banking branch. Sometimes ATMs are out of money, and the pension payments often arrive late.

The law “About pension support of population of RT” doesn’t provide room for private pension funds. To start this, the government needs to develop a legal base.

3.3 Remittances

As noted above, Tajikistan depends heavily on remittances. Some 66% of the remittances come through commercial banks and the rest through the largest microcredit deposit organizations. Remittances are very much connected with loans since households use loans as a source of cash until they receive the next money transfer from abroad. According to a survey conducted in 24 regions of Tajikistan, 80% of the remittances are transferred from the Russian Federation, 7% from Kazakhstan, 3% from Belarus, and 10% from other countries. As most of the remittances come from the Russian Federation, the recent devaluation of the Russian ruble against the US dollar and TJS decreased the amount of remittances received by households. However, according to the NBT’s balance of payments,¹² the amount of remittances received by the country in the first half of 2017 increased by 25% in comparison to the same period in 2016. This is due to the nominal appreciation of the Russian ruble and the return of the Russian Federation economy to positive growth rates.

At the beginning of 2017, the NBT ordered all credit organizations to pay all Russian ruble incoming transfers in local currency using the official NBT exchange rate (which coincides with the market rate).

3.4 Inclusion-Related Financial Products and Issues

Based on market demand and the availability of financial sources, credit organizations try to decrease interest rates and offer products and services based on new technologies including Internet banking and mobile banking. Only a few banks and large MFIs are providing these services and those products are not well developed yet. For instance, in some countries, including the Russian Federation, credit organizations

¹² http://nbt.tj/upload/iblock/765/st_pr_2017.xlsx (accessed 20 December 2017).

cooperate with mobile operators to improve the accessibility of financial services so that clients can obtain credit through a mobile operator system that would transfer the loan amount to the client's balance and the client can cash out the balance at the mobile operator's branches. GIZ proposed that this scheme be introduced in Tajikistan in 2010, but the NBT did not accept it as this would imply involving mobile operators in banking activity for which they need a banking license. The issue remains unresolved.

In 2014, the IFC conducted a survey¹³ helping to understand the existing channels for delivering mobile banking services (Table 2). It follows from the data that most of the mobile transactions are related to mobile top-up operations. Most of the respondents participating in the survey provided their own description of the potential uses of mobile banking services (Figure 11).

Currently, very few types of operations are available online; the software used by banks and MFIs does not allow some operations to be implemented. For instance, the foreign exchange operations of the First MicroFinance Bank should be done both in mobile and paper-based form. Orientbank requires more than a week to transfer resources. Bank Eskhata offers an option for money transfer that requires opening an account and transferring resources to this account via any money transfer system. Payment service providers (PSPs) work through cash-in terminals and an agent network. They use mobile phone applications/computer software for payment processing; 60% of PSP agents are in rural areas, 80% of transactions are for airtime top-up. Mobile money deployment exists, but services are limited (mostly focused on e-wallets). Several of the largest MFIs (Imon, Humo, Arvand, and Finca) have started using PSP terminals for loan repayment. Some MFIs (e.g., Humo) have launched mobile applications accessible via the App Store or PlayMarket, thereby facilitating P2B/P2P money transfer transactions.

