



Report and Recommendation of the President to the Board of Directors

Project Number: 47915
November 2014

Proposed Equity Investment and Senior Loan AccessBank Tajikistan Promoting Financial Inclusion through Greenfield Banking (Tajikistan)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

CURRENCY EQUIVALENTS

(as of 6 October 2014)

Currency unit	–	somoni (TJS)
TJS1.00	–	\$0.200196
\$1.00	–	TJS4.9951

ABBREVIATIONS

ABA	–	AccessBank Azerbaijan
ABT	–	AccessBank Tajikistan
ADB	–	Asian Development Bank
AMH	–	Access Microfinance Holding Aktiengesellschaft
AML	–	anti-money-laundering
BOD	–	board of directors
BOM	–	board of management
CAGR	–	compound annual growth rate
CEO	–	chief executive officer
GDP	–	gross domestic product
GLP	–	gross loan portfolio
IFI	–	international financial institution
MSMEs	–	micro, small, and medium-sized enterprises
NBT	–	National Bank of Tajikistan
NPL	–	nonperforming loan
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of AccessBank Tajikistan ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

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PROJECT AT A GLANCE

1. Project Name: AccessBank Tajikistan, Promoting Financial Inclusion through Greenfield Banking Project			
2. Project Number: 47915			
3. Country: Tajikistan		4. Department/Division: Private Sector Operations Department Financial Institutions Division	
5. Sector Classification:			
		Sectors	Primary
		Finance	X
		Subsectors	
		Banking systems Microfinance Small and medium-sized enterprise finance and leasing Finance sector development	
6. Thematic Classification:			
		Themes	Primary
		Economic growth	X
		Subthemes	
		Promoting economic efficiency and enabling business environment Widening access to markets and economic opportunities	
		Private sector development	Private sector investment
6a. Climate Change Impact:		6b. Gender Mainstreaming:	
Adaptation		Gender equity theme	
Mitigation		Effective gender mainstreaming	
Not applicable	X	Some gender elements	X
		No gender elements	
7. Targeting Classification:		8. Location Impact:	
	Targeted Intervention		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
General Intervention			
X			
	Rural	High	
	Urban	High	
	National	Medium	
9. Nonsovereign Operation Risk Rating : deleted			
10. Safeguard Categorization:			
	Environment	FI	
	Involuntary resettlement	FI treated as C	
	Indigenous peoples	FI treated as C	
11. ADB Financing:			
	Sovereign/Nonsovereign	Modality	Source
	Nonsovereign	Loan	Ordinary capital resources
	Nonsovereign	Equity	Ordinary capital resources
			Amount
			\$5 million
			\$3 million
12. Cofinancing: B loan up to \$3 million to be provided by participating commercial bank(s)			
13. Counterpart Financing: Not applicable			
14. Aid Effectiveness: Not applicable			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed equity investment of up to \$3,000,000 equivalent in somoni in AccessBank Tajikistan (ABT), (ii) a senior loan of up to \$5,000,000 to ABT, and (iii) a B-loan of up to \$3,000,000 to ABT to be funded by participating commercial bank(s), all for Promoting Financial Inclusion through Greenfield Banking in Tajikistan.¹

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

2. Tajikistan is currently the poorest transition economy in the region.² It took the country 22 years to absorb the shocks of systemic change (1991) and the subsequent civil war (1992–1997). After the war, it managed a modest economic turnaround with a gross domestic product (GDP) compound annual growth rate (CAGR) of 8.0% (2000–2013). In 2013, real GDP per capita reached its 1990 pre-independence level at gross national income per capita of \$990, although real household expenditure barely exceeded half the 1990 level.³ The 2008–2009 global financial crisis and its aftermath affected demand for aluminum and cotton, Tajikistan's largest export commodities, although these declines were partly offset by the inflow of remittances, which now represent 52% of GDP. The GDP CAGR from 2009 to 2013 mildly declined to 7.2% (footnote 3). The decelerating growth of the Russian Federation's economy and the crisis in Ukraine are expected to lead to zero GDP growth in 2014, and are likely to lower remittance inflows to Tajikistan through a direct reduction of transfers and indirectly through the devaluation of the ruble.

