Eurasian Development Bank
Country strategy for the Republic of Tajikistan
2022–2026
## Acronyms and abbreviations

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>2026 Strategy</td>
<td>- EDB 2022–2026 Strategy</td>
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<tr>
<td>ADB</td>
<td>- Asian Development Bank</td>
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<tr>
<td>AIIB</td>
<td>- Asian Infrastructure Investment Bank</td>
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<tr>
<td>Bank, EDB</td>
<td>- Eurasian Development Bank</td>
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<tr>
<td>CAEC</td>
<td>- Central Asian Economic Community</td>
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<td>EAEU</td>
<td>- Eurasian Economic Union</td>
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<td>EBRD</td>
<td>- European Bank for Reconstruction and Development</td>
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<td>EEC</td>
<td>- Eurasian Economic Commission</td>
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<td>FAO</td>
<td>- United Nations Food and Agriculture Organisation</td>
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<td>FEZ</td>
<td>- free economic zone</td>
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<td>GDP</td>
<td>- gross domestic product</td>
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<tr>
<td>HPP</td>
<td>- hydropower plant</td>
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<td>IBRD</td>
<td>- International Bank for Reconstruction and Development</td>
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<td>ICT</td>
<td>- information and communication technology</td>
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<td>IDA</td>
<td>- International Development Association</td>
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<td>IsDB</td>
<td>- Islamic Development Bank</td>
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<td>IFC</td>
<td>- International Finance Corporation</td>
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<td>IMF</td>
<td>- International Monetary Fund</td>
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<td>KIMP</td>
<td>- key investment mega-project</td>
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<td>MDB</td>
<td>- multilateral development bank</td>
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<td>MTDS</td>
<td>- 2021–2025 Medium-Term Development Strategy of the Republic of Tajikistan</td>
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<td>NDS</td>
<td>- 2030 National Development Strategy of the Republic of Tajikistan</td>
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<td>PPP</td>
<td>- purchasing power parity</td>
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<td>RES</td>
<td>- renewable energy sources</td>
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<td>SDG</td>
<td>- Sustainable Development Goals</td>
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<td>SME</td>
<td>- small and medium-sized enterprises</td>
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<td>TAF</td>
<td>- EDB Technical Assistance Fund</td>
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<td>UN</td>
<td>- United Nations</td>
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<tr>
<td>UNDP</td>
<td>- United Nations Development Programme</td>
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<td>UNIDO</td>
<td>- United Nations Industrial Development Organisation</td>
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<td>WB</td>
<td>- World Bank</td>
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Executive summary

Tajikistan’s economic growth slowed amid the spread of COVID-19, from 7.4% to 4.5% at the end of 2020. Domestic demand shrunk, evidenced by a decline in trade, service sector revenues, and fixed investment. Growth remained positive thanks to industry and agriculture.

The EDB expects Tajikistan’s economic growth to increase from 4.5% to 7.9% in 2021. Higher inward remittances and foreign direct investment will drive increased economic activity as the COVID-19 pandemic subsides. GDP growth in 2022 and 2023 is forecast at 6.2% and 6.9%, respectively. The sectors most likely to attract investment are industry, agriculture, energy and the financial sector.

To make its products more competitive in Tajikistan, the EDB will adopt new approaches to project operations. In particular, it will strengthen sector-specific research to better analyse the country’s challenges and to structure projects. To reduce the cost of borrowing, the Bank will leverage tied finance and co-financing from lending and financial institutions and will cooperate closely with development partners. The Bank will also use its TAF to finance project preparation and its Fund for Digital Initiatives to prepare and finance digital transformation projects. In addition, it will use complex deal-structuring practices, with loan repayment schemes individually designed for each project. During the strategy period, EDB will fund private sector projects with a value of US $2 million and above. The EDB will promote integration to expand access to new projects, expand its project portfolio and generate additional revenue. The Bank will consider financing Tajikistan’s national development projects, including those that benefit the digital or green economy.
The EDB aims to help Tajikistan implement its development model through close cooperation with local anchor intermediaries that have the necessary financial stability, market expertise and risk management capabilities to operate in the country’s current economic climate.

The EDB will cooperate with Tajikistan’s major commercial banks. During the strategy period, it will lend to key commercial banks, in which the government holds a stake, to finance supplies from EAEU member states.

Technical assistance will be granted to develop the institutional environment and improve project preparation in Tajikistan. The Bank plans to use technical assistance more actively in order to enhance its investment opportunities. Technical assistance will help the Bank build a pool of potential projects by supporting adaptation to the regulatory environment and ensuring pre-project documentation is of high quality. To enhance cooperation and technical assistance, the EDB will involve local consultants in its projects as recommended by relevant authorities.
1. External operating environment

1.1. Tajikistan’s development factors

1.1.1. Social and political factors

**Personal incomes in Tajikistan are growing steadily.** Between 2016 and 2019, nominal GDP per capita increased by 8.5% (Table 1). In 2020, GDP totalled US $8.1 billion at current prices and GDP per capita stood at US $844. Nevertheless, Tajikistan’s per-capita income is not only lower than the global average but is also one of the lowest in Central Asia.

