

# Cleantech Finance Report – Tajikistan:

## Understanding Tajik cleantech finance ecosystem for MSMEs in agri-food production and processing sector

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Tajikistan

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*The Resource Efficiency in Agri-food Production and Processing (REAP) project will be implemented along two dimensions, direct industry support and stakeholder engagement. The primary activity of the project will be targeted towards direct support provided to micro, small and medium enterprises (MSMEs) in agri-food production and processing sector through capacity building measures, direct consultation and guidance through the process of implementing Sustainable Consumption and Production (SCP) practices. In addition, the project will conceptualise and implement specific activities to target key stakeholder groups individually through stakeholder roundtables, policy roundtables and financial sector engagement. This will enable the creation of a comprehensive support framework for SCP uptake in MSMEs. One of the key activities is to engage with stakeholders involved in cleantech finance in order to strengthen opportunities for MSMEs in access to finance to implement high-cost SCP interventions. This document is an initial draft based on desk research. This report will be updated at the end of the REAP project with the feedbacks and experiences drawn from the project's cleantech finance related activities with MSMEs and financial institutions.*

## Background

Tajikistan's economy is built on mineral extraction, metal processing and agriculture, with 28.6% of GDP coming from agriculture and 25.5% from manufacturing (<https://economy.com/tajikistan/>). According to the World Bank report, the registered economic growth in 2019 was 7.5%, supported by a robust year-on-year growth in industry (14%), agriculture (7%) and retail trade (9%) (The World Bank, 2021).

Recent developments show that despite the expected global decline in economic growth due to the COVID-19 pandemic, Tajikistan has rebounded to pre-pandemic levels of economic growth. The statistics show that the real GDP in the first half year of 2021 grew to 8.7% year over year compared to a slowdown to 4.5% in 2020. Nevertheless, on account of inflation the National Bank of Tajikistan increased the refinancing rate therefore tapering off credit growth in the country which might have a negative impact on MSMEs (The World Bank, 2021). Refinancing rate increased from 10.75% to 13,25% by October 2021 (National Bank of Tajikistan, 2021).

According to the National Bank of Tajikistan, the unemployment rate in Tajikistan was 7.5% for year 2020 (Statista, 2022). To date, labour force occupation is divided as following: agriculture 43%, industry 10.6%, services 46.4% (Theodora, 2020). IFC reports that SMEs in Tajikistan provide more than 95% of the total number of private companies in the country and are the major employers in rural areas and for disadvantaged members of society. However, their contribution to the GDP growth remains low, constituting to about 30 percent (OECD average is 50 percent), due to a number of factors, such as relatively small turnover, underdeveloped value chains, as well as regulatory and economic impediments (OECD, 2015).

According to the American International Trade Administration, there are 337 agri-food processing companies in Tajikistan. Their development potential as well as of their corresponding supply-chains, however, is currently still being curtailed by deficiencies in cold chain management, transport infrastructures and the limited access to information caused by a lack of an extensive mobile network.

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The cost of food in Tajikistan in November 2021 had increased by 7.4% compared to the same of 2020 with the peak increase over the past five years occurring in April 2020 compared to the same month in 2019 (Trading Economics, 2021). More than 70% of food is imported, although climatic conditions would be ideal for increasing self-sufficiency and exports, if the suitable economic environment were to be created. Factory equipment in food processing is largely technically outdated. Insufficient amounts of machinery lead to bottlenecks at planting and harvest time, creating an inability to reach full production potential at the macro-level. An energy efficiency review of the country by the Energy Charter Secretariat (in 2013) found the need for replacement of worn out pumping stations by efficient electric motors and the introduction of modern irrigation systems in the agriculture sector.

## Tajik Cleantech Finance Ecosystem

According to the ADB report, SMEs assess financial services from 16 commercial and 80 microfinance institutions in Tajikistan. Beside the National Bank of Tajikistan (NBT), the largest and most important banks in Tajikistan as of 2020 were, Tojiksodirobtbank (TSB), Oriyonbank, and Amonatbank (Mirzoev & Sobirzoda, 2019).