3. Banks dominate the country's finance sector. The largest four represent 60% of banking system assets totaling TJS9 billion (\$1.8 billion) as of mid-2014. Tajikistan's finance sector has been exposed to several banking crises since its independence, which has severely undermined public confidence. The largest banks are known to house the bulk of nonperforming loans (NPLs) as a result of lending to state-owned enterprises and government-directed credit programs, including to the cotton sector. As these banks are constrained by solvency and liquidity problems, they lack the focus to serve the private sector. Serving entrepreneurs is left to smaller banks and the top five microfinance institutions, which appear to have the strength, investor support, and know-how to grow to a sustainable scale.

4. Only 16% of households have access to formal financial services.⁴ Although microfinance institutions are serving half a million households and businesses, their lending represents just 4.6% of GDP (2013). Limited central bank capacity in bank oversight; governance issues; a dearth of qualified staff; and a small, volatile market underscore the challenge of improving financial intermediation. Against the backdrop of limited access to finance, however, is rising demand for business loans. This is partly due to the flow of remittances from abroad, which stimulate private demand, especially in the service and trade sectors. Private credit to GDP has improved from 13% (2012) to 18% in mid-2014, but is not sufficient to meet the needs of the economy.

¹ The design and monitoring framework is in Appendix 1.

² ADB developing member countries in transition are Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Turkmenistan.

³ World Bank. Data: Tajikistan. <http://data.worldbank.org/country/tajikistan> (accessed 26 August 2014).

⁴ IMF Access to Finance database. <http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C> (accessed 26 August 2014).

5. Providing 47% of total employment, micro, small, and medium-sized enterprises (MSMEs) are a significant contributor to income in Tajikistan. Lack of access to finance by MSMEs has been identified as the major obstacle to doing business.⁵ Moreover, the vast majority (73%) of people live in rural districts. The poverty headcount index⁶ fell dramatically from a high of 84% (1999) to 28% (2009), which can be largely attributed to a fivefold increase in worker remittances (footnote 3). However, the rural poor represent 77% of total poor, or 50% of the rural population, indicating a high poverty incidence among the unemployed and those seasonally employed in agriculture.

6. Agriculture employs 64% of the labor force in Tajikistan.⁷ Although agricultural value addition grew at a CAGR of 8.1%% (2005–2013) or 1.2% above gross value added, the low labor productivity is improving only modestly, at a CAGR of 6.2% (2005–2013).⁸ Low quality standards, inadequate infrastructure, lack of access to finance, strong market power of purchasers, and government interference are major factors impeding agricultural productivity.⁹ High levels of food imports and the urban demand for food and beverages point to opportunities for MSMEs. Future progress in poverty reduction cannot be sustained unless additional channels for income generation are encouraged through inclusive growth strategies focused on private entrepreneurship and rural areas.

7. Intervention in the finance sector requires a careful choice of partners with the highest possible governance and integrity standards. In light of Tajikistan's challenging operating environment, ADB sought to identify a partner financial institution with strong corporate governance standards and able to effectively and commercially reach the unbanked segments. Through its association with AccessBank Azerbaijan (ABA), ADB was introduced to ABT.¹⁰ ABT was established in 2010 as a greenfield bank to serve low-income customers. ABT's majority shareholder, Access Microfinance Holding Aktiengesellschaft (AMH), has successfully tested this business model in eight low and lower middle-income economies in the Caucasus, Central Asia, and Africa. ABT's and AMH's international financial institution (IFI) investors share a long-term vision of building strong profitable banks, and exercise significant influence in promoting internal and external governance best practices. High-quality selection and training of staff and management, strong integrity and customer responsibility rules, zero tolerance for abuse, and extensive experience and resources to handle crises that may affect a bank in its start-up phase are essential elements of their successful greenfield banking model.

8. In its short history, ABT has been able to set high governance and integrity standards in Tajikistan's banking industry, driven by the quality and principles of its shareholders, strong board oversight, and robust asset quality and client responsiveness. An independent evaluation carried out by the Association of Microfinance Organizations of Tajikistan in 2013 rated ABT *outstanding* for fairness and responsibility toward its customers. These attributes and ABT's strong orientation to MSMEs across the country make ABT an excellent partner for ADB's first private sector equity investment in Tajikistan and accompanying loan. The proposed investment will improve financial inclusion in Tajikistan and further develop ADB's relationship with AMH in

⁵ World Economic Forum. 2014. *Global Competitiveness Report, 2014–2015*, Geneva.