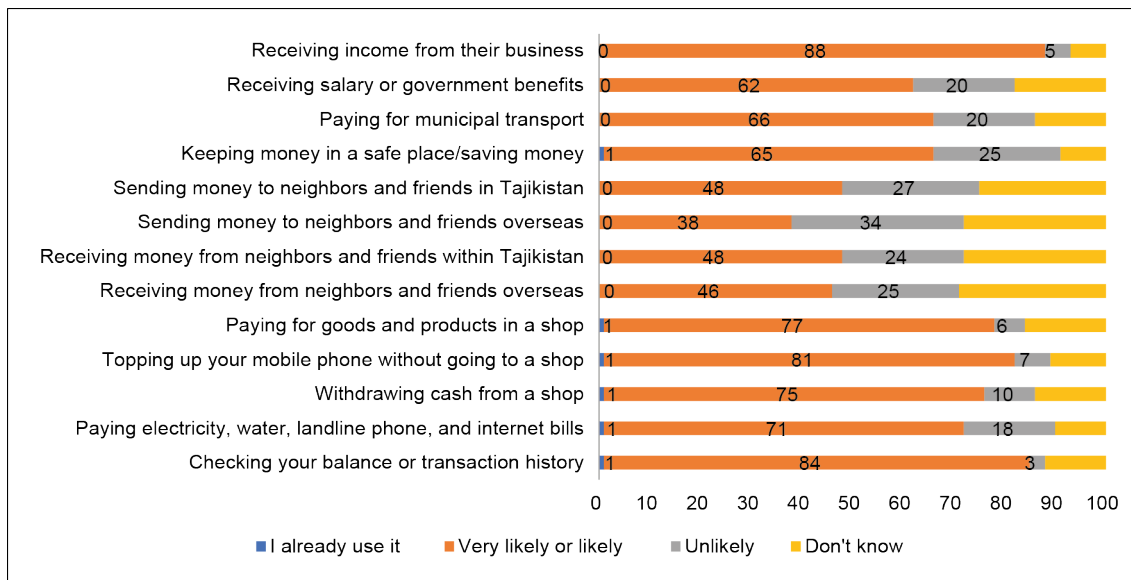
Table 2: Use of Mobile Payment Services

Services	Service Channels	Market Segment	Current Scope of Activities
Payments for a wide range of services (mobile phone credit, Internet service provider, utilities, microloans, social networks, online games, betting, electronic wallets in the Russian Federation)	Terminals and agents equipped with computer/mobile phone; directly from mobile wallet (Expresspay)	P2B (in theory Expresspay also allows P2P)	Mostly mobile top-up and internet service payments; few mobile wallets held by individual customers
Repayment of loans	Mostly terminals and some agents (only Arvand)	P2B	Still limited, max. 20 % of repayments via terminals
Mobile top-up	Terminals and agents	P2B	Majority of payments through this channel
Sending airtime from the Russian Federation to Tajikistan and transferring it between airtime accounts of the same provider	Mobile phone	P2P, but only airtime	Reportedly not very popular
Only Agroinvest bank has launched mobile banking application that allows for transaction initiated from the phone	Mobile phone	P2P between card accounts of different banks; P2B	No usage data available

Source: IFC.

¹³ IFC 2014 Money flow mobile money market survey.

Figure 11: Actual and Potential Use of Mobile Banking Services (%)



Source: IFC.

4. BARRIERS TO FINANCIAL INCLUSION

According to the “Life in Transition III” (LiT) survey, 38% of respondents in Tajikistan (the most frequent answer) referred to access to finance as the top obstacle to the operation and growth of a business. The access to finance is low in Tajikistan due to a number of factors discussed below.

Macroeconomic stability and vulnerability to external shocks. The economy of Tajikistan is dependent on remittance inflows and other external sources of income (exports, foreign aid, foreign direct investments). The recent experience of the negative remittance shock associated with the economic decline in the Russian Federation shows that many macroeconomic variables, and especially the TJS exchange rate, are very sensitive to these kinds of shocks. A sharp devaluation of the TJS against the US dollar resulted in a full-fledged banking crisis and a hike in the number of nonperforming loans (see above). The issues in the banking sector refueled the population’s perception of the country’s financial sector as insecure.

Low domestic savings and a lack of affordable credit resources. The low (albeit fast-growing) level of GNI per capita in Tajikistan does not allow domestic savings to be accumulated sufficiently to satisfy the domestic demand for financial resources. As a result, many financial institutions have to rely on foreign sources of financing, which are a) expensive for a country with a relatively low credit rating,¹⁴ and b) provided in foreign currency. This exposes all financial institutions to a high exchange rate risk. To reduce this risk, they tend to issue loans to their clients in foreign currency (mostly US dollars), including those clients who do not have any foreign currency-denominated income streams, thereby shifting the risk to clients. The capital of all MFIs and many banks is not large; this serves as an additional limiting factor in attracting credit resources. The high costs of credit resources for financial institutions coupled with high inflation

¹⁴ On 28 August 2017, Moody’s assigned a sovereign long-term rating of B3 to Tajikistan. This is the lowest among the “B” ratings, meaning a high credit risk.

expectations, weakness, and insufficient transparency of borrowers and administrative costs lead to very high interest rates and strict collateral requirements for clients. Many of the clients, especially households and SMEs, just could not afford borrowing at such rates and collateral requirements. In the LiT survey, 44% of the respondents who provided reasons for not borrowing any money indicated high interest rates, collateral requirements, and administrative costs as the main reason.

