

## SECTOR ASSESSMENT (SUMMARY): MICROFINANCE AND ENERGY SECTORS

### A. Microfinance Sector Performance, Problems, and Opportunities

1. The microfinance sector in Tajikistan began in 1999 and the early 2000s with the creation of microfinance programs by the United Nations Development Programme and international nongovernment organizations, many of them with the support of the United States Agency for International Development. The international nongovernment organizations eventually spun off their microfinance programs into independent organizations. In 2004, after sustained assistance by donors including the Asian Development Bank (ADB), Parliament enacted Tajikistan's first microfinance law. The law provided that existing microfinance institutions (MFIs) register with the National Bank of Tajikistan (NBT) or cease lending activity, required new MFIs to apply for a license with the NBT, and empowered NBT as the supervisor and regulator of MFIs. From 2005 to 2008, the industry expanded rapidly, from 21 to 92 MFIs (Table 1). Over the same period, the MFIs' aggregate loan portfolio increased almost 9 times—from \$9 million to \$79 million, and the number of borrowers increased from around 25,000 to 94,000 (Table 1). This growth was made possible by the relatively easy availability of credit from international lenders for the largest and most profitable MFIs.

**Table 1: Growth of Microfinance Institutions in Tajikistan**

Item	2005	2006	2007	2008	2009	2010	2011	2012
Number of MFIs	21	55	70	92	116	121	122	124
Aggregate gross loan portfolio (\$ million)	9	21	45	79	72	99	132	190
Number of borrowers	25,000	44,960	64,227	93,965	104,802	113,252	126,421	180,073
PAR over 30 days	...	...	2.1%	1.0%	10.0%	7.0%	1.3%	2.0%
Total deposits (\$ million)	0	0.4	0.9	2.6	6.1	10.9	14.6	25.2
(% in somoni)	...	...	...	83	66	51	31	26
(as % of loans of all MFIs)	0.0	1.7	2.0	3.3	8.4	11.0	11.0	13.2

... = not available, MFI = microfinance institution, PAR = portfolio at risk

Source: National Bank of Tajikistan (NBT). 2012. *Statistical Bulletin*. Dushanbe; Association of Microfinance Organizations of Tajikistan (AMFOT). 2006–2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

2. In 2009, the financial crisis hit Tajikistan. Loan demand fell (by around 9%) and delinquencies increased (the percentage of loans with payments overdue more than 30 days [portfolio at risk (PAR)>30 days] went from 1.0% to around 10%) (Table 1). In 2010, the somoni stabilized, remittances rebounded, and consumer confidence returned. Foreign lenders, impressed by the ability of their Tajik MFI borrowers to manage the crisis and continue to make their debt service payments on time (and eager to lend to creditworthy borrowers who would pay a good spread above the London interbank offered rate [LIBOR]), increased their loans to Tajik MFIs by more than 55% from 2009 to 2011 (to \$78 million). Total outstanding loan portfolio increased by 36% over 2009, while PAR>30 decreased to 7.0% in 2010 (Table 1). The strong growth and low delinquency environment that prevailed prior to the crisis returned in 2011 and continued in 2012 (Table 1). The total outstanding loan portfolio increased by 93% over the 2-year period (to \$190 million), and the number of borrowers exceeded 180,000. PAR over 30 days fell to 1.3% at the end of 2011, increasing to 2.0% by the end of 2012.

3. By the end of 2012, 34 of the 124 MFIs had licenses that allowed them to accept deposits. Although from 2010 to 2012 the growth in deposits (133%) exceeded the growth in loan portfolio (93%), the percentage of loans funded by deposits increased from only 11.0% to 13.2% (i.e., from \$11 million to \$25 million) (Table 1). Because only two out of the six largest

MFIs have actually begun taking deposits, there is significant potential for expansion of this activity given their large client base. However, deposit-taking—especially in local currency (currently, around three-quarters of deposits are in US dollars; this reflects the steady and sometimes dramatic depreciation of the somoni—from 3.2 somoni per US dollar in 2005 to 4.4 in 2009 and further to 4.8 in 2012)—will be challenging. This is because of (i) historic distrust of banks (most Tajiks lost all of their savings in banks in the 1990s), (ii) fear of government appropriation (bank deposits of enterprises were forcibly converted into shares of the Rogun dam company 4 years ago) and harassment by tax authorities, (iii) the lack of a tested deposit insurance system, (iv) pent-up demand for consumption (e.g., for vehicles and home improvements), and (v) alternative uses for savings that may provide higher yields than savings accounts (e.g., investments in livestock).