⁶ Measured at \$2 per day purchasing power parity. World Bank. PovcalNet, <http://iresearch.worldbank.org/PovcalNet/index.htm> (accessed 6 March 2014).

⁷ World Bank 2012. *Tajikistan: Public Employment For Sustainable Agriculture and Water Management Project*. Washington, DC (page 1).

⁸ Footnote 3; agricultural value added per worker was only \$1,067 measured in constant 2005 dollars.

⁹ World Bank. 2011. *Tajikistan: Country Economic Memorandum*. Washington, DC.

¹⁰ \$50 million approved on 19 July 2013. ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to AccessBank Azerbaijan for Promoting Rural Financial Inclusion (Azerbaijan)*. Manila.

promoting financial inclusion in challenging markets.

B. Business Overview and Strategy

9. After 4 years of operation, ABT had assets of \$56 million, and a market share of 2.8% of loans and 1.9% of assets as of 30 June 2014. It has been building a strong franchise in the MSME segment, which represents 98% of total loans.¹¹ Its unique strength lies in its capability to analyze undocumented business cash flows and provide loans to MSME customers through its branch and loan officer network, hence filling the market gap where traditional lenders are not active. Initially focused on Dushanbe, ABT is now diversifying its portfolio by expanding its loan book in the regions (currently 25% of total loans), thereby gradually reducing its geographic concentration. Moreover, ABT plans to strengthen services to MSMEs and farmers through an additional 15 regional branches and outlets by the end of 2018, up from its current six-branch network. ABT has overcome the period of its start-up losses with 19 consistent months of profitability and a robustly growing loan book that increased by a CAGR of 71% (2011–2013). The first 8 months of 2014 indicate 45% growth by the end of FY2014. Growth is being supported by the opportunities offered by a substantially underserved MSME segment.

C. Ownership, Management, and Governance

10. **Ownership.** Established in 2010 as a greenfield MSME bank, ABT is predominantly owned by IFIs—AMH (74.5% owned by IFIs) holds 63.4%, the European Bank for Reconstruction and Development and the International Finance Corporation each hold 13.7%, and German development cooperation through KfW holds 9.1% of ABT's share capital. The direct and indirect shareholding of IFIs in ABT is 78.7%.

11. **Management.** ABT's board of management (BOM) is chaired by the chief executive officer (CEO) and has four additional members: the directors of finance, business banking, the small and medium-sized enterprise (SME) business, and retail banking and operations. The CEO, an experienced German commercial banker with in-depth banking experience in Europe and Central Asia, joined ABT in 2011. All but one BOM member have extensive international experience. They all have strong academic backgrounds and are familiar with greenfield MSME banking through exposure to ABA, ProCredit banks, or small business credit programs in Europe and Central Asia. Two of the five BOM members are women, including the CEO. The BOM sets strategic business targets for approval by the board of directors (BOD).

12. **Governance.** ABT's governance structure includes a two-tier board comprising the BOD and the BOM. The BOD is responsible for issuing and supervising ABT's policies and strategic objectives, and supervising the BOM. AMH nominates three BOD members, and the European Bank for Reconstruction and Development and KfW each nominate one member.¹² All BOD members have extensive international banking experience and are familiar with greenfield MSME banking through exposure to ABA and ProCredit banks in Eastern Europe. The BOD is extensively involved in the oversight of ABT's operations through BOD committees, including the audit committee, and by approving all of ABT's operating policies and procedures.

13. ABT's audit department reports directly to the audit committee. The external auditor, Deloitte and Touche, has conducted audits since 2010. Historically, audit observations have primarily related to addressing fraud identified at branches. ABT has an advanced core banking

¹¹ The remaining loans are staff loans.