Insufficient autonomy of the NBT and financial institutions. The previous practice of directed lending and limited NBT autonomy have undermined financial intermediation progress. Loans to related parties and directed lending to the agricultural sector, industrial enterprises, and especially large SOEs have adversely impacted the banking sector's profitability over the last five years with a return-on-assets ratio of -4.4%.¹⁵ Nonperforming loans (NPLs) have increased dramatically (see above). The capital adequacy ratio fell from 24.5% in 2010 to 12% as of the end of 2014, which is the minimum level set for commercial banks and MFIs in Tajikistan. Administrative interference, coupled with banks' weak corporate governance and risk management capacity, poses significant credit, liquidity, and integrity risks for the sector.

Insufficient transparency of financial institutions and lack of clients' confidence in them. According to the NBT requirements, MFIs should regularly publish their financial statements. However, they do not meet this requirement, so the population is short of necessary information about MFIs' activities and financial situation. The issues in large commercial banks (Agroinvest bank and Tojiksodirot bank; two more—Tajprombank and Fononbank—are under bankruptcy procedures) and the lack of understanding of MFIs' situation worsens the entire financial sector's reputation and makes clients hesitate to even have a current account with any financial institution. The deposit insurance scheme has never been tested in practice and this does not add credibility to the system. The NBT, as the regulatory and supervisory body, is to ensure that the population has accurate and full information about the financial sector agents' situation in order to protect the population from poor decision-making on deposit operations.

Insufficient geographical accessibility of, and underdeveloped infrastructure for, financial services. To reduce operation costs, different types of products and services tailored to individuals, households, and SMEs offered by credit organizations are provided mainly at banking service centers, which are located mostly in urban and administrative centers where people and economic activities are concentrated. So the services are insufficiently accessible for the majority of the population dispersed in rural and/or remote areas. For instance, the mountainous Pamir area of Tajikistan (Gorno-Badakhshan Autonomous Region) is covered very little by credit organizations. Of course, mobile banking would be a solution here. Payment infrastructure is also underdeveloped: The number of ATMs, POS terminals, and Internet and mobile banking users is low if compared with regional and income group averages.

Reluctance of the regulator to experiment with new technology-based financial products. The regulator is challenged to understand the market evolution and ensure that appropriate regulation is needed. At the same time, innovation should not be held up until the regulator has had a chance to "catch up." The experience of other countries shows that regulators may want to let innovation happen on an experimental basis and regulate on an "as needed" basis, provided there is full transparency of the activities of market participants. This is best achieved through an ongoing dialogue, by keeping

¹⁵ IMF 2015. Statistical Appendix. Regional Economic Outlook Update: Middle East and Central Asia. Washington, DC.

the regulator abreast of developments and plans. In Tajikistan, implementation of e-services is impossible without the close cooperation of mobile operators and financial institutions in the accomplishment of payment transactions. The current legislation requiring operators of such transactions to have a credit organization's license effectively blocks the development of a payment system with participation of mobile operators as they could not get such a license. Without amending this legislation, one can hardly expect any significant progress in this area.

5. REGULATORY FRAMEWORK

5.1 Regulatory Issues

The banking legislation in Tajikistan represents the system of legislative and normative acts regulating banking activities. The legal basis for banking activities is established by the law "About National Bank of Tajikistan" (No. 722 dated 28 June 2011) and the law "About Banking Activities" (No. 524 dated 19.05.2009). Microfinance activities are regulated by the law "About microfinance organizations" (No. 816 dated 16 April 2012). The NBT is in charge of licensing, regulation, and supervision in Tajikistan; it is authorized to issue normative acts for banks and MFIs, establish financial standards, impose sanctions and penalties, and request reports. This legislation stipulates that credit organizations should provide access for the population to affordable financial sources and improve the quality of financial services and products. In order to support the improvement of the quality of services and protect clients' interests, the NBT established a consumer protection division. This division's procedures and internal regulations are currently under development.