**Tajikistan has been successful in reducing poverty.** Between 2016 and 2019, the poverty rate decreased from 30.3% to 26.3% (Table 1), having been greater than 80% in 2000. Employment is the main driver of poverty reduction in the country, but its pace slowed after the 2008–2009 financial crisis due to a decline in migrant workers’ remittances.

**In 2021, tensions grew in Tajikistan’s border regions.** The situation in neighbouring Afghanistan deteriorated in July after the US and NATO withdrawal as illegal armed groups expanded their control of the territory, including the areas bordering Tajikistan.

1.1.2. Economic factors

**Between 2015 and 2019, the growth in real GDP averaged 6.8% per year, but in 2020 it declined to 4.5% (Table 1).** Domestic demand shrank amid the COVID-19 pandemic, globally and in Tajikistan. Growth in 2020 remained positive thanks to industry and agriculture, which jointly contributed 4.4 percentage points to that growth. In 2020, industrial and agricultural outputs went up by 9.7% and 8.8% respectively. This was driven by supply-side factors such as expanded capacity in certain industries (for example, metallurgy) and good harvests.
The EDB expects Tajikistan’s economic growth to accelerate from 4.5% in 2020 to 7.9% in 2021. Increased economic activity will be driven by higher levels of inward remittances and foreign direct investment as the COVID-19 pandemic subsides. GDP growth in 2022 and 2023 is forecast at 6.2% and 6.9%, respectively\(^1\). This will be supported by the recovery of business activity worldwide and international labour migration.

Tajikistan’s core economic sectors are trade and services, industry (including energy) and agriculture (Figure 1). The economy is poorly diversified, and its largest sectors are the production of aluminium, cotton and electricity. The country does not have high-tech industries and, therefore, scores low in the Economic Complexity Index, where it ranks behind all the other EDB member states (Table 2).

Hydropower plants generate about 95% of electricity. Due to low river levels in winter, Tajikistan faces significant electricity shortages that are exacerbated by its isolation from Central Asia’s power system. The huge imbalance in the power market, with winter shortages and summer surpluses, results in an annual loss equivalent to up to 3% of GDP. Technical losses in the power system caused by the significant degradation of existing generation and transmission facilities exceed 15% of the total output.

Because of the distribution of its workforce, Tajikistan is classified as an agrarian economy. Agriculture employs about 61% of the workforce but pays average monthly salaries that are, according to 2018 data, 59% lower than the country’s average.

\(^1\) Tajikistan’s Ministry of Economic Development and Trade projects economic growth, with a GDP growth rate of 7.9% and 8.1% in 2022 and 2023, respectively. The main growth drivers will be industry, including export-oriented extractive industries, as well as higher investment and consumer demand.
Tajikistan has the least developed ICT infrastructure of all EDB member countries. According to the World Bank, less than a third of its population uses the internet, which is below the global average of 49% and below EAEU indicators. Tajikistan is in the initial phase of becoming a digital economy. It has a Digital Economy Concept that identifies digitalisation as a contributor to sustainable development. The government focuses on achieving strategic objectives, including bridging the electronic and digital gaps between regions, especially rural and remote areas. In addition, Resolution 460 of the Government of Tajikistan, dated 26 October 2021, approved the 2021–2025 Medium-Term Programme for the Development of a Digital Economy in Tajikistan.

Poor government regulation affects small and medium-sized enterprises. Tajikistan ranks 106 out of 109 countries in the Ease of Doing Business index (Table 2) and is behind all the other EDB member states. SMEs face challenges in doing business for three main reasons:

→ the high cost of borrowing from commercial banks;
→ imperfect SME regulation and a high share of the informal economy; and
→ lack of personnel with the necessary skills and qualifications.

Tajikistan has high inflation by regional standards. The country’s currency is expected to weaken relatively quickly in the medium to long term. The EDB projects that, relative to 2020, the average annual exchange rate of the Tajik somoni against the US dollar could depreciate by 30% by 2026 and by 45% by 2030. This limits, but does not exclude, the potential for financing projects in the local currency. For any potential projects, interest rates for somoni-denominated loans should factor in depreciation and inflation.