¹² The International Finance Corporation has not exercised its right to nominate a board member.

system (Temenos 24) in place. Audit observations have not identified any major accounting, operating, or compliance risks. ABT dismisses staff if fraud is substantiated. In the view of the audit department, ABT management handles audit issues in a timely manner. ABT's audit function works based on risk assessments and is considered to be well established. The finance and legal departments manage the reporting of suspicious transactions, which are uncovered by scanning information by source of wealth, politically exposed persons, and watch lists. It has well-established "know your customer" policies to combat money laundering, and reports findings to the Financial Inspection Unit of the National Bank of Tajikistan (NBT).

D. Financial Performance

14. **Capital adequacy.** ABT's capital adequacy, under both Basel I guidelines and NBT prudential regulations, well exceed minimum requirements. However, capital adequacy was affected by start-up losses that ended in January 2013. To support ABT's business growth, AMH injected \$3.5 million equivalent in new capital in June 2013. As a result, ABT's Basel I tier 1 capital adequacy ratio was maintained at or above 22% (2010–2013). To support future growth and maintain capital adequacy at above 20%, a further capital increase of \$4.7 million is needed with AMH and ADB participation in early 2015. The conservative base-case business plan takes into account the anticipated short-term impact of a significant drop in remittances due to the currently deteriorating regional market environment, especially the anticipated zero GDP growth and potential recession in the Russian Federation.

15. **Asset quality.** ABT's gross loan portfolio (GLP) reached \$51.5 million by 31 August 2014. ABT recently revised its business plan for 2014–2018, and set a GLP growth target at a CAGR of 30%. In September 2012, a large fire in a central (Korvon) market affected 11% or \$2.3 million of ABT's loan portfolio (representing 611 accounts). ABT established a dedicated asset recovery unit, which managed to collect 93% of the affected loans by 31 August 2014. As a result of the effective recovery effort and the rigorous client selection and monitoring process, ABT's NPL ratio very substantially improved from 11.3% at the end of FY2012 to 3.1% by 31 August 2014, which is low in the Tajikistan business environment. The Tajikistan banking system has historically recorded very high NPL ratios ranging from 10% to 25%.¹³

16. ABT has a conservative provisioning policy, with specific loan loss reserves equal or exceeding portfolio at risk greater than 30 days since 2013. The granularity of the loan portfolio and the gradual regional and sector diversification is expected to support strong asset quality. Single and related-party exposures are minimal and far below the NBT prudential minimum of 20% and 2% of total capital, respectively.

17. **Earnings.** Since February 2013, ABT has been generating positive monthly net income, which led to the first full-year profit in 2013. Unaudited figures for the first 8 months of 2014 indicate a robust improvement in profitability with an estimated annualized return on equity of 7.2% and a return on assets of 1.3%. ABT's net interest margin has improved by 5.2% since 2011, exceeding 23.0% in 2012 and 2013. ABT's net interest margin is strong by international standards, and appropriate given its high cost–income ratio, which reached 85.3% in 2013 due to ABT's personnel-intensive low-transaction volume business model.

¹³ In this report, ABT's NPLs are defined in accordance with International Financial Reporting Standards as the sum of (i) not impaired loans overdue more than 90 days, (ii) loans classified as impaired, and (iii) restructured loans within 12 months of the reporting date and not included in (i) or (ii). Tajikistan's banks classify NPLs on delinquency in line with NBT. NPLs are reported by NBT semiannually in its statistical bulletin.

18. **Liquidity and asset–liability management.** During 2014, ABT managed to improve its term deposit base from 18% at the end of FY2013 to 60% of total deposits by 31 August 2014. While notably improved from 2.2% (2011) to 4.4% (2013), the share of deposits to total funding is still low, reflecting ABT’s nascent stage and the Tajiks’ limited use of banks for depositing funds. Improving deposits by cross-selling to MSMEs and by attracting institutional customers will be important to provide more stable domestic funding. For the coming 5–7 years ABT will rely significantly on IFIs for financing its asset growth. ABT has established strong capabilities in mobilizing direct and indirect (through microfinance investment funds) IFI funding, and commercially oriented bilateral and philanthropic investor funding (including funding from its shareholders), given its attractive commercial and development-oriented business model. Access to other commercial funding remains limited given the challenging country context. ABT’s domestic wholesale funding is insignificant.

