

REAP Outcome and Lessons Learned Report on Access to Cleantech Finance Activities



Tajikistan



Uzbekistan



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Introduction

The Cleantech Finance activities under the EU SWITCH-Asia funded REAP (Resource Efficiency in Agri-Food Production and Processing) project in Tajikistan and Uzbekistan aim to enhance access to finance for environmentally sustainable solutions in the agri-food sector. These activities are a critical component of the REAP initiative, focusing on building capacity across three key stakeholder groups: financial institutions, local technical consultants, and micro, small, and medium enterprises (MSMEs). This multi-faceted approach to cleantech finance activities were led by adelphi Research gGmbH, Germany, as a consortium partner of REAP, in collaboration with NASMBRT (Tajikistan), CCIU (Uzbekistan), and CAREC as in-country partners.

Key accomplishments of the Cleantech Finance activities include:

Capacity Building for Financial Institutions on Cleantech Finance

Two cleantech finance workshops were conducted, one in each country, training over 30 financial institutions on cleantech finance concepts, including case studies of high-cost green technologies, their investment requirements, and the resulting monetary savings. These workshops provided an initial framework for developing new cleantech finance products and improving existing offerings.

Five financial institutions (two from Tajikistan and three from Uzbekistan) expressed further interest in developing cleantech finance products. Tailored one-to-one consultation sessions guided these institutions on global best practices and tools, resulting in tangible outcomes such as the refinement of existing green finance products and the development of new MSME-focused cleantech finance offerings.

Capacity Building for Local Technical Consultants

Two Training of Trainers (ToT) workshops were conducted to equip local technical consultants with the skills needed to support MSMEs in accessing cleantech finance. These were supplemented by follow-up workshops to enhance consultants' soft skills, enabling them to provide comprehensive matchmaking services between MSMEs and financial institutions. Through these efforts, over 15 local technical consultants and experts have been trained.

Capacity Building and Support for MSMEs in Access to Cleantech Finance

To empower MSMEs, four cleantech finance workshops were conducted, training over 100 MSMEs on existing finance schemes, key terminologies, and steps to access cleantech finance. As a direct outcome, local consultants provided access-to-finance support to 31 MSMEs, with 25 successfully securing funding (26 MSMEs supported in Tajikistan with 22 financed; 5 MSMEs supported in Uzbekistan with 3 financed).

The following sections of this report will explore the challenges encountered in facilitating access to finance in Tajikistan and Uzbekistan, along with the success factors and recommendations derived from the project experience. This report aims to serve as a practical guide for financial institutions, future projects, and consultancies in fostering access to cleantech finance and supporting sustainable economic development



Challenges and Barriers to Accessing Cleantech Finance

The REAP project's efforts to support MSMEs in accessing cleantech finance highlighted several challenges encountered by technical consultants in Tajikistan and Uzbekistan. These challenges, identified through interviews with consultants and experts, provide insights into the barriers faced and lessons learned in implementing such initiatives. Below are the key issues categorized by country:

Challenges in Tajikistan

Financial Barriers:

- High Interest Rates: Bank loan interest rates typically ranged from 26% to 30%, making financing options financially unviable for many businesses.
- Limited Local Funding: Local funding priorities were skewed toward human rights or technical support projects, leaving minimal direct financing for sustainable consumption and production (SCP) initiatives.

Institutional and Regulatory Barriers:

- Limited Understanding in Financial Institutions: A lack of knowledge and dedicated financial products for cleantech and climate tech projects hindered progress.
- Regulatory Constraints: International financial institutions faced legal hurdles requiring partnerships with national institutions and adherence to minimum interest rates set by the central bank.
- Resistance to New Concepts: Both businesses and financial institutions displayed initial reluctance to adopt cleantech financial products and practices.

Cultural and Social Barriers:

- Educational and Cultural Challenges: Low levels of modern education in some sectors and cultural norms sometimes limited engagement in new initiatives.
- Distrust Among Businesses: Skepticism about project benefits led to resistance from MSMEs during initial phases.

