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**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

**STRATEGY FOR TAJIKISTAN**

As approved by the Board of Directors at its Meeting on 22 July 2015

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## TABLE OF CONTENTS

<b>1</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>3</b>
<b>2</b>	<b>OVERVIEW OF THE BANK’S ACTIVITIES .....</b>	<b>6</b>
2.1	THE BANK’S CURRENT PORTFOLIO.....	6
2.2	IMPLEMENTATION OF THE PREVIOUS STRATEGIC DIRECTIONS.....	6
2.3	KEY LESSONS.....	9
<b>3</b>	<b>OPERATIONAL ENVIRONMENT.....</b>	<b>10</b>
3.1	POLITICAL CONTEXT .....	10
3.2	MACROECONOMIC CONTEXT.....	10
3.3	STRUCTURAL REFORM CONTEXT.....	11
3.4	ACCESS TO FINANCE .....	12
3.5	BUSINESS ENVIRONMENT AND LEGAL CONTEXT .....	14
3.6	SOCIAL CONTEXT .....	15
3.7	ENERGY EFFICIENCY AND CLIMATE CHANGE CONTEXT .....	16
<b>4</b>	<b>STRATEGIC ORIENTATIONS.....</b>	<b>17</b>
4.1	STRATEGIC DIRECTIONS .....	17
4.2	KEY CHALLENGES AND BANK ACTIVITIES.....	19
4.3	POTENTIAL RISKS TO COUNTRY STRATEGY IMPLEMENTATION.....	29
4.4	ENVIRONMENTAL AND SOCIAL IMPLICATIONS OF BANK PROPOSED ACTIVITIES .....	30
4.5	EBRD CO-OPERATIONS WITH MDBS .....	31
	<b>ANNEX 1 – POLITICAL ASSESSMENT .....</b>	<b>32</b>
	<b>ANNEX 2 – SELECTED ECONOMIC INDICATORS.....</b>	<b>38</b>
	<b>ANNEX 3 – ASSESSMENT OF TRANSITION CHALLENGES .....</b>	<b>39</b>
	<b>ANNEX 4 – LEGAL TRANSITION.....</b>	<b>45</b>
	<b>ANNEX 5 – GENDER PROFILE .....</b>	<b>50</b>
	<b>ANNEX 6 – EBRD AND THE DONOR COMMUNITY.....</b>	<b>53</b>

## 1 EXECUTIVE SUMMARY

Tajikistan is committed to the principles of multiparty democracy, pluralism and market economics, as outlined in Article 1 of the Agreement Establishing the Bank, although the implementation of these principles remains moderate and uneven.

Although the country has made significant progress since the end of a five-year civil war in 1997, significant transition challenges remain. Inadequate supply of electricity, poor infrastructure, vulnerability to climate change, inclusion gaps, as well as the country's relative geographic isolation present major constraints to economic growth, while the financial sector is not yet able to provide adequate access to finance, including for SMEs. Following President Emomali Rahmon's re-election for another seven-year term in November 2013, the government was reshuffled, with the prime minister and a number of key government ministers replaced. The new government has declared its commitment to implement urgently needed economic reforms, including in the banking and energy sectors, while private sector development is also emphasised as a priority.

GDP growth slowed to 6.7 per cent in 2014 after growing by 7.4 per cent in 2013. Growth was primarily supported by the rapid expansion of construction, which grew by 25.3 per cent in 2014. However, a reduction in the rate of remittances due to the slowdown in Russia translated into lower domestic demand and slower growth in services. Global market developments also negatively affected cotton and aluminium exports, while growth in agricultural output moderated. GDP growth is expected to decelerate to 4.4 per cent in 2015, reflecting a continuing challenging external environment.

Accession to the Eurasian Economic Union (EEU) during the strategy period is a possibility. The accession presents both opportunities and risks for Tajikistan. It may reduce the risk of disruption to remittance flows from Russia, reduce trade barriers with EEU countries and attract more investment, while at the same time exposing Tajik industries to more significant competition as more efficient competitors from EEU countries enter the domestic market and trade barriers with non-EEU countries are increased. The extent to which Tajikistan may be able to take advantage of larger markets and attract investment will depend on concurrent improvements to its business environment and banking system.

Tajikistan continues to face formidable structural challenges, notwithstanding progress in some areas. The banking sector remains weak with continued increases in the level of NPLs, and there remains an acute need for strengthened supervision along with a reduction in directed lending and similar practices. Development of domestic capital markets and local currency interest rate benchmarks could help improve risk management and local capital distribution. Access to energy also remains a serious obstacle to business activity and economic growth. In infrastructure and the municipal sector, progress has been uneven and further restructuring, tariff increases and new thermal power generation capacity to balance insufficient winter capacity are needed.