19. **Sensitivity to market risk.** All Tajik banks are exposed to market risk arising from the direct foreign currency exposure of their funding. ABT matches its foreign currency deposits and borrowings with foreign currency lending, and manages foreign-currency-induced credit risk by requiring borrowers’ debt service ratio to exceed 130%, to ensure debt service capacity under adverse scenarios.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

20. The proposed ADB assistance comprises an equity investment of up to \$3 million equivalent in somoni (not to exceed a shareholding of 15%), to be invested partly as an initial investment and partly through subsequent exercise of preemptive rights.¹⁴ The ADB assistance also includes a senior unsecured loan of up to \$5 million to be disbursed in two tranches with a tenor of up to 5 years each. The assistance will be further enhanced through an expected B-loan of up to \$3 million to be provided by participating bank(s). The proceeds will be used to support growth in ABT loans to MSMEs across Tajikistan. Finally, the package includes \$0.5 million in technical assistance (TA) from an existing TA to support ABT’s outreach to underserved rural areas and improve its staff qualification and risk management abilities.¹⁵

B. Implementation Arrangements

21. The equity investment and the disbursement of loans will be made in tranches to match the capital and borrowing requirements of ABT. ABT will provide annual audited financial statements in accordance with International Financial Reporting Standards, and quarterly financial statements and compliance certificates for agreed covenants. Reporting will include updates on (i) governance, safeguards, and social protection compliance; and (ii) ABT’s business performance and utilization of the loans. In addition to the right to appoint a member to the BOD, ADB will field on-site reviews at least annually and discuss progress with ABT management.

C. Value Added by ADB Assistance

22. ADB’s value addition is expected to be the following:

¹⁴ An upward limit of \$3 million is being proposed to permit participation in future rights issues to support the bank’s growth.

¹⁵ ADB. 2013. *Technical Assistance to the Republic of Tajikistan for Capacity Building for Rural Financial Inclusion*. Manila (cofinanced by the Financial Sector Development Partnership Fund).

- (i) ADB will provide stable capital and long-term financing to support ABT's growth to a sustainable scale. Long-term debt, as discussed, is not available in the local market. ABT is expected to demonstrate the benefits of good service delivery and high standards of governance and integrity in the Tajikistan banking sector. More broadly, the investment may help increase public confidence in the banking system, through the support of ABT's reaching out to underserved business segments and rural areas.
- (ii) The equity and loan investments will improve financial inclusion specifically by targeting MSMEs, including farmers. MSMEs are not well served by the traditional banking system, and ABT has developed specialized lending practices to reach these customers.
- (iii) ADB is also expected to mobilize private financing through a B loan (para. 20). This cofinancing arrangement in Tajikistan's challenging operating environment is particularly notable.
- (iv) The ADB TA will add value by augmenting the ability of the nascent ABT to increase its branch presence and better serve farmers and MSMEs, improve risk diversification, and enhance staff qualifications and risk management.
- (v) Finally, ADB will nominate a BOD member who will contribute to corporate governance and strategic and risk management issues, and other areas.

D. Risks

23. **Operating environment.** The global economic downturn hurt the Tajikistan economy, as evidenced by the decline in aluminum and cotton exports, and remittances, and the associated sharp decline in GDP growth. In banking, depositor confidence has further weakened as shown by the sector-wide loan–deposit ratio of 144% as of 30 June 2014, and asset quality deterioration, especially at the large, systemically important banks. Notwithstanding the current economic growth, the very small domestic economy has become highly dependent on worker remittances, mainly from the Russian Federation;¹⁶ is highly concentrated in Dushanbe; and remains susceptible to deteriorations in the operating environment, which could undermine asset quality and capital adequacy. In response, ABT will diversify its portfolio by targeting regional businesses, and to continue benefiting from its highly granular portfolio, which is diversified across multiple sectors.

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E. Development Impacts, Outcome, and Output

24. **Impacts.** Financial inclusion is improved for MSMEs. This will be reflected by increased access to finance for firms. Also, ABT is expected to have a positive demonstration effect by supporting banking industry growth, as shown in increasing ratios of private credit to GDP and deposits to GDP.