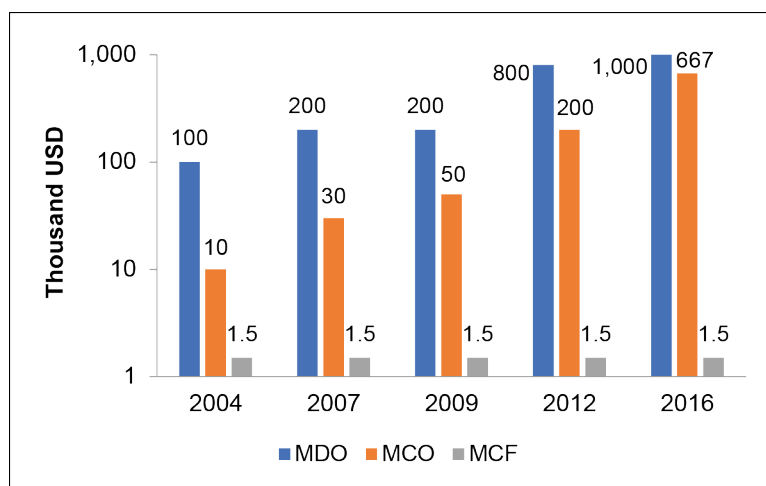
The legislation identifies three types of MFIs: microcredit deposit organizations (MDOs), microcredit organizations (MCOs), and microcredit funds (MCFs). Of these three, only MDOs are allowed to offer deposit products based on a license issued by the NBT. MDOs can engage in most forms of financial intermediation, including cash transactions, issuance of guarantees, operations with payment cards, and clearing and settlement operations. After one year of operations and with a supplementary license, MDOs become eligible to conduct foreign currency operations. An MCO is defined as a commercial microfinance organization licensed by the National Bank and engaged in providing microloans and swap operations for themselves. MDOs and MCOs can be closed joint-stock companies or limited liability companies. An MCF is a noncommercial organization in the form of a public foundation. MCFs should also have a license from the National Bank to engage in providing microloans and swap operations for themselves. Other important pieces of legislation regulating MFIs' activities include the NBT's Regulation #135 "On Procedures Regulating the Activities of Microcredit Deposit Organizations," Regulation #136 "On Microcredit Organizations," and Regulation #137 "On Microcredit Funds."

A microfinance organization can be established by individuals and/or legal entities, residents, and/or nonresidents. Any individual, legal entity, or any group of individuals and legal entities acting in concert intending to enter into a transaction that would result in such an individual, legal entity, or group controlling more than 20% of the voting shares of an MDO, shall submit a written application for approval to the NBT. For transformation to a bank, MFOs must meet prudential normative and other compulsory norms established by the NBT. The NBT's prudential norms, which are mandatory for banks, include: a) a minimum amount of statutory capital for a bank; b) a cap on the nonmonetary part of the statutory capital, which should not exceed 20% of a bank's statutory capital; c) maximum risk for one borrower or a group of related borrowers;

d) liquidity ratio; e) capital adequacy ratio; f) caps on foreign exchange, interest, and other risks; g) ratio of bank’s own funds used for acquisition of shares/stocks of other legal entities; h) maximum size of credits, guarantees, and warranties extended by banks to their shareholders. Similarly, if an MCO would like to transform into an MDO, it must meet the NBT’s prudential and other compulsory norms concerning: a) minimum statutory capital requirements; b) minimum nonmonetary part of the statutory capital; c) liquidity requirements; d) capital adequacy ratio; e) size of foreign exchange, interest, and other risks; f) ratio of the MDO’s capital to its equity investments in other legal entities; g) requirements for transactions with affiliates; h) maximum ratio of MDO’s deposits to its capital; i) minimum size of total capital. According to the existing regulations, both MCFs and MCOs have a right to perform two types of operations only: providing credit and conducting swap operations. The difference between MCFs and MCOs is their status (noncommercial for MCFs and commercial for MCOs) and size (MCOs are supposed to be much larger than MCFs).

Since 2004, the requirements for initial capital for microfinance organizations have been changed several times (Figure 12) in order to cleanse the market of too small, unsustainable, and nontransparent MFIs.

Figure 12: Minimum Capital Requirements for Microfinance Organizations



Source: NBT.

Some 30% of MFIs couldn’t meet the latest increase in capital requirements; most of them have closed or are in the process of liquidation. There is one example of consolidation by three MFIs; even after the consolidation they barely met the requirements as these days most investors tend to cooperate with large MFIs with a credit portfolio over \$5 million. There are six large MFIs that meet the capital requirements. These large MFIs are able to compete with commercial banks in terms of quality of service and implementation of new products and services, but the small and medium MFIs couldn’t do that.

The NBT has a right to revoke an MFI’s license if: a) cases of submission of unreliable information/reporting have been identified, or b) over the 12-month period from the date of being granted a license, the MFO has not started its activity, or after the beginning of its activity the MFO decided on its own to stop its activity for a period of more than six months.