The largest sectors to which NBT and MFI lend finances are industry and agriculture. While bank portfolios are divided as following: industry (38%), foreign trade (17%), agriculture (12%), consumption (11%) and construction (11%), the two main sectors for MFI are consumption (34%) and agriculture (26%) (Mirzoev & Sobirzoda, 2019).

Some of the most active international donors are the World Bank (WB), the Asian Development Bank (ADB), the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), the Climate Investment funds (CIF) and the Global Environment Facility (The World Bank, 2020).

While the Committee on Environmental Protection is responsible for natural resources management and environmental protection and is the main authority to coordinate and manage climate finance on national level, the Ministry of Agriculture along with the Ministry of Energy and Water Resources are also among key national partners in implementing climate finance.

A number of International organizations have engaged into developing agriculture practices. GIZ and Habitat for Humanity are two development agencies in Tajikistan which have initiated home energy efficiency market development programs driven by private sector small and medium enterprise (SME) suppliers in combination with microfinance (ADB, 2019).

In addition, the Climate Finance Readiness Programme development at national level was facilitated through GIZ and has assisted Tajikistan and other partner countries in planning, accessing and managing climate finance since from 2012 to 2018 (GIZ, 2017).

Since June 2014 the Agriculture Commercialisation Programme in Tajikistan is supported by the World Bank and International Finance Corporation and funded by the International Development Association (The World Bank, 2014). The project supports commercialization of farm and agribusiness products and MSMEs development by providing better access to finance and strengthening their capacity. „Potential investments include: improved on-farm technology, storage, processing, new products, marketing, quality enhancement and food safety” (The World Bank, 2014).

Trade Facilitation Programme of another important actor EBRD is aimed at strengthening the ability of local banks to provide financing of exports, imports and the local distribution of green technologies in the

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line with Green Economy Transition approach (Reiserer, 2020). Issuing banks for TFP program in Tajikistan are Bank Eskhata, Bank Arvand and The First Microfinancebank (EBRD, n.d.).

Green Economy Financing Facility (GEFF) provides climate finance through local financial institutions. The institutions are Bank Eskhata, Bank Arvand and Imon international (GEFF, n.d.). The support is available in a form of grants and loans, primarily in agriculture and agri-business investing in high performing technologies. It is supported by the European Bank for Reconstruction and Development (EBRD), European Union (EU), Green Climate Fund (GCF) and South Korea. GEFF Tajikistan builds on the successful experience of its predecessors, such as the ECTAP facility, which increased access to finance in the agricultural sector, and CLIMADAPT, which piloted financing for climate resilience (Rozanova, 2019).

Additionally, the GCF and EBRD co-financed programme FP025 (2018-2033) delivers climate finance to the private sector, including MSMEs through Partner Financial Institutions, which funds “scalable and replicable projects across industrial, commercial, residential, transport and agricultural sectors”. The programme supports “investment in high performance climate technologies, including renewable energy, energy efficiency and climate adaptation measures, such as improving water management” (Green Climate Fund, 2017).

In 2020 UNSDG developed an Integrated Socio-Economic Response Framework (ISEF) to COVID-19 for Tajikistan as a collective response of UN to the socio-economic impacts of COVID-2019, which is anchored to the COVID-19 Country Preparedness and Response Plan and the Ministry of Economic Development & Trade Economic Plan. Among many targets as health services, protection of vulnerable people, macroeconomic response and social cohesion it includes provisions for support for green economic recovery (OECD, 2021). Actions on economic recovery & livelihoods are based on provision of advisory services on financing facilities including grants, concessionary loans, and special credit lines for SMEs (UNSDG, 2020).

To date, international climate-related finance projects in agriculture focused on rural livelihood improvement and loan facility for investments in technologies for climate resilience.

The approaches include:

- increasing the capacity of agri-businesses and agro-processors to better access and use agricultural markets;
- improving access to finance; and
- strengthening the institutional framework, amongst other (OECD, 2016).

The financing allocation mechanisms for programs, such as described above, involve either local financial institutions as banks, microfinance institutions, or local representations of these institutions (facilities). The following table (Table 1) shows the funding mechanisms including loans, grants and investments. All of these mechanisms are applicable to the food processing industry.