25. **Outcome.** ABT is a sustainable bank with significant outreach to MSME clients, including farmers. ABT is expected to set an example for other banks in deepening its outreach to business clients across rural areas, while retaining good asset quality and funding private activity with employment and income benefits for the business owners and their staff.

¹⁶ Tajikistan's exposure to the Russian Federation is amplified by its anticipated deceleration in economic growth and potential adverse impacts of the current geopolitical tensions involving the Russian Federation.

26. **Output.** ABT's banking services to business clients are expanded. ABT will ensure that adequate investment is made in human resources and branch infrastructure. Providing capital to businesses, including farmers, will strengthen their role as an important source of employment. Emphasizing lending based on business cash flows, expanding into regions, and providing term finance will serve the regions and diversify ABT's risk and income profile.

F. Alignment with ADB Strategy and Operations

1. Consistency with Strategy 2020 and Country Strategy

27. Under the Midterm Review of Strategy 2020, ADB aims to strengthen its support for the finance sector by assisting the development of financial infrastructure, institutions, and products and services; and by promoting inclusive growth.¹⁷ Through its initiatives, ADB will support channeling of savings into productive investments. Building inclusive financial systems will be supported through ABT's focus on funding entrepreneurs and regions where the potential for employment and income generation is high. This is consistent with government efforts to promote growth and employment. Poverty reduction through private sector development will be supported via ABT's business across Tajikistan, which is among ADB's poorest developing member countries.

28. ADB's country partnership strategy, 2010–2014 highlights the importance of private sector development as a pillar for intervention.¹⁸ An ADB country assistance program evaluation was completed in 2014 and emphasized the need for inclusive development interventions. Both reports highlight the importance of developing private and financial institutions, and state that agriculture and MSMEs have inadequate access to financial services, and that lending support via financial institutions presents the greatest opportunity for ADB's private sector operations.

2. Consistency with Sector Strategy and Relevant ADB Operations

29. Finance sector development is a key focus of ADB assistance as set out in ADB's Private Sector Development Strategy, which notes economic growth, stimulated by private sector investment, as a key contributing factor in reducing poverty, and emphasizes the importance of generating jobs, with private sector employment being the major source of income for workers and their families.¹⁹ The strategy also stresses ADB's role in strengthening finance sectors in its developing member countries. It states that SME beneficiaries of financial intermediation are important employers and providers of income and thereby contribute to poverty reduction. Supporting financial intermediaries is important to instill confidence and restore the finance sector in countries affected by macroeconomic shocks and financial crises. ADB plays an important role in supporting Tajikistan's business climate and microfinance sector through sovereign interventions.²⁰ Bank Eskhata benefits from ADB's Trade Finance Program. The proposed intervention would be ADB's first private sector investment in Tajikistan.

IV. POLICY COMPLIANCE

¹⁷ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹⁸ ADB. 2010. *Country Partnership Strategy: Tajikistan, 2010–2014*. Manila.

¹⁹ ADB. 2000. *Private Sector Development Strategy*. Manila.

²⁰ ADB. 2013. *Technical Assistance to the Republic of Tajikistan for Investment Climate Reforms*. Manila; ADB. 2013. *Technical Assistance to the Republic of Tajikistan for Access to Green Finance Project*. Manila; ADB. 2013. *Technical Assistance to the Republic of Tajikistan for Trade and Investment Regime*. Manila.

A. Safeguards and Social Dimensions

30. The investments are classified category FI for environment, and FI treated as C for involuntary resettlement and indigenous peoples. The potential environmental and social impacts of the proposed investments and associated risks have been assessed as well as ABT's commitment and capacity for environmental and social management. ABT's business activities are unlikely to entail impacts on involuntary resettlement and indigenous peoples. ABT will apply ADB's prohibited investment activities list, exclude all projects that will have adverse social safeguard impacts, ensure that investments abide by applicable national laws and regulations, comply with ADB's Safeguard Policy Statement (2009) and internationally recognized core labor standards, and maintain its environmental and social management system satisfactory to ADB before ADB's first disbursement of loans and equity investment. As female clients are targeted to increase, the transaction is classified as some gender elements.

