

PRIVATE SECTOR DEVELOPMENT ROAD MAP

A. Role of Private Sector in Tajikistan's Economy

1. Tajikistan's economy depends heavily on a narrow production base and two major export commodities - cotton and aluminum - in addition to remittances from workers abroad. One of Tajikistan's biggest challenges in diversifying its economy has been its inability to increase private investment levels in the country. The private sector constitutes a relatively low share of national output and employment, even by regional standards.¹ In 2008, Tajikistan's private sector contributed 48% of total GDP, as compared to 75% in the Kyrgyz Republic and 77% in Kazakhstan. The private sector's contribution to total employment in 2008 was even lower (at 31.4%), despite consistent growth since 2000.² Total investment, dominated by the public sector, has hovered around 20% of GDP (20.5% in 2011).³ Private investment has stagnated at around 5% of GDP, the lowest rate in Eastern Europe and Central Asia (EECA) region. Bank credit to the private sector was at 25% of GDP in 2009 but has fallen to 13.7% in 2011.⁴ There is an urgent need to implement structural and policy reforms in Tajikistan to create an investment climate which is conducive to increased private sector participation by at least 25% in terms of new businesses registered in 2014 from 2011 level⁵ and by 15% in terms of number of businesses providing energy efficient solutions by 2018.⁶

2. According to several studies conducted on Tajikistan's private sector, the following have emerged as the major barriers to private sector development in Tajikistan: (i) structural barriers to starting and running a business, (ii) difficulty in accessing finance, (iii) complex taxation system and high taxes, and (iv) lack of infrastructure, particularly energy infrastructure. Household-based micro-enterprises in Tajikistan also face these barriers, although microfinance institutions (MFIs) have made finance relatively more accessible to micro-enterprises.

B. Private Sector Participation in Energy Efficiency In Tajikistan

3. 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.

1. GIZ Warm Comfort Program in Gorno-Badakhshan Autonomous Oblast (GBAO)—Implementation Model

4. GIZ's Warm Comfort program is a pilot project being implemented together with the German Development Service (DED). The program was initiated in 2007 and is expected to continue implementation until 2015. The pilot project was implemented in the Murghab area of Gorno-Badakhshan region of Tajikistan where approximately 160 households so far have been provided with micro-loans and products for energy efficiency and home improvement purposes. Madina, a microfinance organization, has been provided with support to widen the scope of its microfinance loan products for this purpose in this region. In 2012, the pilot project also provided

¹ World Bank. 2012. *Project Appraisal Document on a Proposed Grant to the Republic Of Tajikistan for a Private Sector Competitiveness Project (Report No. 67470-TJ)*. Washington, DC.

² The most recent data available on the private sector contribution to GDP and employment is from 2008. No statistics were calculated since then.

³ ADB. 2013. *Tajikistan Economic Indicators*. Washington, DC.

⁴ EBRD. 2012. *Country Assessments – Transition Reports 2012: Tajikistan*. London.

⁵ ADB. 2012. *Country Operations Business Plan: Tajikistan 2013-2014*. Manila.

⁶ Design and Monitoring Framework (DMF) output targets for Access to Green Finance project.

loans and energy efficient products to a further 60 households in Vakhdat (Rasht Valley), Wakhan Valley and Novobod (Zerafshan Valley) areas in partnership 3 other MFI partners – Haqiqi-Jahon, Rushdi Ishkashim and Rushdi Vodii Zerafshan. By promoting energy efficiency measures, the pressure on grid electricity and other sources is being reduced. Efficient cooking and heating stoves, adapted to local conditions, have been developed, and the use of solar water heaters is being promoted.

5. **Private Sector Development through a Local Workers' Cooperative:** One of the key components and innovations of the GIZ Warm Comfort program is the development of a cooperative of local craftsmen and engineers, named 'Zindagi', which develops energy efficient products—smart green energy solutions (SGES)—deployed under this project, such as double-glazed windows and wooden doors that are manufactured locally. This approach ensures that jobs and skills are created in the local area for development of products and services that are in demand locally. The Warm Comfort program ensures that the value of creating these products and services is retained in the local economy.