Operational Barriers:

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- Novelty of SCP Concepts: The relatively new introduction of SCP concepts in Tajikistan complicated their adoption and application.
- Documentation and Transparency Concerns: Businesses were hesitant to apply for financing due to complex documentation requirements and concerns about potential tax implications.
- Geographical Disparities: Rural companies faced higher interest rates and restrictive financing criteria, with urban areas receiving most financial support.

Challenges in Uzbekistan

Financial Barriers:

- High Interest Rates: Lending rates were prohibitively high, ranging from 27% to 40%, particularly for loans in Uzbek Soms.
- Limited Funding Lines: Few funding mechanisms were available to support green and cleantech investments.

Cultural and Social Barriers:

- Religious and Cultural Norms: In some cases, cultural and religious beliefs discouraged borrowing due to an aversion to interest-based loans.
- Educational Gaps: Limited awareness and knowledge about energy-efficient technologies, particularly outside the capital, impeded adoption and utilization.

Governmental and Regulatory Challenges:

- Incentive Gaps: While incentives such as reduced credit rates for photovoltaic systems exist via presidential decrees, the low cost of electricity diminishes their appeal. Many government incentives are also restricted to state-owned enterprises, excluding private companies.
- Transition Barriers: Regulatory and economic constraints in a transitioning economy hindered rapid adoption of new cleantech systems.
- High Costs of Imported Technologies: Dependence on imported energy-efficient technologies increased costs due to taxes and duties.

Project Implementation Challenges:

- Technical Consultant Motivation: Mismanagement and communication issues among local partners caused delays and reduced motivation among consultants.
- Slower Implementation: The focus on low-cost implementations in industries left little time for high-cost investments, which required more substantial access-to-finance efforts.

These barriers emphasize the complexity of fostering cleantech finance in developing and transitioning economies. By addressing these challenges, future projects can better support MSMEs, financial institutions, and technical consultants in overcoming obstacles to cleantech adoption and financing.



Joint Expectation Analysis: Industries and Financial Institutions

The REAP project's efforts to support access to cleantech finance revealed nuanced expectations from industries and financial institutions across Tajikistan and Uzbekistan. While specific contexts varied, the following comprehensive outcomes reflect the collective expectations and priorities of these stakeholder groups.

Industry Expectations

Financial Understanding and Support

- Across both countries, industries sought clear demonstrations of the economic benefits of adopting Sustainable Consumption and Production (SCP) practices. This included understanding potential cost savings, increased efficiency, and competitive advantages.
- Companies anticipated tailored mentorship and education on cleantech finance processes, particularly in rural areas with limited awareness.

Direct and Practical Financial Assistance

- There was a strong desire for tangible financial support, including incentives to shorten the payback period for cleantech investments. Industries in Uzbekistan highlighted the need for differentiated funding mechanisms—larger investments in urban centers and smaller, more accessible options in rural regions.
- In Tajikistan, some companies expected interest-free loans or instalment-based financing plans to ease financial burdens.

Implementation and Long-Term Support

- Industries expected the project to move beyond recommending resource efficiency measures by actively facilitating their implementation and helping secure the necessary funding.
- Both countries recognized the evolving nature of technology, expressing a need for future financial support as current technologies become outdated in 3-4 years.

Additional Incentives and Social Inclusion

- Many businesses hoped for government-backed incentives and grants, particularly in Uzbekistan, to make green investments more attractive and feasible.
- There was also interest in socially-oriented initiatives, including support for women-led enterprises and social businesses through grants and other mechanisms.

Financial Institution Expectations

Profitability and Risk Management

- Financial institutions prioritized the financial viability and profitability of cleantech projects. Demonstrated success stories and proven case studies were critical to building confidence in funding such initiatives.