The financial sector has deepened in recent years,¹⁶ albeit from a low base. This is reflected in the overall growth of the financial system, greater diversification, and the expansion of lending to previously underserved sectors, such as agriculture and small- and medium-sized enterprises. Even since the expansion, the financial sector has remained small and cannot serve all the financing needs of the economy. Banks have better liquidity and their rapid growth has brought new risk exposures that should be carefully monitored and appropriately addressed. In particular, the rapid loan growth has brought unrecognized high credit risk and given rise to an increase in nonperforming loans (see above). Because of extensive dollarization, the exposure of banks to exchange rate-induced credit risk is another significant source of concern. Therefore, to control this tendency the NBT is strengthening the regulatory and supervisory framework to sustain the system's health in the face of rapid growth. The governance of a few commercial banks was temporarily strengthened by the NBT. Also, the NBT started ensuring the integrity of the regulatory bodies and guaranteed that all financial transactions would be priced on a market basis.

The supervision at financial institutions is still mainly compliance-based, with little focus on good governance and risk management. Regulation and supervision need to be strengthened to better manage credit, market, operation, concentration, interest rate, and liquidity risks, as well as to improve the corporate governance and internal control systems of the financial institutions. Adaption of the international financial reporting standards, more advanced risk assessment tools, stress testing, and crisis management tools are among the primary measures that need to be introduced immediately.¹⁷

Based on the World Bank's 2007 Financial System Assessment Program, the government passed Resolution No. 261, dated 28 May 2010, which brought into effect the Tajikistan Banking Sector Development Strategy and Action Plan 2010–2015.¹⁸ The key component of this strategy was strengthening the NBT's oversight of the payment system. A dedicated unit with the capacity and responsibility for supervision of the payment system has been established, with capacity building provided by the World Bank.

Farmers in recent years have enjoyed adopting new laws and amendments to the Land Code and other land legislation, which were adopted to expand farmers' use rights to include the right to buy, sell, mortgage, lease, transfer, and exchange land rights, as well as to pass them on through inheritance. However, the registrations of all the farmers' land use rights, in practice, have been limited to "lifelong-inheritable use" rights that did not include rights of alienation.

Insurance companies in Tajikistan don't need to go through certification of the quality of provided services.

Insolvency. The number of insolvency cases that are resolved in economic courts in Tajikistan is fairly small due to, perhaps, insufficient assets in the insolvent entities to cover the costs of the insolvency processes. The rank of Tajikistan in the World Bank's annual Resolving Insolvency rate of 2017 Doing Business Index is 144, with no change compared to the year before.¹⁹ The latest index value is based on data for June 2016.

¹⁶ World Bank 2009. Financial Sector Assessment: Republic of Tajikistan. World Bank. <https://openknowledge.worldbank.org/handle/10986/3026>.

¹⁷ World Bank's Country Partnership Strategy: Tajikistan, 2016–2020.

¹⁸ ADB Regional Report: Financial Sector Development in Central and West Asia 2013.

¹⁹ World Bank, "Doing Business Index. Ease of doing business in Tajikistan," <http://www.doingbusiness.org/data/exploreconomies/tajikistan#resolving-insolvency> accessed on 19 September 2017.

This is a fairly poor position compared to the neighboring countries of Central Asia. The recovery rate index is 35.9, slightly lower than the average score for Europe and the Central Asia region.²⁰ It has been strongly proved that the existence of strong legislation on insolvency may lead to growth in entrepreneurial activities (specifically on self-employment). Tajikistan's insolvency legislature has been improved, following enacting amendments to the Law on Bankruptcy in 2009. Specifically, insolvency procedure was financially and time-wise burdensome for enterprises. In some instances, the procedure lasted more than three years, though there are cases where amicable agreements were reached by disputing parties.²¹ The Resolving Insolvency Index for 2017 depicts the necessary improvement in the period to recover credits, recording it at 1.7 years. This timing applies for large-scale enterprises, whereas SMEs' insolvency procedures are limited to six months. Another area for improvement lies in the insolvency management process in the case of bankruptcy of a debtor. The lack of objective information about the financial situation of the debtor, the latter's possible opportunity for further entrepreneurial operation, information on the stage of crisis development, and the consequences of enforcing one or another bankruptcy procedure require consideration of the introduction of pre-trial diagnosis in bankruptcy procedures.

5.2 Consumer Protection

At the end of 2015, the NBT launched a new initiative that should improve customer protection in the finance industry. With the support of the IFC, the NBT has developed a strategic plan for 2017–21 where listed a range of outstanding issues in the area, from the lack of transparency to the need for improvements in the institutional framework, such as the creation of a financial ombudsman. Most microfinance institutions have adopted Smart campaign principles²² according to which MFIs should set the pricing, terms, and conditions in a way that is affordable for clients while allowing the financial institutions to be sustainable. These seven client protection principles have also been included in the strategic plan. At the same time, credit organizations are recommended to provide detailed information on the composition of an effective interest rate on loans.