6. The cooperative was set up in 2010 by GIZ with 16 workers and provided the capital to import the required equipment, such as wood dryers, from Germany. GIZ also provided the initial capital for paying worker salaries. However, as the cooperative's business increased (its 2011 revenues were \$90,000), it started funding some of its costs on its own, and by 2012 it had become financially self-sustainable.

7. The cooperative also has a reliable network of suppliers of products that it does not produce itself, such as energy efficient cook stoves and heating ovens. This network has been carefully developed over the years, with quality as the key parameter for selecting suppliers.

8. **Microfinance Loan Product:** A microfinance product is available for borrowers to finance their purchases of energy efficient products and home improvement solutions. The product is available at an interest rate of 2.5% per month (30% per annum) and there is an upper limit of \$500 on the size of each loan. The loan product is offered to borrowers at commercial rates with no subsidies. For home improvement loans (using energy efficient products), borrowers receive a consultation from an engineer, funded by the MFI, regarding their home repair needs. The microfinance loan officer will also assess their repayment capabilities and then suggest only those home repairs which are essential and which the household can afford. The repayment track record of this loan product has been good, with more than 200 micro-loans made so far and no loan delinquencies.

9. This program is now being expanded to other provinces of Tajikistan, with a district near Khudjand in Sughd province being the first one outside the Gorno-Badakhshan province where it is being replicated. The expanded project has targets to reach 4,000 households and generate \$400,000 in revenues to craftsmen providing energy efficiency solutions by 2015. While the existing 'Zindagi' cooperative might be expanded to reach more areas in Gorno-Badakhshan region, GIZ is planning to partner with NGOs such as Welt Hunger Hilfe (WWH), ACTED and Geres in addition to existing local workshops of craftsmen for their planned expansion into new provinces.

2. Habitat for Humanity Home Improvement Project - Implementation Model

10. Habitat for Humanity Tajikistan (HFHT), the Tajik arm of a global NGO focused on housing for low-income households, has reached over 6,000 families with construction services and loans through its microfinance partners in Tajikistan since 2011. HFHT's services include

newly constructed homes, completion of partially constructed homes, renovations, remodeling, and disaster-response projects. HFHT also works within communities offering housing improvements, water and sanitation, and winterization services. Historically, HFHT's approach included the direct provision of housing finance services to clients. However, in 2009, a global strategic shift saw the organization focus more closely on its core strength—providing housing technical assistance—and outsource its lending functions to its MFI partners.

11. HFHT's microfinance partners in Tajikistan are IMON and Arvand. IMON's loan product, offered together with HFHT's technical assistance, is provided to IMON's clients for the purpose of small repairs, reconstruction, extensions of existing houses/homes, and finishing new-builds and half-builds. Loan amounts vary from \$100–\$5,000, although the typical loan size is \$1,300. Loan terms vary from 2–18 months, sometimes with a 3-month grace period.

12. **Construction Technical Assistance (CTA):** The CTA component is designed to equip and empower clients to self-manage their home construction and improvement projects. It does this by providing access to expert advice for needs assessment, prioritization, budgeting, scheduling, materials, contractors, and quality control. At the time of loan disbursement, IMON also provides a building manual to each client, which includes general information about building technology and repairs. Feedback from clients revealed that they appreciated how the CTA improved their knowledge and helped to save them time and money. The cost of CTA is shared equally between HFHT and IMON.

13. **Sourcing Energy Efficient Solutions from Private Sector Suppliers:** The CTA advisers, in consultation with HFHT and IMON, recommend specific home improvement and energy efficient products to clients. The advisers also recommend local suppliers of these products, which are subject to their quality control and service requirements. This approach ensures that most products under the project are sourced locally and that jobs are created locally.