4. Most of Tajikistan's MFIs have a commitment to social goals and women's empowerment. Thirty-nine percent of clients and 32% of loan disbursements are to women. Women lead three of the five largest MFIs. Six MFIs—IMON, Arvand, Humo, FINCA, Oxus, and Matin—control more than 80% of the market. IMON, FINCA, Humo, and Oxus have operations throughout the country (except in Gorno-Badakhshan), while Arvand and Matin concentrate their lending in Sughd province. Five of the six are well managed, highly profitable entities (para. 2, Financial Analysis, accessible from the list of linked documents in Appendix 2). Fifty-three of the 64 other most active smaller MFIs are also profitable.<sup>1</sup> In addition, three commercial banks—Agroinvestbank, The First MicroFinanceBank, and AccessBank—actively compete against MFIs.

5. Donors have provided strong support to MFIs in Tajikistan (Development Coordination, accessible from the list of linked documents in Appendix 2). This support has included (i) support for the Association of Microfinance Organizations of Tajikistan (AMFOT)—which plays a critical support and information sharing role for the sector, (ii) support for the development of a credit bureau (which is scheduled to become fully operational in late 2013), (iii) extensive capacity building for MFIs and the NBT, and (iv) capital in the form of both debt and equity.

6. Given that there are fewer than 200,000 small borrowers in Tajikistan (with a population of 8 million), compared to more than 400,000 in the Kyrgyz Republic (with a population of 5.5 million), there is significant potential for continued growth in the MFI sector. The principal challenges for the MFI sector are the need to raise—principally through deposit-taking—more somoni-denominated funding (i.e., most foreign-provided funding is denominated in US dollars or euros) to reduce currency risk, to diversify product lines to include more loan products as well as deposit, remittance, money transfer, and currency exchange products, and to avoid overlending. In addition, in order to further expand, MFIs will continue to need to raise additional equity capital. Foreign investors, including the "socially responsible" investors that do not seek to maximize profits and that have invested in MFIs in other countries, continue to be reluctant to invest in Tajikistan because of (i) its unfavorable investment climate (ranking 141 out of 185 countries in the 2013 Doing Business report),<sup>2</sup> (ii) the lack of a fully operational credit bureau, (iii) skepticism about the strength of NBT supervision of MFIs, and (iv) the risk of government interference or appropriation. Thus far, government regulation of MFIs has been relatively benign. For example, unlike the Kyrgyz Republic, there has been no serious discussion of imposing interest rate caps. And, unlike banks, the government has not interfered in the operations of MFIs by directing credit to favored regions or sectors (e.g., cotton production).

<sup>1</sup> Association of Microfinance Organizations of Tajikistan (AMFOT). 2013. *Analysis of Statistical Data of AMFOT Members*. Dushanbe.

<sup>2</sup> World Bank and IFC. 2012. *Doing Business 2013: Smarter Regulations for SMEs*. Washington, DC.

## B. Energy Sector Performance, Problems, and Opportunities

7. Tajikistan depends on hydroelectric sources for 98% of its electricity needs. It operates a power system with an installed capacity of 5,055 megawatts (MW), consisting of eight large and a few small hydropower plants (4,737 MW) and two fossil fuel-fired combined heat and power plants (318 MW). The most important generation asset is the Vakhsh hydropower cascade, which comprises the Nurek reservoir and power houses at Nurek and Baipaza (with a combined installed capacity of 3,600 MW and generation capability of 15 billion kilowatt-hours (kWh). Over the last decade, Tajikistan has had an annual electricity demand of 16 billion kWh to 17 billion kWh, reaching its maximum in 2007.<sup>3</sup> The industrial sector is the largest consumer of electricity, accounting for 39% of the total electricity consumed in the country, followed by agriculture (23%) and households (19%). In 2011, Tajikistan exported 0.19 billion kWh of electricity and imported 0.065 billion kWh during winter, but this amount of imports can meet only a small fraction of winter electricity deficit. Electricity imports and exports have been severely limited by the national grid's isolation from the regional Central Asia Power System since 2009. More than 96% of Tajikistan's households are connected to the electricity grid.<sup>4</sup> However, about 70% of the population currently suffers from blackouts during winter. The World Bank estimates that Tajikistan's total electricity shortage during winter at the point of consumption is 2.7 billion kWh, which is about 24% of the total winter supply requirement of 11.2 billion kWh.<sup>5</sup> Because of the intermittent availability of residential electricity in winter, households warm their homes by burning solid fuels, such as wood and coal, which cause indoor air pollution.