Since 2016, the NBT has had a customer compliance department, which should keep track not only on complaints and their outcome, but also on the feedback of customers on financial institutions' activities. Once every two years, each organization is recommended to go through client protection certification,²³ which could be conducted by the NBT's customer compliance department; two MFIs have already been through it. This initiative would benefit both the NBT and MFIs, with the latter using it to develop a social strategy. In addition, the NBT's consumer protection division conducts round tables and training sessions on financial literacy, and encourages credit organizations to join Global Money Week.

²⁰ The recovery rate is a function of the cost, time, and outcome of insolvency proceedings involving domestic legal entities according to the Methodology of Doing Business Index.

²¹ USAID (2009), "Analysis of Implementation of Insolvency Law of the Republic of Tajikistan," Dushanbe, http://www.namsb.tj/phocadownload/beilibrary/analysis_on_insolvency_rus.pdf, accessed on 20 September 2017.

²² <http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>.

²³ <https://sptf.info/universal-standards-for-spm/assess-and-plan>.

5.3 Deposit Insurance

The Deposit Insurance Fund (DIF) was established in 2003. Its assets reached TJS260 million or 6.3% of total deposits as of end-2016. In Tajikistan, the deposit amount covered by the fund in the case of bankruptcy of a credit organization has been increased from the initial TJS7,000 to TJS14,000 in 2015 and TJS17,500 in 2017 (approximately \$2,100). As of end-2014, 14 banks and 40 microcredit deposit organizations were members of the Deposit Insurance Fund. The largest savings bank, Amonatbank, does not participate in the scheme as its deposits are fully guaranteed by the government by separate legislation.

In addition to having a low coverage level, compensation provided in local currency is seen as insufficiently attractive by market participants in a country with extensive dollarization and foreign currency remittances from abroad. While the DIF has put in place a variety of communication tools (e.g. website, posters, and handouts) to inform the public of its existence, it has not conducted any surveys on the public awareness of the deposit insurance scheme.

6. POLICIES TO PROMOTE FINANCIAL INCLUSION

Cheap resources. Today the ADB, EBRD, UNDP, and World Bank in the framework of their programs provide Tajik commercial banks and MFIs with low-cost financial resources that are channeled to the population at relatively low interest rates, but these resources are not very large in comparison to the high demand in rural areas of Tajikistan. Microfinance organizations have to have many branches, so their operational costs start from 10%–17%.²⁴ The cheapest resources were provided by the UNDP with a rate for clients of 12% per annum.

Some international financial organizations sometimes implement financial inclusion programs and provide financial sources to credit organizations aimed at specific groups of the population; for example, the commercial bank Eschata recently received \$1 million from the EBRD for the implementation of the “Women in business” initiative aimed at improving women’s access to finance, which is constrained even more than that of men.

Credit databases. Two credit information bureaus provide services to credit organizations in Tajikistan: the Credit Information Bureau of Tajikistan (CIBT) and the Bureau of Credit History Somonion. The CIBT cooperates with 17 banks and 56 microfinance institutions and holds information on 602,000 individuals and 25,000 firms representing 887,000 credit transactions. The second bureau covers five banks and 80 small microfinance institutions and holds information on 120,000 individuals and 8,500 firms representing 332,000 credit transactions.²⁵ Both credit bureaus have their own clientele but it is not sufficient, since the scoring at the CIBT is not reliable and credit organizations do not use it. Second, not all financial institutions provide information on all their clients, so there are risks associated with the information gap. Third, the prices for CIBT services are high, which might be related to the operational or technical support costs as the CIBT rents in its software. Recently, the NBT started collecting full data sets from credit organizations and is going to establish a national registry where all necessary data from the entire sector will be stored; this registry is expected to provide information to market participants on a fee basis.

²⁴ AMFOT statistics analysis 2016.

²⁵ World Bank Finance sector assessment report 2015.

