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POLICY BRIEF (Input Paper)

Understanding Sustainable Consumption and Production (SCP) Policy Ecosystem for MSMEs in Tajikistan

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 dialogue 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 policy in order to embed the project outcomes in the national and regional policy frameworks and create supporting conditions for the implementation of SCP measures both at the MSME and cluster levels. This document is an initial draft based on desk research. This input papers outline the preliminary findings about the current SCP related policy ecosystem in Tajikistan and provides initial recommendations. This document will be updated following the policy events and MSME engagement and will incorporate learnings from these engagements.

Background

The COVID-19 pandemic had a significant adverse impact on the Tajik economy. Real GDP growth slowed to 4.2 percent year-on-year in the first nine months of 2020, compared to 7.2 percent a year earlier[1]. Agriculture is vital for Tajikistan's economy, amounting to 25.5% of the GDP in 2018[2]. The country's main agri-food products include grains, fresh and canned vegetables and fruits, dry fruits, meat and dairy products, animal and vegetable oils, processed food and confectionery products, alcoholic and non-alcoholic drinks, tobacco products etc. As per the latest count of 2019, there were a total of 337 agri-food companies [3]. The industry's development potential is curtailed by deficiencies in the supply management of temperature sensitive produce, poor transport infrastructure, and limited access to information, caused by limitations in mobile network coverage. Food insecurity continues to affect the population as the country has suffered severe droughts and continues to experience recurrent shortages of water and energy in its rural regions. As a result, 70% of Tajikistan's food is imported even though climatic conditions would allow for increase in self-sufficiency and exports in a more suitable economic environment.[4] In part, the current situation is brought about by the use of insufficient and outdated equipment, which leads to bottlenecks at both planting and harvest time. In 2013, the Energy Charter Secretariat found the need for

[1] http://documents1.worldbank.org/curated/en/856841608613708986/pdf/Tajikistan-Economic-Slowdown-Amid-the-Pandemic.pdf

[2] https://www.s-ge.com/sites/default/files/publication/free/economic-report-tajikistan-eda-2019-12.pdf

[3] https://www.export.gov/apex/article2?id=Tajikistan-Food-Processing-and-Packaging

[4] https://www.s-ge.com/sites/default/files/publication/free/economic-report-tajikistan-eda-2020-07.pdf

replacement of worn out pumping stations by efficient electric motors and the introduction of modern irrigation systems in the agriculture sector.

In Tajikistan, over 60% of the population lives in rural areas. A considerable segment of the labor force (43%) is in agriculture, and the International Finance Corporation (IFC) reports that micro, small and medium entreprises (MSMEs), which comprise over 95% of all private companies in the country, are the biggest employers in rural areas and for disadvantaged members of society. Despite this, their contribution to the GDP is low, amounting to only 30%. Such a low share of GDP is brought about by a number of structural impediments including underdeveloped value chains and regulatory and economic barriers, as well as by relatively small turnover.[5] Cumulatively, these factors have caused a 17.3% increase in the price of food between April 2019 and April 2020.[6]

A key condition for improving economic growth and investment involves improving the business environment in agri-food processing by introducing more efficient production techniques. Compared to its neighbors, Tajikistan has fewer clusters in the agri-food processing sector and a generally lower share of MSMEs along the supply chain. A large number of MSMEs work in the dry fruit processing segment and are located in Sugdh and Khatlon provinces.

Processing companies in Tajikistan face instability or shortages in the supply of raw materials, which affects their competitiveness in the food market. Enterprises are limited in the use of innovative and high-tech technologies necessary for the modernization and development of production, due to the low level of interaction between scientific institutions and manufacturers. In addition, there are further challenges due to expensive credits and lack of experience in building private partnerships for attracting resources[7].

In December 2018, the National Association of Small and Medium Businesses of the Republic of Tajikistan (NASMBRT) held a first conference on clusters in Dushanbe. The conference initiated the national discussion on clusterization and in the beginning of 2019, the inter-agency working group on the formation / development of clusters in the agri-food sector was established[8]. This group reflects the interest of the government, development partners and local business on the formation of a sustainable and effective system, which would establish an environmental framework for clusters in chosen pilot areas. Given high competition in the world market, including the Central Asian region, the agricultural sector of Tajikistan needs accelerated clusterization. The Government of Tajikistan initiated the National Clusterization Programme on 28 October 2020[9]. This will stimulate the growth of production capacities and export of certified products.

MSMEs' attitudes in the agri-food processing industry are characterized by a low level of awareness for the environmental impacts of production and the corresponding economic losses (e.g. due to higher energy consumption, material/food losses etc.). No awareness exists on sustainable consumption and production (SCP) in the targeted sector and there is also a lack of financial literacy among target groups, lack of access to finance to adopt SCP practices, and lack of knowledge in financial institutions to develop specific financing schemes for SCP investments.