Regulatory and Educational Support

- In Tajikistan, international financial institutions required local partnerships to navigate regulatory constraints. Both countries' institutions expected the project to help them comply with legal requirements and adapt to cleantech financing principles.
- Financial institutions also sought education on SCP concepts and green technologies to align with global sustainability trends.

Innovative Financial Products

- Banks expressed a need for guidance in developing and refining innovative financial products tailored to cleantech investments, such as preferential credit lines or low-interest loans.

Inclusive Financial Opportunities

- In Uzbekistan, institutions showed interest in supporting socially oriented enterprises and women entrepreneurs through targeted funding programs.
- There was also an expectation to offer small grants for MSMEs and clear guidelines on loan eligibility, especially for high-impact technologies such as solar panels or other green solutions with capped project costs.

Long-Term Government Support

- Financial institutions expected consistent government-backed support, such as preferential credits and incentives, to sustain their commitment to cleantech financing.

Key Takeaways for Future Initiatives

- **Bridging Knowledge Gaps:** Both industries and financial institutions highlighted the need for continued education on cleantech opportunities, financial processes, and SCP principles, particularly in rural areas.
- **Customizing Support Mechanisms:** Differentiating financial products and incentives based on urban-rural dynamics and industry sizes can enhance engagement and adoption.

- **Showcasing Success:** Demonstrating practical examples of profitable cleantech investments will strengthen confidence among businesses and financial institutions.
- **Incentivizing Collaboration:** Aligning government policies, donor programs, and private sector efforts is essential to meeting expectations and driving sustainable growth.

By addressing these expectations, future projects can better align with stakeholder needs, ultimately fostering a more robust and inclusive cleantech financing ecosystem.



Success Factors in Achieving Access to Finance Support

Despite numerous challenges and barriers, the REAP project successfully exceeded its targets for cleantech finance activities. The following success factors played a critical role in this achievement and provide valuable insights for future projects in the region.

Project Management and Strategy

Strong Team Collaboration: Effective coordination among project team members, combined with rigorous follow-ups, ensured that the project stayed on track and met its objectives. Clear communication and teamwork were essential in navigating complex challenges.

Adaptability and Responsiveness: The project's ability to adjust strategies in response to obstacles, such as high-interest rates or initial skepticism from stakeholders, was instrumental in achieving success. Flexibility in planning and execution enabled the team to remain resilient.

Regional Adaptation: Customizing approaches to address the specific needs of each region, particularly to reduce urban-rural disparities, proved to be a key factor in achieving equitable access to cleantech finance.

Stakeholder Engagement

Strategic Partnerships and Collaborations: Early identification and engagement with key stakeholders facilitated more tailored interventions and goal alignment. Collaborating with similar development projects that included built-in financing mechanisms allowed the project to channel MSMEs into these initiatives as beneficiaries.

Champion Identification: Empowering individuals within financial institutions to act as internal advocates for cleantech finance drove institutional buy-in and helped initiate internal change processes.

Governmental and Regulatory Engagement: Aligning with national green strategies and involving government bodies ensured regulatory support and integration with broader economic and environmental goals.

Cultural and Community Engagement: Addressing cultural norms and aligning project efforts with community expectations reduced resistance and built trust, particularly among MSMEs hesitant to adopt new financial practices.