Credit guarantees. Credit Guarantee Fund Tajikistan was established in 2014 to address financial institutions' strict collateral requirements. This fund is dedicated to improving the access to finance for Tajik SMEs by sharing credit risk through credit guarantees and providing technical assistance to Tajik partner financial institutions (PFIs). The fund uses credit guarantees as instruments to provide benefits for borrowers (SMEs) through intermediaries (PFIs). It issues individual letters of guarantee for PFIs' loans to SMEs. The value of eligible loans ranges from \$10,000 to \$500,000 or the equivalent value in the Tajik somoni. The eligible loan purposes are investments in fixed assets and working capital. In the case of default of borrowers on guaranteed loans and after having carried out the contractually agreed delinquency management procedures without success, the PFIs can claim the guarantee after 180 days past due. Then the fund appraises the guarantee claim and pays out its share in the lost principal in the amount of 60% of the credit's value. Recoveries collected by the PFIs after the claim payout are shared with the fund. Currently, the fund provides individual guarantees; however, it plans to make a transition to blanket guarantees. Credit guarantees can also be offered in the form of investment guarantees rather than loan guarantees. Of the 23 largest microfinance investment funds, three offer investment guarantees on MFI or SME loan portfolios.²⁶

To expand to rural areas at a reasonable cost, financial institutions are considering harnessing technology and branchless banking. This could be done through partnerships with PSPs, allowing use of their networks for expansion and further development of card-based payment systems as a cost-effective way to service rural clients. Support for agricultural finance could be enhanced by the electronic disbursement of funds to the suppliers of the necessary agricultural inputs.²⁷

7. FINANCIAL EDUCATION AND FINANCIAL LITERACY

Financial literacy activities. The National Development Strategy of Tajikistan – 2030 (NDS, Section 5.3) places emphasis on improvement in the protection of the rights of consumers of financial services. Among other policy measures related to the financial sector of the country, it stipulates the need for the development and implementation of a state program on improving the population's financial literacy.

In the framework of the NDC implementation, the National Bank of Tajikistan, in collaboration with international experts, developed the Strategic Priorities in the Development of a Mechanism on the Protection of the Rights of Consumers of Financial Services for 2017–2019. This document requires the development of a state program that should become an effective framework to coordinate efforts of various government agencies, ensure efficient distribution of budget financing, and formulate a systemic approach through various channels and initiatives. Further, the NBT is expected to continue initiatives on improving financial literacy, including the coordination of annual international financial literacy weeks among children and young people, the organization of workshops and training sessions for elementary school teachers, the placement of information and video materials on the official website of the NBT, participation in TV and radio shows, etc. The most vulnerable target groups are defined as priority groups for the development and implementation of financial education initiatives. At the same time, the opportunity to gain financial knowledge

²⁶ The Netherlands' Hivos-Triadodos Foundation offers 8% of its total MFI investment funds as guarantees. The share is smaller for the church-based and very innovative Oikocredit (also the Netherlands) investments and the French Solidarité Internationale pour le Développement et l'Investissement.

²⁷ ADB 2013 Tajikistan: Boosting access and development.

should be available for all citizens. Financial education will be offered mostly through the provision of basic knowledge using mass media outlets. In particular, the NBT plans to carry out activities related to the development and distribution of information materials on key financial products and services, bearing in mind the properties and risks for the population. For their part, financial institutions and their associations are going to continue their efforts aimed at improving the financial literacy of consumers.

Over the last decade, different international organizations in Tajikistan have implemented and conducted many activities and training sessions in the area of financial literacy. In the framework of the coordination council on improvement of the investment climate under the President of RT, a donor committee has been established that should coordinate a tailored and sequenced support package to fit national financial development strategies and work within financial inclusion coordination mechanisms such as the national platforms recommended in this framework. It is important that all stakeholders are consulted so that they are actively involved in the development and implementation of a financial literacy strategy and program. Stakeholders will benefit from improved financial literacy, and can contribute by determining priorities, funding initiatives, developing materials, undertaking projects etc.²⁸ The module of financial literacy training and programs should be standardized and the most important information compiled to enable understanding of financial institutions' rights and responsibilities, financial disclosure rules, and the risks and rewards of financial products.

According to the IFC,²⁹ more than 40% of respondents spend all their income, while only half make regular savings. In addition, 83% cannot explain basic banking terms, about 90% have never heard of the credit bureau, and only about 40% would agree to provide their credit information to the credit bureau. This leads to debt and high default rates and delays home purchases and investments in children's education.

Several donor organizations undertake financial literacy activities in collaboration with the Association of MicroFinancial Organizations of Tajikistan (AMFOT), the Center for Training and Microfinance Development, the Association of Banks of Tajikistan, and specific financial institutions; they work on training clients in financial literacy topics in specific regions of the country. However, up until now Tajikistan hasn't had any financial education strategy. There is no comprehensive financial education program led by the NBT or any other government agency. Also, the Consumers Union of Tajikistan does not deal with financial service issues and has not been involved in financial literacy activities.