Tajikistan’s financial market is underdeveloped. In 2017, Tajikistan offered its first-ever bond issue on the global market, worth US $500 million and with a coupon of 7.125%, to finance the construction of the Rogun HPP. Tajikistan’s borrowing also includes the government’s borrowings from the National Bank at 0.99% and loans from MDBs at rates not exceeding 2% or 3%. Direct financial aid and funding for major infrastructure projects also come in the form of grants from donor countries and foundations.
**Tajikistan is a country vulnerable to climate change.** Production of food and energy is directly affected by seasonal and weather conditions, in particular rainfall, the availability of water resources and snow accumulations on mountain glaciers.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
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<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>Nominal GDP (US $ billions)</td>
<td>6.9</td>
<td>7.5</td>
<td>7.7</td>
<td>8.3</td>
<td>8.1</td>
</tr>
<tr>
<td>Real GDP growth (% yoy)</td>
<td>6.9</td>
<td>7.1</td>
<td>7.6</td>
<td>7.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Population (million people)</td>
<td>8.6</td>
<td>8.8</td>
<td>9.1</td>
<td>9.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Nominal GDP per capita (US $)</td>
<td>803</td>
<td>806</td>
<td>827</td>
<td>871</td>
<td>844</td>
</tr>
<tr>
<td>Poverty rate (%)</td>
<td>30.3</td>
<td>29.5</td>
<td>27.4</td>
<td>26.3</td>
<td>N/A</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>42.1</td>
<td>50.3</td>
<td>47.8</td>
<td>43.1</td>
<td>48.1</td>
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Sources: Statistics Agency under the President of the Republic of Tajikistan, WB, IMF

**1.1.3. Integration agenda**

**Tajikistan has limited engagement in trade in terms of the geography of its export and import markets.** Its main trade partners are EAEU countries, Turkey, Uzbekistan, China and Afghanistan, with EAEU member states accounting for more than 30% of exports and 50% of imports. A key reason for the country’s limited involvement in global trade, apart from low export diversification and weak manufacturing sector, is its poorly developed logistics network, including underdeveloped transport infrastructure, remoteness from advanced transport corridors and the virtual absence of a network of transport and logistics centres.
1. External operating environment

Tajikistan has significant potential for integration within the EAEU region because of its historical participation in the Central Asian Energy System. The backbone of the regional grid is the 500-kV power transmission line, which starts in Russia, crosses all Central Asian countries and ends in Turkmenistan. Adjacent areas are connected to this mainline via 220-kV lines running parallel to it. The grid has rings in areas with higher population densities, such as northern and southern Kazakhstan, south-eastern Uzbekistan and parts of Tajikistan. It also has many dead-ends in Tajikistan and Kyrgyzstan’s mountainous valleys.

1.1.4. Green economy

Tajikistan has significant potential to develop renewable energy, especially hydroelectricity. It ranks 8th in the world in terms of specific energy reserves per capita and per unit of area, but currently exploits only 12.5% of its available water and energy resources. According to the WB, Tajikistan has significant potential for photovoltaic power generation. Experts estimate that alternative energy sources such as solar, wind, biomass and geothermal energy could cover almost 10% of the country’s energy needs, but Tajikistan currently uses no more than 1% of its alternative RES potential.

Tajikistan has low CO₂ emissions because of the relatively low number of industrial enterprises and the dominance of hydropower in the country’s energy mix. The main source of environmental pollution (up to 80% of harmful emissions according to Tajikistan’s Environmental Protection Committee) is road transport. This is due to the obsolete fleet of vehicles that are, on average, more than 15 years old, and the poor quality of fuel.

1.2. International and national development institutions operating in Tajikistan

Several MDBs have operations in Tajikistan because of its low level of economic development and consequent need to finance economic development not only through donor countries’ concessional loans but also with non-repayable grants. The government of Tajikistan actively cooperates with MDBs and stresses the importance of investment from development banks.
Tajikistan became a member of the Asian Development Bank in 1998. The ADB’s portfolio consists primarily of grants (more than 70% of its financing) and sovereign loans. It invests in development, the construction and overhaul of transport and energy infrastructure, and public governance.

Tajikistan has been a member of the World Bank since 1993. All financing for Tajikistan was provided by the IDA in the form of concessional sovereign loans, a significant proportion of this being grants. The WB primarily invests in the energy sector, utilities, economic policies and the public sector, and agriculture.

Tajikistan acquired a shareholding in the Islamic Development Bank in 1996. To date, the IsDB has financed 85 projects in power generation, road and transport infrastructure, agriculture, education and healthcare.

The International Finance Corporation, a member of the World Bank Group, has operated in Tajikistan since 1994. The IFC’s cumulative investment includes private projects in hydropower, retailing, production, tourism and the financial sector.

The European Bank for Reconstruction and Development has operated in Tajikistan since 1996. Similarly to the WB, the EBRD offers concessional rates on its project loans and mobilises donor finance. Sovereign loans account for more than half of its portfolio. During the EBRD’s five-year strategy that ended in 2019, it supported the development of the energy sector, utilities and roads. It also implemented a host of measures to support SMEs and modernise the financial sector.

Tajikistan joined the Asian Infrastructure Investment Bank in 2016. In the last five years, the AIIB has implemented two projects in the road and energy sectors.

Most MDBs working in Tajikistan have five-year country strategies approved by the country’s government and outlining the banks’ priorities for the planning period. Figure 2 shows the key sectors and activities prioritised by MDBs during the period of the EDB’s country strategy for Tajikistan.

