

Official Launch of Credit Registry at the Ministry of Justice Dushanbe – February 1, 2019

Jan-Peter Olters, World Bank Country Manager

In essentially every dynamic, innovative economy, small and medium-sized enterprises, and especially start-ups, tend to finance their investments through bank credits. Rejected credit applications, or prohibitively high interest rates, constrain a firm's—and, ultimately, a country's—growth opportunities.

Principally two factors lead to such a situation, viz., (i) a narrow *deposit base*, partly the result of a narrow private sector unable and/or insufficiently confident to develop its potential; and (ii) a high *risk premium* placed on any loan by commercial banks. The latter factor has, in principal, to root causes: First, banks find it very difficult to enforce credit contracts in instances of default, unable to sell collaterals within a reasonable time span. Second, companies are constrained in their ability to provide collaterals, principally tied to the ownership of land and real estate. Especially new—and these are often the most innovate—firms often cannot fall back on immovable property as guarantee for a loan application.

With the implementation of reforms to permit for a modern secured transaction system, comprised in a set of nine laws, Tajikistan is leading efforts among countries in the former Soviet Union to incorporate a functional approach to secured transactions. By applying operational rather than legal principles, banks will be helped in enforcing collaterals and firms benefit from being able to broaden the types of moveable assets that they can pledge.

As such, this reform represents a critical building block in efforts to facilitate borrowing opportunities for SMEs, to reduce the implicit risk premium that banks have to place on credits, and to initiate a virtuous cycle of lower risks, increased access to credits, increased investments, an accelerated rate of innovation, higher profits (net of taxes), and increased deposit base, lower interest rates, increased supply of credits to the economy, ... As helpful side effect, Tajikistan should see a substantial improvement in the *Getting Credit* indicator in the World Bank's annual *Doing Business* survey, where Tajikistan is currently ranked 124th out of 190 countries altogether. That, in itself, will send an important signal to potential investors.

By expressing our sincere congratulations to this critically important milestone, the World Bank Group remains committed to continuing to support related reforms. We are building on a very strong track record of close collaboration, for which I am expressing my sincere gratitude to our counterparts in Government, the State Investment Committee, and the National Bank of Tajikistan. Since 2012, the World Bank has worked closely with Tajikistan, under the umbrella of the *Private Sector Competitiveness Project*, to support Tajikistan in financing a modern, online, notification-based collateral registry—in itself the tool to operationalize the legal reforms that are the subject of today's event. In support, the IFC's technical assistance project, the *Azerbaijan Central Asia Financial Infrastructure Project*, with generous support from the Government of Switzerland, critical to the ability of reaching this milestone, has supported the necessary legal reforms.

This is, of course, not the end of the road, and the ultimate success hinges on the follow-up in implementation. We are counting on the active promotion by the Ministry of Justice, the State Investment Committee, and the National Bank of Tajikistan to encourage all contractual partners in the financial and private sectors to take full advantage of the development potential inherent in this registry. This would entail a focus on ensuring that the pricing mechanism incentivizes this increased usage and collaborating in the delivery of efficient training on the functioning of this registry to all relevant parties in the financial and private sectors.

Tajikistan has taken an important step towards providing banks and firms with an environment that encourages investment, innovation, and employment generation, while providing additional incentives and encouragement to similarly successful reforms in other areas currently holding back the private sector's ability to be successful both in domestic markets and the newly accessible, very large and underserved market in the direct neighborhood. Congratulations, thanks, and best wishes for the continued focus on necessary reform areas that would help to support banks and enterprises in Tajikistan. The World Bank Group remains committed to maintain, if not increase, its support to Tajikistan in efforts to upgrade its remittance-financed, import-reliant economic model into a much more dynamic, export-oriented one at the intersection of Central, South, and East Asia.