In this context, the following strategic orientations are proposed to guide the Bank's activities in the forthcoming strategy period:

- **Enabling inclusive and sustainable economic growth by supporting expansion of private enterprise, developing banking infrastructure, and helping improve the business environment:** Economic growth is disproportionately fuelled by remittance

flows, and development of a viable private sector is hampered by the weak financial sector. The Bank will support the development of private enterprise through the combination of targeted investment and advisory services and skills training, as well as policy dialogue to improve the business environment. This will include specific support for women entrepreneurs, and regional diversification of the Bank's activities. The Bank will seek to further stabilise the banking sector and enhance access to finance and know-how for SMEs through a variety of instruments, including development of MFIs by supporting microfinance and providing local currency funds, as well as business advice.

- **Contributing to improving public utility services, as well as their operational and financial efficiency through commercialisation and corporatisation:** Tajikistan experiences chronic seasonal electricity shortages which impose large economic losses, while the water sector and other municipal services are dominated by inefficient and financially unsustainable utilities dependent on obsolete infrastructure and highly vulnerable to climate change. The Bank will work with public utilities and authorities across the municipal, power, and transport sectors to help build and rehabilitate infrastructure and promote commercialisation to achieve sustainable improvements in operational performance and provision of services, as well as address relevant inclusion factors.
- **Fostering regional infrastructure connectivity and integration into the wider regional economy:** Tajikistan is landlocked and the potential for cross-border trade with its neighbours is constrained by challenging logistics and communication. Overcoming these disadvantages is further complicated by the lack of transport infrastructure. Connecting the country more effectively to markets beyond its immediate region is thus a top priority of the new government. The Bank will encourage and support quality FDI, leverage trade finance and business advice to help exporting companies, and engage in policy dialogue to reduce barriers to both inward investment and exports. The Bank will also look for opportunities to support selected infrastructure connectivity projects that can be implemented under its transition mandate and if sufficient donor co-financing is available when required and justified. The Bank will seek through its investments to support balanced economic development and connectivity across all Tajikistan's regions.

Across these main strategic orientations the Bank will aim at promoting **climate resilience** and **gender equality**. Tajikistan is highly exposed to the impacts of climate change on its glacier-contained water resources, and the Bank will look to incorporate innovative approaches to climate resilience in its municipal infrastructure projects.

Tajikistan also exhibits large-to-medium gender gaps with respect to health, labour practices, access to finance, employment and firm ownership. The Bank will support women's entrepreneurship through a combination of private sector engagement as well as policy dialogue with the authorities.

Achieving these objectives will require close consultation with other IFIs active in Tajikistan, as well as a step-up in investments and enhanced levels of intensive engagement, technical assistance and donor co-financing.

Through these three strategic priorities, the proposed Country Strategy operationalises the Bank's Medium-Term Directions in the specific context of Tajikistan's transition challenges.

## 2 OVERVIEW OF THE BANK'S ACTIVITIES

### 2.1 The Bank's current portfolio

**Private sector portfolio ratio: 34%, as of 30 June 2015**

Sector	Portfolio				
	Number of projects	Portfolio	% of Portfolio	Operating Assets	% of Operating Assets
<b>Energy</b>	<b>3</b>	<b>54</b>	<b>27%</b>	<b>2</b>	<b>4%</b>
Power and Energy	3	54	27%	2	4%
<b>Financial Institutions</b>	<b>16</b>	<b>35</b>	<b>18%</b>	<b>31</b>	<b>44%</b>
Depository Credit (banks)	13	30	15%	27	39%
Non-depository Credit (non-bank)	3	4	2%	4	5%
<b>ICA</b>	<b>21</b>	<b>20</b>	<b>10%</b>	<b>13</b>	<b>19%</b>
Agribusiness	14	15	8%	10	14%
ICT	2	2	1%	2	3%
Manufacturing & Services	5	3	1%	1	2%
<b>Infrastructure</b>	<b>21</b>	<b>89</b>	<b>45%</b>	<b>23</b>	<b>33%</b>
MEI	17	50	25%	19	27%
Transport	4	39	20%	4	6%
<b>TOTAL</b>	<b>61</b>	<b>197</b>	<b>100%</b>	<b>69</b>	<b>100%</b>

Source: EBRD Business Performance Navigator

### 2.2 Implementation of the previous strategic directions

Over the previous strategy period, the Bank's main priorities in Tajikistan were to: (1) stabilise and strengthen the banking sector by encouraging reforms to address existing weaknesses; (2) develop private enterprise and agribusiness, focusing on improvements to the business environment and the competitiveness and level of sophistication of the MSME sector; (3) strengthen critical infrastructure; and (4) support energy efficiency and security through targeted sector reform and the restructuring and commercialisation of the state-owned power utility, Barki Tojik.