B. Anticorruption Policy

31. ABT was advised of ADB's policy of implementing international practice in combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

32. The proposed direct senior loan will be disbursed in tranches to ensure compliance with ADB exposure limits. The proposed equity investment is also expected to be released in more than one infusion. The combined equity and loan amounts will remain within the medium-term country, industry, group, and single investment exposure limits for nonsovereign investments.

D. Assurances

33. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),²¹ the Government of Tajikistan will be requested to confirm that it has no objection to the proposed assistance to ABT. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

V. RECOMMENDATION

34. I am satisfied that the proposed equity investment and loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the equity investment of up to \$3,000,000 equivalent in somoni in AccessBank Tajikistan from ADB's ordinary capital resources,
- (ii) the senior loan of up to \$5,000,000 to AccessBank Tajikistan from ADB's ordinary capital resources, and
- (iii) the B-loan of up to \$3,000,000 to be funded by participating commercial bank(s),

²¹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

for Promoting Financial Inclusion through Greenfield Banking in Tajikistan, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

05 November 2014

Bindhu Lohani
Ranking Vice-President

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impacts Improved financial inclusion for MSMEs</p> <p>Growth of Tajikistan's banking system</p>	<p>Share of firms receiving a bank loan increased from 14.6% (2013) to 20% (2025)^a</p> <p>Ratio of private credit to GDP is 19% (2025) compared with 16% (2013)</p> <p>Ratio of customer deposits to GDP is 18% (2025) compared with 14% (2013)</p>	<p>IFC enterprise survey</p> <p>NBT bulletin, semiannual</p>	<p>Assumption ABT has a positive demonstration effect.</p> <p>Risks Political risks, economic volatility, and fiscal risks</p>
<p>Outcome ABT is a sustainable bank with significant outreach to MSMEs.</p>	<p>ABT total capital adequacy maintained at above 12% (2014–2019)^b</p> <p>ABT regional loan portfolio increased from 25% of gross loan portfolio (2014) to greater than 35% (2019)</p> <p>ABT ESMS meets ADB safeguard requirements (2015 onwards)</p>	<p>ABT quarterly management reports</p> <p>ABT annual ESMS reports</p>	<p>Assumption ABT asset quality maintained</p> <p>Risks Currency risk</p> <p>Increased competition decreases ABT's profitability.</p>
<p>Output ABT's banking services to business clients are expanded.</p>	<p>ABT's MSME loan portfolio increased from \$40 million (2013) to more than \$140 million (2020)</p> <p>ABT's MSME borrowers increased from 9,600 (2014) to 20,000 (2020)</p> <p>ABT's female borrowers increased from 2,300 (August 2013) to 4,000 (2020)</p>	<p>ABT quarterly management reports</p>	<p>Risk Loan default risk</p>
<p>Activities with Milestones</p> <ol style="list-style-type: none"> 1. ADB negotiates and executes B-loan with ABT and participating commercial bank(s) in 2015. 2. ADB provides equity funding representing a 10% shareholding in 2015. 3. Debt of up to \$8 million is provided in tranches disbursements from 2015 to 2018. 4. ADB provides technical assistance to support rural outreach and risk management capabilities from 2015 to 2018.^c <p>3. Monitoring and review missions (2015 onward)</p>		<p>Inputs</p> <p>ADB: up to \$3 million equity investment</p> <p>ADB: up to \$5 million senior loan</p> <p>B-loan: up to \$3 million</p>	

ABT = AccessBank Tajikistan; ADB = Asian Development Bank; ESMS = environmental and social management system; GDP = gross domestic product; IFC = International Finance Corporation; MSMEs = micro, small, and medium-sized enterprises; NBT = National Bank of Tajikistan.

^a World Bank Group. Enterprise Surveys. <http://www.enterprisesurveys.org/data/exploretopics/finance>

^b Defined as ratio of total base capital (tiers 1 and 2) to risk-weighted assets of not less than 12%.

^c ADB. 2013. *Technical Assistance to the Republic of Tajikistan for Capacity Building for Rural Financial Inclusion*. Manila (cofinanced by the Financial Sector Development Partnership Fund).

Sources: AccessBank Tajikistan and Asian Development Bank.