[5] http://www.oecd.org/eurasia/competitiveness-programme/central-asia/EnhancingAccesstoFinanceforSMEDevelopmentinTajikistan.pdf

[6] https://tradingeconomics.com/tajikistan/food-inflation

[7] https://www.adb.org/sites/default/files/project-documents/47098/47098-001-tacr-01-ru_0.pdf

[8] http://www.namsb.tj/ru/activities/projects/candy4/materials

[9] http://www.adlia.tj/show_doc.fwx?Rgn=137516

MSMEs in rural Tajikistan also often suffer from electricity shortages (in winter) and generally have limited access to energy. This causes up to 30% damage to agricultural produce and forces around 850 small and medium enterprises to close down annually. It is therefore crucial to ensure reliable energy supply both for food security and economic development of the country[10].

Although **value chain** development has progressed in recent years, the access to regional and global value chains (GVC) for MSMEs has been limited. In particular, relatively little attention has been paid to realize the potential of agri-food processing sector. The value chains there are mostly perceived as fragmented and disjointed. Outdated equipment significantly limits production capacity and increases inefficiency in the use of resources. This leads to a further decrease in comparative advantage due to the inefficiencies in production. To date, some development partners have supported food processing plants, however, low domestic demand with no value chain development and access to bigger markets, and limited production capability mean that food processing plants operate at a fraction of their capacity[11].

In order to create a comparative advantage and enter GVCs, there is a need to fill in the gaps in the lack of access to modern machinery, know-how, financial resources, and skilled labor. Some of the preconditions for entering GVCs are diversification of production and trade, private investment, professional education and training, financial system development, transport and communications infrastructure, and business regulation[12].

Current status of SCP Regulation

According to the UNDP assessment report, the following objectives are to be achieved by 2030: **Access to energy**: ensure access to regular and reliable electricity to 5.6 million people, living in rural areas of Tajikistan. **Energy efficiency**: reduce energy losses up to 10% in power grids and up to 20% in thermal grids, as well as increase the efficiency of energy use in all economic sectors, irrigation systems and final users up to 20% against the baseline. **Renewable energy sources**: increase energy production from renewable energy sources up to 20% against the baseline[13]. This is relevant for SCP regulations inasmuch as all three objectives play directly into the sustainability of consumption and production.

Energy efficiency and renewable energy sources are among priority subjects for Tajikistan's government. Tajikistan annually allocates about USD 300 million for the development of fuel-energy complex. Several executive policy frameworks have been put in place. These include programmes (e.g. Long-term Programme for Building Small Hydropower Plants 2009–2020, The Target Programme for the Widespread Use of Renewable Energy Sources), laws (e.g. the Law on the "Use of Renewable Energy Sources", the Law on "Energy saving and energy efficiency") and secondary legislation (19 by-laws) that outline policies and measures on energy efficiency and renewable energy[14].

[11] https://www.adb.org/sites/default/files/publication/534291/adbi-wp1020.pdf

[12] Ibid.

[13] https://www.tj.undp.org/content/tajikistan/en/home/library/environment_energy/sustainable-energy-for-all/

[14] https://www.eurasia.undp.org/content/rbec/en/home/library/environment_energy/renewable-energy-snapshots.html

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 at national level. The Ministry of Agriculture along with the Ministry of Energy and Water Resources are among key national players that design and implement policies in energy efficiency for agri-food production and processing sector. While the former is responsible for elaboration and implementation of the common national agricultural policy, the latter takes care of implementing the energy policy, including licensing and regulation of renewable energy sources[15]. Among other important national actors are the Ministry of Economic Development and Trade, responsible for developing and implementing economic development programmes and strategies and the Ministry of Industry and New Technologies that develops and implements industrial policy related to mining, metallurgical industry, machinery, cement, lighting, food processing, and coal industries, amongst others[16].

The "Action Plan to implement 300 reform days in supporting entrepreneurship and improving investment climate in the Republic of Tajikistan" focuses on contributing to the development of an integrated agricultural sector, introducing new methods of innovative and technological management in the agricultural sector, and increasing the volume of exports of agricultural products. The implementing agencies are Ministry of Rural, Economic Development and Trade, State Committee on Investments and State Property Management, Committee for Food Safety, Committee for Territorial Development, Agency for Standardization, Metrology, Certification and Trade Inspection, and Agency for Export[17].

Governmental agencies have supported private sector institutions in launching the initiative on implementation of the cluster approach in agriculture and the programme on the creation of favorable conditions for the implementation of good agricultural practices in agricultural production (Global G. A. P.) standards for agriculture production. The initiative was added to the Action Plan to implement 300 days of reforms[18]. The Government of Tajikistan approved the Global G. A. P. Programme and the Action Plan on 28 October 2020[19].