8. Barki Tojik, an open joint stock company, is a vertically integrated, state-owned, power monopoly utility responsible for the generation, transmission, and distribution of electricity in all regions of Tajikistan except Gorno-Badakhshan. Pamir Energy, a private utility, has taken over Barki Tojik's power generation, transmission, and distribution assets in Gorno-Badakhshan (policy and regulatory setup in the energy sector is explained in detail in supplementary appendix 2). Electricity has been subsidized by the government since independence. Household and industrial electricity tariffs are typically lower than full cost recovery. However, household tariffs were gradually raised from \$0.004/kWh in 2006 to \$0.023/kWh in April 2012. Similarly, industrial tariffs were gradually raised from \$0.0081/kWh in 2006 to \$0.056/kWh in April 2012.<sup>6</sup> Nevertheless, the weighted average tariff of all types of consumers is still lower than the weighted average cost. Tajikistan's power system currently cannot meet its demand, leading to significant shortages in winter months. These electricity shortages are due to high demand for heating in winter,<sup>7</sup> a sharp reduction in electricity and gas imports since 2009, and dependency on a hydropower system with diminished capacity in winter because of freezing rivers. The total electricity shortage during winter is about 24% of the total winter supply requirement (para. 4). This shortage corresponds to a shortage of 1,250 MW in installed power generation capacity.<sup>8</sup> Since 1990, both production and consumption of electricity has declined. Consumption of on-grid energy has declined by a third, primarily as a consequence of the non-availability of grid electricity. In rural areas, where 73.5% of the population lives, power is supplied for only 4–6

<sup>3</sup> World Bank. 2012. *Tajikistan's Winter Energy Crisis: Electricity Supply and Demand Alternatives*. Washington, DC.

<sup>4</sup> UNICEF, State Committee on Statistics, Republic of Tajikistan. 2009. *Tajikistan: Living Standards Measurement Survey 2007*. Dushanbe.

<sup>5</sup> World Bank. 2012. *Tajikistan's Winter Energy Crisis: Electricity Supply and Demand Alternatives*. Washington, DC.

<sup>6</sup> UNDP. 2011. *Energy and Communal Services in Kyrgyzstan and Tajikistan: A Poverty and Social Impact Assessment*. Bratislava; Barki Tojik data.

<sup>7</sup> Import of natural gas has reduced sharply since 2009 and electricity is widely used for room heating in winter.

<sup>8</sup> World Bank's energy shortage estimates are based on unserved demand for electricity determined by the amount of power outages in 2006 (the last year when such data is available) and demand growth projections until 2009.

hours every day in winter. The winter deficit not only causes human suffering but is also a significant impediment to economic growth and development.

9. Tajikistan's transmission network's capacity is insufficient to carry the full volume of potential export electricity from Tajikistan in the summer period. The World Bank estimates that about 3 billion kWh of electricity (18.5% of current total generation) can be exported to neighboring countries if sufficient transmission capacity is built and reintegrated with the Central Asia Power System.<sup>9</sup> Another problem facing the electricity sector is the relatively high level of transmission and distribution losses, which was 17.2% of generated electricity in 2011, over 11% of which was attributable to technical losses.<sup>10</sup> These losses have increased in the last decade because of (i) a shift in consumption structure; (ii) the use of electricity for space heating, thus overloading the network; and (iii) the limited maintenance of the network. The remaining losses are because of non-technical causes such as theft, defective metering, and billing and collection deficiencies. The Ministry of Energy and Industry estimates that energy efficiency has the potential to reduce power consumption in Tajikistan by 30%. The winter power deficit is exacerbated because a great amount of electricity is necessary to heat living quarters with poor energy efficiency or inadequate maintenance.<sup>11</sup> More than 50% of the country's housing (covering more than 500,000 households) was built in the 1960s and 1970s, and they need improvements to increase energy efficiency. In rural areas, most newly constructed houses are single-family units that are built without proper planning and consideration for energy efficiency.