A retrospective review of MDBs’ operations in Tajikistan and their strategic priorities in the country suggests that:

→ most MDBs prioritise infrastructure development, primarily energy and transport, with sovereign finance in the form of concessional loans and grants;

→ the only MDB that is keen to develop sectors beyond basic infrastructure (industries and agriculture) is the EBRD; and

→ developing ICT and alternative sources of power generation (green economy) is the least important priority for development banks operating in Tajikistan in the coming years.
1. External operating environment

- Source: MDBs

*Figure 2. International development institutions’ strategic priorities in Tajikistan*
2. The EDB’s strategic development objectives in Tajikistan

2.1. The EDB’s project operations in Tajikistan

Tajikistan joined the EDB in 2009. By 2021, the bank had implemented six projects in the country worth a total of US $51.4 million (Figure 3). The EDB has no active projects in Tajikistan and its cumulative investment in the country makes up less than 1% of the portfolio. The EDB’s operations in Tajikistan have the following characteristics:

- 88% of the Bank’s investment went towards developing industries, including the agro-industrial sector (in particular, the construction of a spinning mill and the pre-export financing of cotton yarn sales);
- 12% of investment was in the financial sector (loan facilities for a microlending programme);
- all the investment was denominated in US dollars; and
- the minimum interest rate for project finance was 8.5%.
The EDB faced certain constraints when planning projects in Tajikistan. The main hindrance to the Bank’s active investment in Tajikistan is the high risk of potential borrowers failing to comply with the Bank’s financial ratios.

**EDB cumulative portfolio in Tajikistan:**

- 6 projects  
- less than 1% of the total  
- no active projects  
- US $51.4 million

## 2.2. Tajikistan’s national development priorities

In 2016, Tajikistan’s parliament approved the 2030 National Development Strategy with the primary aim of improving living standards through sustainable economic growth. The NDS identifies the objectives that are key to achieving the country’s sustainable development goals.

**Tajikistan’s strategic development priority up to the year 2030 is to ensure energy security and the efficient use of electricity.**

The NDS outlines the following steps that would help to achieve this goal:

- diversifying energy sources by developing hydropower resources on large and small rivers, modernising existing HPPs and building new ones and promoting alternative RES (solar, wind, biological and geothermal energy);
- developing domestic and external energy infrastructure (grids and substations);
- making effective use of the existing energy facilities and unlocking the export potential of the energy sector;
- ensuring wider energy saving and improving the energy efficiency of the national economy; and
- ensuring the financially viable and sustainable functioning of the energy sector.
The NDS also provides for the development of Tajikistan’s energy sector based on the 10/10/10/10 concept, with the following targets to be achieved by 2030:

- Increasing the design capacity of the energy system to 10 GW
- Diversifying energy facilities by at least 10%
- Boosting annual electricity exports to neighbouring countries to 10 billion kWh
- Reducing power losses by 10%

Overcoming isolation in communications and becoming a transit country is one of Tajikistan’s main objectives by 2023.

The following will contribute to achieving this:

- Constructing and rebuilding transport infrastructure and creating transit corridors;
- Developing transport to support industrial areas with potential to support economic growth, primarily as part of national investment projects;
- Promoting affordable and reliable access to the internet and telecommunications networks;
- Improving the competitiveness of the telecommunications market and levelling it up with the markets of other Central Asian countries to unlock the country’s telecommunications transit potential; and
- Bridging the electronic and digital gap between regions, especially rural and remote areas.
Another NDS objective is to ensure food and water security and access to quality food products.

This is to be achieved by:

→ ensuring food affordability and accessibility through stable growth in the agro-industrial sector; → diversifying agricultural output; and → rehabilitating irrigation and drainage systems and ensuring the sustainable operation and maintenance of irrigation and drainage infrastructure as a basis for sustainable, irrigated agriculture, food security and rural employment.

The NDS also sets out other priorities to enhance the competitiveness of Tajikistan’s economy, including SME development in urban and rural areas to boost employment and tackle social problems.

Fostering industrialisation is an important strategic objective for Tajikistan.

In 2020, the country’s government approved the 2020–2025 Programme for the Accelerated Industrialisation of Tajikistan, which aims to ensure sustainable development and speed up growth by diversifying industry and promoting competition. It anticipates this will be achieved by:

→ introducing modern technologies, equipping industrial enterprises and transitioning to energy-saving production processes;

→ promoting new competitive production chains to ensure import substitution and boost exports;

→ increasing output and saturating the domestic market with finished products by re-commissioning idle enterprises and setting up new industrial facilities;

→ developing the market in processed and recycled products; and

→ building new facilities as part of the policy to substitute imports and increase exports.
The NDS predicts that the requirement for finance between 2016 and 2030 will total US $118.1 billion. The main source of investment, including domestic and foreign direct investment, will be public (48%) and private (46%) funds. The NDS also emphasises the importance of support from MDBs whose required investment is estimated at US $7.3 billion (6%). As part of its country strategy for Tajikistan to 2026, the EDB will support the country’s key national strategic priorities and will align its objectives with the government’s goals.