Communication and Education

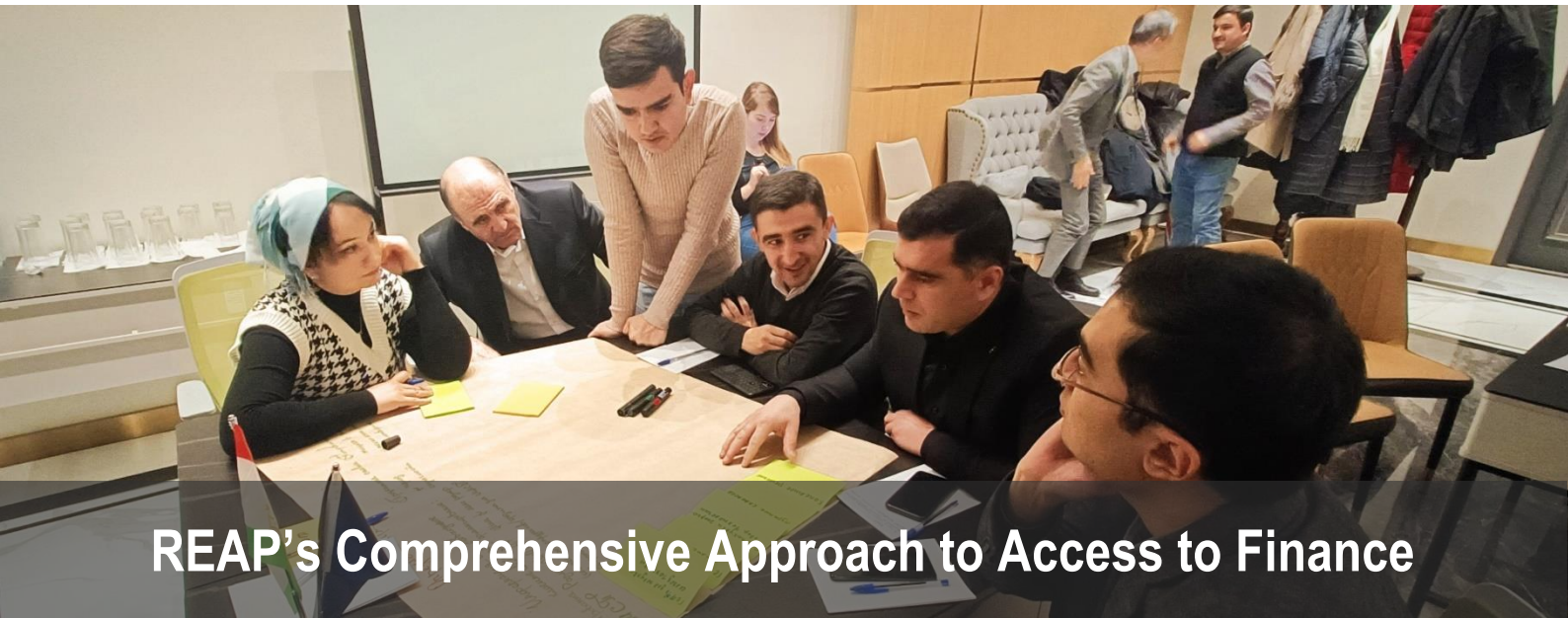
Effective Training and Workshops: Comprehensive, hands-on training sessions educated financial institutions and businesses about SCP practices and cleantech finance. These efforts increased stakeholder confidence and commitment.

Showcasing Success Stories: Demonstrating tangible examples of successful cleantech implementations and their financial returns helped build trust and served as proof of concept, encouraging broader adoption of cleantech finance.

Clear Communication of Financial Benefits: Articulating the economic advantages of adopting SCP practices was critical in securing the cooperation of businesses and financial institutions. By emphasizing cost savings, increased efficiency, and profitability, the project successfully aligned stakeholder goals.

Integration of Best Practices and Peer Support: Encouraging peer-to-peer exchanges and integrating proven strategies fostered knowledge sharing and strengthened stakeholder capacity. These interactions helped to build practical expertise and confidence among project participants.

By leveraging these success factors, the REAP project not only met but exceeded its targets, providing a strong foundation for future initiatives in cleantech finance within the region. These strategies should be refined and expanded to continue building capacity and fostering sustainable development.