Credit organizations should have an important role in supporting and delivering financial education programs, as long as they are trusted by consumers and do not mix marketing and educational messages. Often it is reported that the programs run by credit organizations are used for marketing purposes. Financial education provided by credit organizations should be regularly assessed to ensure it meets consumer needs. This may be achieved through partnerships with independent, not-for-profit financial advisory bodies that may have better a connection with consumers, particularly those facing disadvantage in their participation in financial markets.³⁰

²⁸ World Bank. Diagnostic review of consumer protection and financial literacy 2013.

²⁹ <https://ifcextapps.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/30C5DD67A6047D5F85257DF20031E744?OpenDocument>.

³⁰ OECD 2015, National strategies for financial education.

In February of 2015, the IFC launched a financial infrastructure development program in Tajikistan involving several credit organizations. The program includes educational materials on household budgets and personal finance management, smart borrowing rules, preventing overindebtedness, saving strategies, managing remittances, and the benefits of credit information reporting. The program has been delivered through various delivery channels, including training for the adult population, in-depth consultations for borrowers, and broadcasting of educational video clips and radio programs.

8. CONCLUSIONS AND RECOMMENDATIONS

In recent years, access of the population to financial services measured by the volume of deposits, loans, card transactions, and infrastructure density has significantly improved (albeit from a low base). However, the external shock associated with the decline in remittances from the Russian Federation has adversely affected the financial system in Tajikistan, leading to a very sensitive devaluation of the TJS against the US dollar, an explosive accumulation of nonperforming loans in the country's banking system, serious issues in several banks, a reduction in the total amount of loans for the nonfinancial sector, and reduced trust of the population in the financial system.

The key barriers to financial inclusion in Tajikistan are: the macroeconomic instability and vulnerability of the economy and financial system to external shocks; low domestic savings and the need for financial institutions to rely on foreign sources of financing, which make the financial resources expensive and unaffordable for a large proportion of households and SMEs; insufficient autonomy of the NBT and financial institutions leading to directed lending practices; insufficient transparency of financial institutions and an associated lack of clients' confidence in them; underdevelopment of financial infrastructure and low accessibility of financial services in rural and remote areas of the country; and the reluctance of the NBT to encourage the introduction of new technologies in the financial sector.

A regulatory framework for the financial sector in Tajikistan is mostly in place, while there are different issues related to banking supervision, the regulator's independence, and the openness of the system to technological innovations (as mentioned above). The NBT and other government agencies are paying increasing attention to the financial education and financial literacy of the population with the support of different international organizations; nevertheless, the country has a long way to go to for the population to achieve a sufficient level of familiarity with, and understanding of, different financial products. The recent issues in the financial sector have distracted the authorities from developing a comprehensive strategy/action plan for financial inclusion and education, which is explicitly demanded by the NDS. With stabilization of the situation, the financial inclusion agenda seems to come to the forefront of the government's policy towards the financial sector.

The following are the key recommendations for improved financial inclusion in Tajikistan:

- ensure macroeconomic stability in the country; refrain from attempts to regulate the TJS/US dollar exchange rate (other than smoothing sharp fluctuations caused by external shocks);
- increase the independence of the NBT; refuse to force the banking system to run quasi-fiscal operations and directed lending;

- increase the transparency of, and proper information disclosure by, both commercial banks and MFIs;
- encourage financial institutions to develop financial infrastructure, especially associated with the utilization of new technology-based products, including mobile and Internet banking;
- resolve issues related to the participation of mobile network operators in the delivery of financial services using the experience of other countries;
- in accordance with the NDC, develop and run the well-coordinated long-term State Programme on Improving Financial Literacy of the Population and advocacy campaign to increase the utilization of financial services by the population;
- similarly, develop and implement the State Programme on Financial Inclusion focusing on the reduction of risks in the financial sector and the provision of financial products that are more affordable for the population, the promotion of modern financial technologies, and the fostering and proper supervision of retail financial institutions, especially aimed at rural areas and migrants;
- support the financial inclusion agenda institutionally by creating a separate unit at the NBT in charge of inclusion issues and establishing a body/task force consisting of all public and private stakeholders dealing with financial inclusion issues (e.g. under the umbrella of the Investment Council under the President of the Republic of Tajikistan);
- strengthen general education, especially in the area of numeracy, to equip young people with the necessary knowledge and skills for effective utilization of financial products.

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