The innovative development program of the Republic of Tajikistan for 2011-2020 (Decree of the Government of the Republic of Tajikistan of April 30, 2011 No. 227) outlines the need to increase the country's scientific and technological potential through large-scale scientific and technological solutions. The goal of the programme is to create an effective innovation system that will contribute to an increase in the technological level and competitiveness of products that will reach the domestic and external markets. The programme works towards the growth of import substitution, socio-economic development and the achievement of national strategic goals[20].

The Agrarian Policy Concept of the Republic of Tajikistan (Resolution of the Government of the Republic of Tajikistan of December 31, 2008 No. 658) aims at increasing the efficiency of the use of resources and a rational distribution of agricultural production. Among its goals is improvement in the provision of raw materials for food and industry, stabilization of food markets, support and

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[15]https://www.oecd.org/environment/outreach/Tajikistan_Financing_Climate_Action.Nov2016%20rev%20Feb%202017.pdf

[16] Ibid.

[17]https://investcom.tj/uploads/docfiles/5cc127e7df26e.pdf

[18]https://www.dialog.tj/news/svoevremennoe-vnedrenie-standarta-global-g-a-p-pozvolit-selkhozproizvoditelyam-tadzhikistana-stat-vostrebovannymi-eksportjorami-bezopasnoj-pishchevoj-produktsii

[19]http://investmentcouncil.tj/upload/iblock/6ba/Brief%20Note_global%20gap_eng1.pdf

[20]http://innovation.tj/documents/menu/ru/Ob_utverzhdenii_programma.pdf

protection of commodity producers in agro-industrial complexes, and an increase of the living standard among the rural population[21].

Important actors and programmes

Industry and agriculture are the two largest sectors to which National Bank of Tajikistan (NBT) and Monetary Financial Institutions (MFI) lend finances. While bank portfolios are divided among industry (38%), foreign trade (17%), agriculture (12%), consumption (11%) and construction (11%), the two main sectors for MFI are consumption (34%) and agriculture (26%)[22].

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). The Committee on Environmental Protection, the Ministry of Agriculture and the Ministry of Energy and Water Resources are the key authorities to coordinate and manage climate finance on national level.

A number of International organizations have engaged in developing agriculture practices. The Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) and Habitat for Humanity are two development agencies in Tajikistan that have initiated home energy efficiency market development programs driven by private sector small and medium enterprise (SME) suppliers in combination with microfinance[23]. 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 late 2012[24]. The GIZ project “Towards Rural Inclusive Growth and Economic Resilience” aims at increasing competitiveness and value creation among MSMEs and small producers in the agricultural sector, thereby contributing to the environmental and socially sustainable economic development[25].

The “TA for Feasibility Study for Establishment of Fruit Cluster in Sugdh Province, Tajikistan” implemented by the Islamic Development Bank focuses on developing a fruit cluster in Sughd province with the state-of-art facilities for production and trade of dry fruits through a feasibility study for establishment of the fruit cluster in Sugdh. The cluster will help develop a competitive horticultural production and processing sector to promote value-added exports in compliance with international quality standards[26].

Feed the Future project of The United States Agency for International Development (USAID) assisted in the development of policy and the adoption of the new Law of the Republic of Tajikistan "On Dehkan Farm", which provides small Dehkan farms with greater security by strengthening their property rights and allowing them to create their own legal associations recognized by the Civil Code. In addition, USAID promoted private sector engagement in agriculture by collaborating with 20 local entrepreneurs, invested more than USD 1.48 million in 2017 to establish cold storage,

[21] http://www.cawater-info.net/library/rus/tj_658-2008.pdf

[22] Ibid.

[23] https://www.adb.org/sites/default/files/linked-documents/45229-001-taj-oth-03.pdf

[24] https://www.giz.de/de/downloads/giz2017-en-cfready-support-so-far.pdf

[25] https://www.giz.de/en/worldwide/78041.html

[26] https://www.isdb.org/projects/data/uid-pj0033033

canning, drying and livestock feed processing facilities. They also provided about USD 1.8 million in loans to SMEs in 2017[27].

Green Economy Financing Facility (GEFF) provides climate finance through local financial institutions. The support is available in the form of grants and loans, primarily in agriculture and agri-business investing in high performing technologies. It is supported by EBRD, European Union (EU), Green Climate Fund (GCF) and South Korea[28].

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"[29]. The programme supports "investment in high performance climate technologies, including renewable energy, energy efficiency and climate adaptation measures, such as improving water management"[30].