10. The power sector has been subject to institutional and organizational weaknesses that have affected decisions on investments and electricity tariff determination. While the technical capacity of Barki Tojik as the vertically integrated government-owned utility is sufficient, its capabilities in planning, power system operations, financial management, and monitoring of social safeguards and environmental mitigation measures are weak. Ensuring a dependable, year round, uninterrupted electricity supply, especially to poor and rural households, is a policy goal of the government.<sup>12</sup> The government's strategy to achieve this goal includes developing national renewable energy sources, negotiating commercial trading arrangements with Tajikistan's neighbors, and attracting foreign investment to develop solar, wind, coal, gas, and additional hydroelectric power. In addition to hydro power, Tajikistan has high potential for developing solar energy and also, to some extent, wind energy. Tajikistan has the highest horizontal solar irradiance in Central Asia, with over 300 sunny days per year. However, the government's current focus is on building larger-scale hydro power projects.

11. In order to improve the efficiency and profitability of Barki Tojik's operations, the government has a restructuring plan for the company that includes splitting the company's activities into three separate entities, each involved in power generation, transmission, and distribution. The government also has a medium-term plan to privatize Barki Tojik that is planned for 2015–2018. Improving the energy efficiency of buildings has also been part of the government's agenda since 2002. In 2009, the president issued a decree on achieving energy efficiency in housing and communal services by 2020.

<sup>9</sup> World Bank. 2012. *Tajikistan's Winter Energy Crisis: Electricity Supply and Demand Alternatives*. Washington, DC.

<sup>10</sup> ADB. 2012. *Central Asia Regional Economic Cooperation (CAREC): Power Sector Regional Master Plan (Technical Assistance Consultant's Report)*. Manila.

<sup>11</sup> United Nations Economic Commission for Europe (UNECE). 2011. *Country Profiles on the Housing Sector: Tajikistan*. New York and Geneva.

<sup>12</sup> Government of Tajikistan. 2010. *Poverty Reduction Strategy of the Republic of Tajikistan for 2010–2012*. Dushanbe.



### Sector Results Framework (Energy Sector, 2010–2014)<sup>13</sup>

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Country Sector Outcomes		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Energy security of the country improved	About 52%–57% who receive the economic benefits of the energy projects are poor	<b>Planned key activity areas</b> Demand and supply-side energy efficiency	<b>Planned key activity areas</b> Energy efficiency improved by 10% in 2014 from 2010 levels (reduction in energy intensity)
Reduction in winter energy deficit	Reduction in winter deficit from 3TWhs to 1TWh by 2013  Energy efficiency improved by 10% in 2014 from 2010 levels (reduction in energy intensity)	Electric power generation, transmission, and distribution  Retail competition; operations performance improvement	Construction of 200 megawatt coal-fired power plant by 2014  Tariffs increased to cover costs by 2014
Sustainable financial performance in energy sector	Tariffs increased to cover costs by 2014  Collections reach 90% of billings by 2014 from 86% in 2010	<b>Pipeline projects with estimated amounts</b>  Access to Green Finance project (ADF Grant: \$10 Million, JFPR TA: \$750,000)	Collections reach 90% of billings by 2014 from 86% in 2010  <b>Pipeline projects</b>
Regional trade in electricity on commercial basis	Annual summer electricity exports reach 0.6 TWh by 2014 from 0.09 TWh in 2010  Construction of 200 megawatt coal-fired power plant by 2014	Rehabilitation of Golovnaya Hydro Power Plant Project (ADF Grant: \$116 Million)	Provide access to green finance to households for energy efficiency improvements  Rehabilitate hydro power plant and increase electricity output, thereby reducing deficit
Increased private sector participation in the energy sector	Institutional and capacity strengthening of the public agency in charge of energy restructured by 2014	Power Sector Development Project (ADF Grant: \$49 Million, TASF-IV TA: \$1 Million)	Capacity increase of power sector generation, transmission and distribution

ADF = Asian Development Fund, JFPR = Japan Fund for Poverty Reduction, TASF = Technical Assistance Special Fund, TWh = terawatt-hour  
Sources: ADB. 2012. *Country Operations Business Plan: Tajikistan 2013–2014*. Manila; ADB. 2010.

<sup>13</sup> ADB. 2010. *Country Partnership Strategy: Tajikistan 2010–2014*. Manila.