Tajikistan’s 2021–2025 Medium-Term Development Strategy outlines the second phase of the NDS. To promote macroeconomic stability, reduce exposure to external shocks, improve competitiveness and diversify industrial production, the strategy for this next stage identifies the following drivers of sustainable development:

- **Promoting a digital economy.** Domestic and foreign investment will be mobilised to construct the necessary infrastructure, implement investment projects and deploy digital technology in trade and financial services, among other measures.

- **Promoting a green economy.** Important initiatives here include the construction of hydropower plants with different capacities, power generation from other RES (solar and wind) in high-altitude and other areas with favourable conditions, and an increase in the generation and processing of green/organic agricultural produce.

- **Light industry and food.** Plans to boost manufacturing from domestic raw materials include reequipping existing industrial facilities and building new ones to produce highly competitive value-added end products and setting up large agro-industrial clusters in the regions to process agricultural raw materials into finished goods.
→ Developing the financial market and promoting financial inclusion. To increase the banking system’s contribution to the economy, plans are in place to strengthen mutually beneficial cooperation with international financial institutions in order to leverage investment and apply best practice.

→ Exploiting transit potential and developing tourism. To effectively exploit the country’s transit potential, plans drawn up by Tajikistan include building the infrastructure for international freight and passenger transport, including modern transport and logistics centres.

2.3. Priorities of the EDB
2022–2026 Strategy

Under its new strategic model, the EDB will transform its role in the countries in which it operates, becoming the number one development bank in terms of its annual portfolio. The Bank will ramp up annual investment by a factor of 2.7, to US $3 billion per annum by 2026, with cumulative investment between 2022 and 2026 totalling US $10.9 billion.

The Bank’s unique integration role. In the new strategy period, the EDB will focus on strengthening its role as a development bank in the countries in which it operates and on nurturing and implementing investment projects with a strong integration effect. In so doing, the Bank will primarily finance projects that create lasting cross-country production and cooperation chains; projects with cross-country and cross-border multiplier effects; and infrastructure projects.

The targeted transformation of project operations will support the development objectives of all the EDB member countries and as such will aim to promote mutual integration of the region’s largest economies and contribute to Tajikistan’s national development objectives.

The EDB region has enormous untapped potential for large-scale infrastructure projects with an integration effect, primarily in transport and logistics, the water and energy complex and a single commodity distribution network. The Bank will focus on investment mega-projects that have the greatest potential to promote integration and economic development in its member states.
Implementing key investment mega-projects (KIMPs)

At least three KIMPs will be structured and launched with the EDB as a lead organisation and with the use of its TAF, with the Bank’s investment in these to total approximately US $1.2 billion. The Bank’s priority should be the KIMPs in the three areas that will impact integration in the region to the greatest extent:

- end-to-end transport corridors, including land and multimodal ones (Europe–Western China, North–South), and pipeline infrastructure;
- end-to-end commodity distribution chains (in particular transport and logistics centres and wholesale distribution centres) and Water and energy complex.

As the EDB is the only institution with a regional approach, a regional focus on such projects will be key to their success. Major end-to-end investment initiatives fail to produce substantial results because of the variation in maturity of public-private partnerships legislation in EDB countries, the lack of applied regulatory expertise and a lack of focus on the part of national institutions and MDBs on cross-country projects in the EDB region.

The EDB sees its role as coordinator of the KIMP partners’ input. As the KIMPs are capital-intensive, the EDB will create coalitions of international and national development institutions to finance these projects.

The Bank will actively develop its capacity and leverage the potential of its partnerships to strengthen its analytical capabilities. In the new strategy period, the EDB will build competence in leading applied macro- and sector-specific research. This will help to develop KIMP activities. The EDB plans to oversee the progress of such projects and lead its partner institutions’ planning and organisation efforts.

Expanding its operations in Tajikistan. To achieve SDGs and enhance project operations in Tajikistan, the Bank plans to respond promptly to the country’s needs, expanding its representative office in Dushanbe and pursuing a flexible approach to pricing its credit, investment and commission products. It will also be adaptable in its approach to project implementation.

The 2026 Strategy will focus specifically on boosting investment in the smaller economies, including Tajikistan. As the implementation period of the 2026 Strategy precedes the final phase of work to achieve the UN SDGs by
2030, the Bank intends to intensify its impact evaluation in order to promote SDGs when establishing the priorities for its operations in Tajikistan. The Bank will actively promote Tajikistan’s economic growth and its achievement of SDGs.

**The EDB is transforming its role as a development partner for Tajikistan.** The Bank will focus on building foundations for the KIMPs, which cannot be implemented without the involvement of the smaller economies, including Tajikistan. In doing so, the EDB will adopt the following approaches:

- **The Bank will contribute to the achievement of SDGs** by implementing targeted country strategies in close partnership with Tajikistan’s executive authorities and other development banks, as providers of technical expertise and as co-financiers of technical assistance programmes and project operations;
- **Carrying out applied country and sector analysis**, deploying improved analytical capabilities, executing joint research with other development banks and expanding its representative office in Dushanbe; and
- **Developing the institutional environment** to facilitate the institutional change necessary to meet the EDB’s development objectives in the 2022–2026 strategy period, taking into account TAF resources and with support from national development institutions.