REAP's Comprehensive Approach to Access to Finance

The success of REAP's cleantech finance activities is rooted in its structured, step-by-step methodology. This comprehensive approach ensured that project indicators were not only met but often exceeded. By systematically addressing the needs of financial institutions, MSMEs, and technical consultants, REAP created a robust framework for achieving access to finance. Below is an explanation of the eight-step approach employed in the project:

1. Obtain Active Schemes List

The first step involved compiling a detailed inventory of all active financing schemes available to MSMEs. This list included options from diverse financial sources, such as banks, grant organizations, and microcredit providers. Identifying the eligibility criteria and conditions of these schemes ensured a strong foundation for subsequent project activities.

2. Engage with Banks

The project team actively engaged with bank representatives to understand their priorities and determine which schemes could support clean technology financing. These discussions revealed opportunities beyond direct green financing, enabling the identification of existing, adaptable financial products suitable for cleantech investments.

3. Phased Implementation

A phased approach was encouraged, starting with low-cost or no-cost solutions for MSMEs. This allowed companies to experience the benefits of initial improvements, building confidence and trust before committing to higher-cost solutions. This gradual progression minimized risk and ensured a smoother transition to larger investments.

4. Train Consultants

Consultants were trained on several key aspects to maximize their effectiveness:

- **Understanding Existing Schemes:** Consultants were familiarized with the active financial schemes and taught how to guide MSMEs through the application process.

- Step-by-Step Support: They were equipped to support MSMEs in accessing finance through a structured approach.
- Soft Skills Development: Training also emphasized interpersonal and negotiation skills to enable consultants to engage effectively with both MSMEs and financial institutions.

5. Capacity Building of MSMEs

Workshops were conducted to educate MSMEs about cleantech finance terminology and investment opportunities. Case studies showcasing successful high-cost interventions and their monetary savings were shared to inspire confidence. MSMEs were also made aware of the financial schemes available to them, demystifying the process of securing funding.

6. Identification of High-Cost Investments

Technical consultants identified high-cost interventions that offered significant resource efficiency and monetary savings for MSMEs. By focusing on measures with clear financial and environmental returns, the consultants aligned investment opportunities with the interests of both MSMEs and financial institutions.

7. Matchmaking

Once potential high-cost interventions were identified, consultants analyzed applicable financing schemes. The project facilitated introductory meetings between financial institutions and MSMEs to discuss options and take the first step toward accessing finance. This matchmaking process ensured a targeted and practical approach.

8. Support and Follow-Up

The project developed templates and guidelines to assist MSMEs in preparing strong technical proposals and gathering required documentation for financing applications. Regular follow-ups tracked the progress of applications, and for those receiving funding, the project supported the implementation of the financed technologies within the industry.



Conclusion

The REAP project's cleantech finance activities in Tajikistan and Uzbekistan have demonstrated the transformative potential of a structured and collaborative approach to addressing access-to-finance challenges. By integrating targeted capacity-building efforts, stakeholder engagement, and strategic matchmaking, REAP successfully bridged critical gaps between MSMEs, financial institutions, and technical consultants. This enabled the project to surpass its initial targets, delivering tangible results in sustainable finance for the agri-food sector.

Despite significant barriers such as high interest rates, limited local funding, and cultural resistance, REAP's adaptability and resilience ensured meaningful progress. The project's phased implementation approach allowed MSMEs to gradually build confidence, while the tailored training for consultants enhanced their ability to guide businesses through the financing process. Additionally, REAP's emphasis on aligning interventions with regional needs, such as addressing urban-rural disparities, showcased its commitment to equitable development.

Through the effective use of partnerships, capacity building, and showcasing success stories, REAP built trust and buy-in among stakeholders. The project also emphasized the importance of clear communication of financial benefits, helping businesses and financial institutions see the mutual advantages of cleantech investments.

The lessons learned from REAP provide a robust framework for future initiatives in cleantech finance. By refining and expanding on its approaches, future projects can build on REAP's success to foster sustainable economic growth and environmental resilience across the region. This report offers valuable insights for policymakers, financial institutions, and development practitioners aiming to create impactful, scalable solutions for cleantech adoption.