C. Private Sector Solar and Wind Solution Providers in Tajikistan

14. Several donor-funded programs have contributed to the development of a small but significant local solar supplier industry in Tajikistan. Many of these suppliers are small and medium enterprises (SMEs). They import solar panels, vacuum tubes, and other equipment from abroad, particularly from the People's Republic of China and Europe and provide system integration, installation, and after sales services to consumers. The cost of this equipment is typically financed by donors and provided as grants to end users. A few important solar suppliers that were consulted by ADB are: (i) Skorut Taj LLC, a Polish-Tajik joint venture which offers solar water heaters and solar home systems of various capacities; (ii) JSC Sistemavtomatika, a Tajik company based in Dushanbe which offers solar water heaters and solar home systems of various capacities; (iii) Toron Solar & Wind LLC, a Tajik company based in Dushanbe which offers solar water heaters and solar home systems of various capacities; (iv) Nelt LLC, a Tajik company based in Dushanbe which offers mainly solar home systems of various capacities; and (v) Grundfos Central Asia, the Central Asian subsidiary of Grundfos Holding A/S, a Danish company that specializes in pump manufacturing, distribution, and sales in 55 countries. A few other NGOs such as Geres and ACTED also work with small groups of local suppliers of energy efficient products in Tajikistan. Since 2011, Geres and ACTED have been implementing grant-based home energy efficiency improvement projects for poor and women-headed households, financed by European Union, Oxfam and other donor agencies.

15. In addition to the general barriers to private sector development in Tajikistan discussed earlier, the following barriers specific to private sector SGES suppliers exist in Tajikistan: (i) lack of public awareness of benefits of SGES (ii) lack of international technology transfer and high import risks, (iii) lack of local technical skills, (iv) lack of transport infrastructure.

D. Private Sector SGES Supplier Development Strategy

16. Given the scope and budget of this project, it is prudent to develop a private sector development strategy which demands only a small portion of this project's resources but can achieve a positive impact on private sector smart green energy solution (SGES) supplier industry in Tajikistan. A large part of this strategy will involve strategic thrusts under public sector operations of ADB, which includes creating enabling conditions and generating business opportunities for the private sector.

Table 1: Private Sector Development Strategy under Access to Green Finance Project

Barrier	Strategy
Principal private sector development strategy	Formal partnership with GIZ and Habitat for Humanity and engagement with their SGES supplier networks, thereby creating additional markets for products developed by these suppliers; explore similar partnerships with other NGOs such as Geres and ACTED
Structural barriers to starting and running a business	Engage with the World Bank's Private Sector Competitiveness project through the Donor Coordination Council of Tajikistan (DCCT)
Difficulty in accessing finance	Provide details of market demand increases to local banks as potential information to provide supplier loans; discuss potential of orders/inventory to be used as collateral
Complex taxation system and high taxes	Engage in a policy dialogue with Ministry of Finance, Customs Committee, and Tax Committee to clarify existing tax exemptions for SGES Engage with the ADB technical assistance program on tax reforms as well as related programs of other donors such as IFC, World Bank, and IMF
Lack of public awareness of benefits of SGES	Public awareness campaign has been planned as part of this project, to be financed by the JFPR technical assistance grant
Lack of international technology transfer and high import risks	Organize international SGES focused conferences, trade shows, and investor meetings in Tajikistan to facilitate international technology transfer joint ventures between foreign and local SGES equipment suppliers, and foreign direct investments to enhance local manufacturing capacities
Lack of local technical skills	Engage with GIZ's Warm Comfort program and Habitat for Humanity's CTA to access the capacity building and technical assistance models for local production of SGES. Training and capacity building will be financed as part of JFPR technical assistance grant to this project
Lack of general infrastructure/transport infrastructure	Beyond the scope of this project

ADB = Asian Development Bank, CTA = Construction Technical Assistance (under Habitat for Humanity program), DCCT = Donor Coordination Council of Tajikistan, IMF = International Monetary Fund, IFC = International Finance Corporation, JFPR = Japan Fund for Poverty Reduction, SGES = smart green energy solutions.

Source: Asian Development Bank staff.