**The Bank aims to develop expertise in initiating projects and nurturing them throughout their life cycle,** from design to implementation.

**Strengthening the Bank’s presence in the countries in which it operates will be an integral part of its strategic repositioning.** In order to operate more efficiently, the Bank will expand its representation in Dushanbe. The primary objective will be to develop business and form a pool of promising projects while developing cooperation with authorities and local partners and deepening analysis and country expertise.

**In financing green projects**, the Bank aims to mobilise private capital by reducing risk and the cost of borrowing. As part of its green finance strategy, the Bank plans to obtain grants, provide blended financing, facilitate the transfer of innovative technologies and promote relevant regulatory policies and procedures.

**The EDB’s digital competency.** The Fund for Digital Initiatives will support Tajikistan’s digital agenda to promote its integration with Eurasian countries and foster digital development. The Bank’s digital projects will factor in the need to achieve the Sustainable Development Goals and promote technology-based companies and promising projects in Eurasia.

**In Tajikistan, new project financing is mainly in euros and US dollars.** However, in order to meet the development objectives agreed with Tajikistan, the EDB will actively pursue opportunities to increase lending in somoni.
2.4. The EDB’s strategic goal and objectives in Tajikistan

The EDB’s strategic objectives and priorities in Tajikistan until 2026 have been informed by analysis of the country’s development context, the development objectives set by its authorities and other development institutions operating in Tajikistan, the Bank’s project experience in the country and its mission and mandate (Table 3).

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<thead>
<tr>
<th>Strategic goal: promoting Tajikistan’s sustainable development and regional economic integration</th>
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<tbody>
<tr>
<td><strong>Objective 1. Energy security</strong></td>
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<td><strong>Objective 2. Food security and agricultural development</strong></td>
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<td><strong>Objective 3. Diversifying industry and developing the private sector and entrepreneurship</strong></td>
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<td><strong>Objective 4. Digital transformation</strong></td>
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Source: the EDB

Objective 1
Energy security

In the strategy period to 2026, the EDB will work to diversify electricity generation sources in Tajikistan and promote the country’s integration into the regional power distribution network.

**Priority 1.1. Developing small hydropower and solar energy**

During the strategy period, the EDB will develop the water and energy complex by implementing its KIMPs, including the construction of renewable energy facilities (hydro and solar power plants) and the modernisation of existing generating facilities. These projects will promote Tajikistan’s energy security and integration with neighbouring countries.
2. The EDB’s strategic development objectives in Tajikistan

Priority 1.2. Reconstructing the grid infrastructure of the Central Asian Energy System

During the strategy period, the Bank will finance projects to develop and modernise Tajikistan’s power grids, including those that aim to reduce losses and introduce modern automated controls and metering systems.

Objective 2 Food security and agricultural development

The EDB aims not only to improve the living standards of people engaged in agriculture by creating jobs and increasing the added value of products but also to unlock Tajikistan’s potential as an exporter of agricultural produce to EAEU countries.

Priority 2.1. Developing the agricultural processing sector

The EDB will foster the development of Tajikistan’s agriculture by financing projects that improve raw materials processing and increase the added value of products, including in agro-industrial clusters, and with priority given to green production. The EDB will help to set up and develop agro-industrial clusters. It will prioritise projects oriented to both domestic and foreign food markets with continuous and extensive demand. The Bank will also consider projects proposed by large cooperative associations.

Priority 2.2. Developing the commodity distribution network and establishing wholesale logistics centres, including storage (cold storage)

The EDB plans to develop end-to-end commodity distribution infrastructure through the KIMPs; this includes projects to establish and upgrade transport and logistics hubs and wholesale distribution centres in Tajikistan, in particular its FEZ, using innovative technology and service standards. In accordance with its 2026 Strategy, the Bank, in cooperation with the EEC, will carry out a comprehensive cross-country analysis of trade and existing infrastructure. It will develop a concept for a Eurasian commodity distribution network, defining transport and logistics corridors and requirements for wholesale distribution centres in its member states, including Tajikistan. This work will inform practical moves to implement the concept and projects that could be funded by the EDB. The projects are expected to boost freight traffic and speed up freight handling, which will effectively reduce costs for all participants in the transport and logistics system and promote the transit potential and export of transport services.
The EDB will work to enhance industrial competitiveness, stimulate production and sales, and support SME development.

**Priority 3.1. Establishing and developing industrial enterprises in the country**

During the strategy period, the EDB will stimulate Tajikistan’s industrial potential by financing projects that establish and modernise industrial facilities, including those granted concessional or preferential treatment in Tajikistan’s FEZ. In the FEZ, the Bank plans to finance joint ventures in pharmaceuticals and processing raw materials such as cotton, wool, leather, fruit, vegetables and minerals into finished goods. The EDB will also help to develop industrial clusters in Tajikistan. To promote agro-industrial clusters, the Bank will finance new manufacturing facilities that make up such clusters or intend to operate in them.