The current average interest rate in Tajikistan for the national credit schemes is around 24%. According to the Global Economy platform, which provides economic data for businesses, the average interest rate for private sector in 2019 was 23.55% (The Global Economy.com, n.d.).

**Table 1 - Financial schemes for MSMEs in agro-processing sector in Tajikistan**

Financial Institutions	Product	Eligibility criteria	Ticket size	Payback period
<b>CJSC Bank "Arvand"</b>	GEFF loans*	MSMEs in agricultural value chains, commercial and residential users. Agricultural value chains include production, food and beverage processing, packaging, storage and transportation	N/I	Up to 60 months
	Loan "Zan Dar tigorat"	Only women entrepreneurs are eligible	From 1000 to 250 000 TJS.	<ul style="list-style-type: none"> <li>Up to 36 months;</li> <li>Up to 60 months for purchase of agricultural machinery</li> </ul>
	For crop cultivation loan	Rural residents cultivating, producing, processing and storing crops	Up to 100 000 TJS; equivalent in \$ and Russian ruble	Up to 36 months
	For cattle farming loan	Farmers increasing and fattening cattle as well as processing and producing dairy products	Up to 1 million TJS and more; equivalent to \$ and Russian ruble.	
	«Aral Sea project» loan	Rural residents cultivating, producing, processing and storing crops	1) Up to 500 000 TJS for legal entities; 2) Up to 250 000 TJS for individuals"	
<b>Bank Eshkata</b>	GEFF loans*	MSMEs in Agricultural Value Chains, commercial and residential users. Agricultural value chains include production, food and beverages processing, packaging, storage and transportation	From 5,000 to 1 million TJS (also available in \$)	Up to 60 months
	"Co-financing by Eshkata Bank jointly with the EBRD" loan	Legal entities are eligible for the purposes of investments, modernization of national economy production, financing of fixed assets, etc.	N/I	-
	Corporate lending at Bank Eshkata the new financial instrument "Risk sharing with the EBRD"	Only legal entities for acquisition of new equipment for production	Min. \$2 million	
<b>Microcredit Deposit Organization IMON INTERNATIONAL</b>	GEFF loans*	MSMEs in Agricultural Value Chains, commercial and residential users. Agricultural value chains include production, food and beverages processing, packaging, storage and transportation	From 1,000 to 500,000 TJS	Up to 60 months
	Commercialization of agricultural sector	Farmers, processors and traders	1) From 10,000 to 500,000 in TJS	

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	loans for building the capacity of farmers, processors and traders		2) From 1,000 to 55,000 in \$	
<b>Spitamén Bank</b>	Agrocredit	Agricultural entrepreneurs incl. individuals and dekhkan/farming household	1) From 3 000 to 300 000 in TJS 2) From 300 to 30,000" in \$	From 3 to 60 months
<b>Micro Credit Deposit Organization "Humo"</b>	Commercialization of agriculture loans	Individuals and legal entities experience in the field of agriculture for over 6 months. For acquisition of agricultural machinery and equipment and processing of dried fruits	From 80 000 to 250 000 TJS	From 24 to 36 months.
<b>International bank of Tajikstan</b>	Loan for the development of agriculture and entrepreneurship	Legal entities, individual entrepreneurs, collective farms in agriculture	Up to 200 000 TJS for entrepreneurial activity	Up to 36 months
<b>GEFF – Green Economy Financing Facility</b>	Grant in the size of 20%-30% of the investment cost	Eligibility for an investment grant is granted upon successful completion and verification of the GEFF Loan, provided that the borrower meets the qualifying criteria	20%-30% of investment cost	-
<b>Public Organizashion Madina</b>	Small grants for capacity-building of small and medium-sized entrepreneurs in GBAO	Small and Medium enterprises in food industries in GBAO region	From 40,000, to 100,000 TJS	Up to 36 months
<b>AKFED</b>	Accelerate prosperity project Investment grant awarded after the competitive incubator program	Businesses with emphasis to create employment for women and other significant employment opportunities, conducting cross-border trade, with high growth potential	Up to \$50 000	-
<b>ACD/VOCA - Central Asia Impact Fund for Small and Growing Businesses through AV Frontiers</b>	Investments	Businesses promoting: i. lasting impact on low-income or marginalized groups; ii. creating jobs above the national average; iii. Promoting women's leadership and equality; iv. positively impacting the environment or mitigating climate change	N/I	8-10 years