Problem Analysis

Though Tajikistan's economy has been developing rapidly, many of the Energy Efficiency initiatives previously mentioned have underlying challenges such as political acceptability and feasibility of implementation. While policies in Tajikistan increasingly focus on environmental issues, there is no explicit SCP strategy.

As explained above, the need for energy efficiency has been recognized by many strategy papers. A number of specific policy measures and actions were undertaken in the past few years, ranging from strengthening access to credit through launching a unified collateral registry and easing up registration procedures for new businesses, to strengthening the institutional framework to support the agricultural sector[31]. Many of these developments however, are either initiated or supported by international donor organizations. There are relatively few actions that were implemented by the government. More attention from the government is required to effectively unite and implement all actions. Only a comprehensive strategy tackling existing institutional, informational, technical, financial, and market barriers all at once can significantly improve SCP in Tajikistan agri-food production and processing. This means that effort should be made to support Tajik government in formulation of a viable SCP policy framework that can be incorporated in Tajikistan's law.

At the moment,**the main focus lies outside of SCP in the agri-food sector.** While there are many initiatives focusing on climate finance, renewable energy or energy and water efficiency in agriculture and rural areas, there are very few that focus on SCP among MSMEs. Furthermore promoting cleaner production and energy efficiency actions mostly focus on households, hydroelectricity, alternative energy and industry in general. MSMEs in agri-food production and processing sector have not yet been identified as an explicit and promising target group. Therefore,

[27] https://www.usaid.gov/tajikistan/economic-growth-and-trade

[28] https://www.ebrd.com/news/2019/ebrd-eu-gcf-and-south-korea-boost-climate-finance-in-tajikistan.html

[29] https://www.greenclimate.fund/project/fp025

[30] https://www.greenclimate.fund/news/gcf-gives-green-light-to-largest-climate-project-to-date-in-ebrd-partnership

[31] https://www.oecd.org/environment/outreach/Tajikistan_Financing_Climate_Action.Nov2016%20rev%20Feb%202017.pdf

support schemes should consider existing technical and financial capacity constraints as well as the specific needs of these MSMEs.

There is a **lack of incentives from the regulatory institutions** to promote SCP. Even though the price cap on energy has been gradually increasing in recent years, it is still substantially subsidized to keep the prices low. In addition, there are no subsidies or tax reductions to promote clean technology use, while the financial opportunities of MSMEs remain constrained, leaving them with outdated machinery and energy inefficiency. In addition, high loan rates and ineffective schemes further hinder their access to cleantech finance[32].

There are a number of financing schemes available through partner banks of various development agencies and international financing institutions. However, a huge share is directed towards energy efficiency in rural houses and micro-finance. There are generally **fewer options for medium scale finance**, as it poses larger risks both for finance institutions and MSMEs. In addition, this requires cleantech finance knowledge for both lending institutions and MSMEs.

Perhaps, an even bigger obstacle for normalizing SCP in the agri-food production and processing sector is a **lack of knowledge regarding SCP** in the regulatory institutions. There is low technical capacity and limited expertise about energy efficiency methods in MSMEs, and the lack of awareness campaigns and awareness programs creates a knowledge barrier towards SCP. The lack of correct labelling, product familiarity and distribution networks related to SCP technologies creates difficulties in incorporating them in the SME production chains.

The industry owners have **limited interest in resource efficiency measures**. This happens when there is no clear knowledge about the benefits of adopting SCP practices in their MSMEs. The industry has not been exposed to trainings or education programs promoted by the government. There are limited training facilities and no academic programs with this information.

Recommendations

Based on this problem analysis, the following points have been identified to promote SCP among MSMEs in Tajikistan agri-food processing sector:

- Raise awareness for MSMEs' SCP challenges among policy stakeholders to highlight the need for tailor-made policy formulation and implementation;
- Promote the agri-food production and processing sector as a priority area for SCP activities and policies through aligning with the measures to achieve the national goal on food security;
- Increase the information exchange among MSMEs, stakeholders and financial institutions, raising awareness for MSMEs' cleantech financial needs among financing institutions;
- Increase finance accessibility through boosting cooperation with state-owned banks, providing them with up to date data on market demand to stimulate more loans under better conditions;
- Stimulate value chain development, creating competitiveness;

[32] https://www.adb.org/sites/default/files/linked-documents/45229-001-taj-oth-03.pdf

- Focus on establishment of agri-food clusters;
- Provide incentives to encourage innovations in MSMEs for ensuring implementing SCP measures;
- Create a policy instrument that mixes reward/penalty, motivation and support for the enterprises that decide on SCP measures, which will facilitate the enforcement of energy efficiency measures and awareness among many financial institutions;
- Create awareness among MSMEs about the benefits of SCP measures in the agri-food production and processing sector and gradually build their technological know-how.

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