**Priority 3.2. Supporting small and medium-sized enterprises**

The EDB offers loan facilities for local banks to lend on to local SMEs, including those that create and develop agro-industrial clusters.

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**Objective 4**

**Digital transformation**

The EDB will support Tajikistan’s digital agenda, supporting its integration with Eurasian countries, and will foster digital development.

**Priority 4.1. Helping to develop digital solutions to strengthen integration and promote interoperability between the countries**

The EDB will focus on promoting digital interoperability and greater integration between the countries, and on synergising the digital agendas of the countries in which it operates.

**Priority 4.2. Supporting state digital projects**

During the strategy period, the EDB will support digital projects that promote integration between Eurasian countries and the digital transformation of Tajikistan.

**Priority 4.3. Supporting digital projects in the corporate sector**

The EDB will encourage the development of technology companies and support promising corporate digital projects in Tajikistan.
3. Implementing the country strategy

3.1. Approaches to project activities

The EDB plans to cooperate closely with local financial anchor partners, which have the sufficient financial stability, market expertise and risk management capabilities to operate in the country’s economic circumstances. On project operations, the EDB plans to work through the Tajik-Uzbek Investment Company and similar institutions operating in Tajikistan. The Bank will also cooperate with Tajikistan’s State Committee for Investment and Public Property Management, which is authorised to attract investors and enter into investment agreements that benefit project initiators. The Aga Khan Fund for Economic Development could partner with the EDB.

The EDB will cooperate with Tajikistan’s major commercial banks. During the strategy period, it will lend to key commercial banks with a government-held stake to finance supplies from EAEU member states. Bank Eskhata and the First MicroFinance Bank are potential partners for the EDB in this.

Boosting the EDB’s investment in Tajikistan could involve investors from other countries. In the new strategy period, the EDB will support investment in Tajikistan by providing long-term finance to investors from Russia, Kazakhstan and Uzbekistan guaranteed by their parent companies.

To finance sovereign projects, the EDB will consider cooperating with organisations and institutions that provide grant funding. Tajikistan is eligible for development loans with a grant element of at least 35%. Therefore, the EDB will be able to participate in large infrastructure projects with grant-making organisations and institutions.

The EDB will set up joint development grants with partner institutions and Tajikistan’s government agencies. The Bank will also cooperate with United Nations organisations to implement specialised programmes. It will focus on UNDP initiatives, providing expert and technical assistance in the preparation and implementation of national development programmes, legislation, sector-specific programmes and pilot projects. In conjunction with UNIDO, the EDB will promote industrial development, international industrial cooperation and industrialisation in Tajikistan. The Bank’s work with the FAO will focus on improving agriculture.
During the strategy period, the EDB will fund private sector projects costing a minimum US$2 million. The Bank will seek relatively small private projects to finance, including those listed for concessions or preferential treatment in Tajikistan’s FEZ.

The EDB’s new strategy will consider projects contributing to human development in Tajikistan. The Bank will consider projects and programmes promoting human development and productivity, using its TAF resources, if requested to do so by Tajikistan’s state organisations.

3.2. Technical assistance

The Bank will use technical assistance to develop the institutional environment and improve project preparation in Tajikistan. The Bank plans to use technical assistance more actively to enhance its investment opportunities. Technical assistance will help the Bank build a pool of potential projects it could initiate, including by adapting the regulatory environment and ensuring high-quality preparation of project documentation.

The most likely areas for technical assistance in Tajikistan are as follows:

1. Preparing investment projects, including:
   - structuring investment projects;
   - developing feasibility studies and related documents for investment projects; and
   - organising workshops and training sessions for personnel participating in investment projects.

2. Subsidising interest rates on investment projects

3. Expanding the Bank’s investment by:
   - providing advisory services for evaluating investment projects in Tajikistan;
   - promoting human development and productivity in Tajikistan;
   - developing projects and/or programmes to improve the transparency of the banking sector for effective SME financing; and
   - developing programmes to finance the agro-industrial sector and primary agricultural exports.

The list of technical assistance objectives is indicative. Technical assistance projects will be developed during the country strategy in collaboration with Tajikistan’s authorities and other development institutions operating there.
4. Anticipated results of implementing the country strategy

4.1. Indicative project financing in Tajikistan

The cumulative impact of EDB operations in Tajikistan could be three times as high as its investment in the country over the strategy period. Based on the multiplier of other participants’ investments in EDB projects, up to US $150 million could be channelled into Tajikistan’s development between 2022 and 2026.

The growth of the EDB’s indicative annual investment in Tajikistan may significantly exceed the country’s projected GDP growth rate. Given an average annual GDP growth rate of 6.6%, the compound annual growth of EDB investment in Tajikistan during the strategy period could reach 44.8%.

The bulk of the EDB’s investment in Tajikistan will be used to promote food security and industrial diversification.