\*There are two ways to acquire equipment:

1. It must be acquired through the online Green Technology Selector platform, or
2. It must be a comprehensive investment project with energy, resource and water saving of at least 20%, which is evaluated and approved by a GEFF project consultant

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## Policy Reforms

In the past few years, Tajikistan's financial system has undergone few reforms that facilitate easier access to finance. It is now among top twenty business climate reformers worldwide in the World Bank Group's Doing Business 2020 ranking (The World Bank, n.d.). It introduced a functional approach to secured transactions, established a comprehensive regime for the harmonization, publicity, and enforcement of security rights based on United Nations Commission on International Trade Law (UNCITRAL) principles.

The main areas of reform in 2018-2021 included:

- streamlining the process of issuing social and tax identification numbers at the time of company registration;
- strengthening access to credit by launching a unified and notice-based collateral registry (operational since February 2019); introducing a functional secured transactions system; broadening the scope of assets that can be used as collateral; allowing the general description of debts and obligations; granting secured creditors absolute priority; and providing a time limit and clear grounds for relief from automatic stays during reorganization procedures;
- facilitating the export of perishable goods by streamlining customs clearance processes. Despite substantial progress, Tajikistan continues to underperform in the areas of getting electricity (ranked 163 of 190), resolving insolvency (153), paying taxes (139), and dealing with construction permits (137).
- concluding a Simplified Customs Corridor agreement with Uzbekistan, which simplifies customs clearance between the countries as part of export reforms (The World Bank, n.d.).
- launched single window for the registration of export, import and transit procedures (EBRD, n.d.).

SME financing is expected to become easier to obtain, less risky, and less costly following reforms to Tajikistan's secured transactions regime in early 2019. The credit portfolio remains dominated by the (large) corporate private sector (29.6 percent of total lending) and SOEs (24.1 percent). Lending to individuals and entrepreneurs together account for 43.1 percent of the total credit portfolio.

The "300 Days of Reforms" action plan was adopted in 2019 to strengthen investments and create a more favourable business environment. In addition, the authorities are improving a legal framework governing investment by amending the Investment Law and defining, among other things, the types of state support provided to investors. The goal is to review fiscal and investment incentives that failed to generate expected outcomes (The World Bank, 2019).

## Challenges for Industries in Access to Cleantech Finance

Despite efforts in the right direction, past reforms have yet to create the desired effect of notable growth in small and medium enterprises and the country's export base. There are a number of challenges that have to be addressed to successfully implement climate finance mechanisms and enhance the competitiveness of Tajikistan produced products on the global market. Among the most apparent challenges are:

- High interest rates and ineffective schemes;
- Complex, inefficient taxation and high taxes;
- Lack of infrastructure, including transport;
- Lack of awareness among MSMEs in accessing climate/cleantech finance;
- No proper value chain development leads to the absence of competitive advantage in the region, which has to come with widening market opportunities;
- Energy efficiency and water management remain main sectors and are state owned;

## Initial recommendations

- **Establish a private sector development strategy** that will include formal partnership with local NGO, international donors and development organizations.
- **Increase finance accessibility** through boosting cooperation with local banks, providing them with up to date data on market demand to stimulate more loans at better conditions.
- **Introduce reforms in the taxation system** by establishing a policy dialogue with core national actors, such as the Ministry of Finance, Tax and Customs Committees and engaging with international donors (World Bank, ADB, IFC, IMF) to support tax reforms with technical assistance.
- **Increase awareness and capacities of MSMEs** to access climate finance.
- **Develop technical skills of local specialists** through training and capacity building of local specialists and consultants.
- **Stimulate international technology transfer** (ADB, 2019).

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