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1 Tajikistan’s Ministry of Economic Development and Trade projects economic growth, with a GDP growth rate of 7.9% and 8.1% in 2022 and 2023, respectively. The main growth drivers will be industry, including export-oriented extractive industries, as well as higher investment and consumer demand.
## 4.2. Sustainable development outputs

<table>
<thead>
<tr>
<th>Objective</th>
<th>Priority</th>
<th>Measure</th>
<th>SDG</th>
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</thead>
<tbody>
<tr>
<td><strong>Objective 1. Energy security</strong></td>
<td><strong>Priority 1.1. Developing small hydropower and solar energy</strong></td>
<td>1. Percentage of the population with access to electricity (%)</td>
<td>7. Affordable and clean energy</td>
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<td>2. Percentage of power generated by RES (%)</td>
<td>9. Industries, innovation and infrastructure</td>
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<td>3. Number of people with access or significantly improved access to networks (total)</td>
<td>13. Climate action</td>
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<td>4. Annual reduction in direct greenhouse gas emissions by replacing fossil fuel generating facilities (tonnes of CO₂-eq per year)</td>
<td>17. Partnerships for sustainable development</td>
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<td></td>
<td><strong>Priority 1.2. Reconstructing the grid infrastructure of the Central Asian Energy System</strong></td>
<td>1. Installed capacity in projects to construct and/or modernise EDB-funded renewable energy facilities (MW)</td>
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<td>2. Constructed or rehabilitated power transmission lines (length km)</td>
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<td>3. Number of people with access or significantly improved access to networks (total)</td>
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<td>4. Cross-border power transmission (MW)</td>
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<td><strong>Objective 2. Food security and agricultural development</strong></td>
<td><strong>Priority 2.1. Developing the agricultural processing sector</strong></td>
<td>1. Additional output (US $)</td>
<td>9. Industries, innovation and infrastructure</td>
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<td>2. New jobs (total)</td>
<td>8. Decent work and economic growth</td>
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<td>3. Annual energy savings (MWh for electricity and/or GJ for other energy savings, per year)</td>
<td>12. Responsible consumption and production</td>
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<td>4. Reduction in specific end-user water consumption (%)</td>
<td>6. Clean water and sanitation</td>
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<td><strong>Priority 2.2. Developing the commodity distribution network and establishing wholesale logistics centres, including storage (cold storage)</strong></td>
<td>1. Cross-border transit of products (tonnes per year)</td>
<td>17. Partnerships for sustainable development</td>
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<tr>
<td>Objective</td>
<td>Priority</td>
<td>Measure</td>
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<td>Objective 3. Diversifying industry and developing the private sector and entrepreneurship</td>
<td>Priority 3.1. Establishing and developing industrial enterprises in the country</td>
<td>1. Additional output (US $)</td>
<td>8. Decent work and economic growth</td>
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<td>2. New jobs (total)</td>
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<td>3. Annual energy savings (MWh for electricity and/or GJ for other energy savings, per year)</td>
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<td>4. Increase in the share of recycled water (%)</td>
<td>9. Industries, innovation and infrastructure</td>
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<td>Priority 3.2. Supporting small and medium-sized enterprises</td>
<td>1. Loans to SMEs (US $)</td>
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<td>2. Number of jobs created as a result of supporting SMEs in the programme area (total)</td>
<td>8. Decent work and economic growth</td>
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<td>17. Partnerships for sustainable development</td>
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<td>Objective 4. Digital transformation</td>
<td>Priority 4.1. Helping to develop digital solutions designed to strengthen integration and promote interoperability between the countries</td>
<td>1. Number of users of digital solutions or digital transactions based on those solutions (total)</td>
<td>9. Industries, innovation and infrastructure</td>
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<td>2. Digital project financing (US $)</td>
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<td>Priority 4.3. Supporting digital projects in the corporate sector</td>
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<td>2. Digital project financing (US $)</td>
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Source: the EDB
4.3. Country strategy implementation risks

Lack of expertise or resources to develop project documentation for priority projects

To mitigate the risk:
the EDB will use its Technical Assistance Fund to finance project preparation and make projects with a high expected impact more attractive to investment.

Regulatory framework inadequate to support investment projects

To mitigate the risk:
the EDB will work closely with the government of Tajikistan to harmonise laws and remove institutional barriers.
Cost of EDB funding for borrowers in Tajikistan makes it uncompetitive

To mitigate the risk: the EDB will make it a strategic aim to reduce the cost of funding, to develop tied financing and equity investment and to identify and mobilise partners for projects with a grant component. The Bank will also extend TAF grants to prepare projects.

Failure to attract additional capitalisation from existing shareholders

Additional capital is necessary to achieve the objectives of the Bank’s 2026 Strategy and country strategies, i.e., to boost investment and implement the unique integrated development agenda in the EDB region. A shortage of additional capitalisation would mean that the Bank would meet only some of its strategic objectives, limiting the organic growth of its investment and rendering it unable to make transformational change.

To mitigate the risk: the EDB will consider mobilising additional capital by issuing subordinated debt instruments and will work on expanding its membership structure with new shareholders.