Since the strategy was adopted, 31 operations totalling €150 million have been signed, and the Bank's portfolio has grown from €89 million at end 2011 to €163 million at the end of October 2014. Landmark operations under the strategic priority areas have included:

- An equity investment in IMON International, the EBRD's first equity investment in a micro-finance institution, with a view to supporting its transformation into a bank; the launch of the MCFE with Eshkhat Bank; and the extension of trade finance and MSME credit lines to 3 small and mid-sized banks and 4 micro-finance institutions, together with capacity building support, to help these institutions develop and grow.
- Conclusion of the Tajik Agricultural Financing Facility (TAFF), with 25,000 sub-loans amounting to US\$ 72 million committed, accompanied by technical assistance for training and value chain development; launch of local currency financing under DLF and MCFE; and a total of 7 corporate investments in agribusiness, manufacturing and services.
- Delivery of business advice to 467 SMEs. Based on projects evaluated during the last strategy period, client companies accessed €14.6 million in external finance, increased

turnover and productivity by an average of 46 per cent and 14 per cent respectively, and created more than 2800 new jobs.

- Signing of four municipal environmental infrastructure projects and frameworks, including the recently committed second phase of the Khujand water supply project which, in cooperation with SECO and the ETC fund, has now fully rehabilitated the pumps, pipes and related infrastructure and management of the water supply system in Tajikistan's second city. The recently completed South Tajik water project received the Bank's highest ever transition impact rating for project results achieved.
- Signing of a loan to Khujand airport, the first to a state entity without recourse to a sovereign guarantee; and the signing of the Dushanbe-Uzbekistan border road improvement project, the Bank's first major operation in the road sector together with ADB: both projects are now under implementation with second phases being considered.
- Signing with the EIB and EU of the Sughd Energy Loss Reduction Project, which will introduce new integrated retail and grid metering and billing systems to the north of the country so as to cut losses by half and increase collection rates from 60 per cent to 80 per cent (residential clients) and 95 per cent (government clients). The project also supports through its conditionalities and impact the restructuring of Barki Tojik.
- Signing with the Pilot Programme for Climate Resilience of the Bank's largest ever investment in Tajikistan, comprising a total package of US\$ 75 million (EBRD loan, PPCR concessional loan and grant, and EBRD funded technical assistance) for the rehabilitation and capacity increase of the Qairakkom Hydro-Power Plant, including measures for climate resilience.
- Organisation of the first Tajik Economic and Investment Forum, attracting more than 500 local and international investors and preceded by an FT-EBRD leadership panel. These events increased investor interest in Tajikistan, enabled widespread networking on business opportunities and – drawing on an OCE publication on Tajikistan's business environment – addressed thorny issues in the investment climate in open discussion between senior government officials and international experts.

These successes took place against the backdrop of a challenging operating environment, as Tajikistan's economy remains largely unreformed, and the business climate difficult. The banking system suffers from a high ratio of non-performing loans (NPLs), especially in the corporate portfolio. The government's commitment to reform and restructuring in public sector projects has been uneven, and institutional implementation capacity generally weak.

In the banking sector, while the Bank's support for small to mid-sized banks and micro-finance institutions (MFIs) has been robust, the overall systemic impact on the sector has been thus far moderate. Tajikistan has a low rate of financial intermediation and financial institutions are typically under-capitalised with a high rate of NPLs. State directed lending, non-commercial practices and non-transparent linkages to state owned entities have afflicted each of the big three systemic banks, and the EBRD, IMF and World Bank thus far have not been very effective in their policy dialogue efforts to address this. Notably, the Bank's equity investment in Agro-Invest Bank (AIB) did not stem such practices, nor did it prevent the subsequent deterioration in AIB's balance sheet. The EBRD is also approaching its exposure limits for many of its partner banks in the country; however without engaging with the systemic banks the Bank is severely limited in its possibilities to extend credit through the system. Looking ahead, it will be important to persuade the authorities to take the steps that would enable the Bank to re-engage in one or more systemic banks, to explore risk-sharing, and to focus policy dialogue where it will be most effective.

With respect to private enterprise, agribusiness and the business environment, the Bank's corporate investments have had mixed success. While the EBRD is a leader in lending to the local corporate sector, the performance of its corporate loan portfolio reflects the associated risks, with non-performing corporate loans at 30 per cent of the portfolio (the ratio is even worse with respect to operating assets). This is one of the highest ratios in the EBRD region, well above the Bank average of 4 per cent.

The business environment in Tajikistan remains difficult. While improvements were made to regulatory and legal frameworks during the last strategy period, implementation has been flawed. Thus, for example, implementation of the new tax code appears at times arbitrary and driven by revenue quotas. This fosters lack of transparency in the financial management of local companies which in turn contributes to informality and corruption. Respect for property rights and the application of economic justice is also uneven. While the EBRD-supported Investment Council has helped secure political support for reforms to improve the business environment – and the World Bank Group's 2015 Doing Business report awarded Tajikistan the greatest improvement in global ranking – the track record in addressing actual problems with state bodies encountered by businesses is perceived within the country to be relatively weak.

In the infrastructure sector, building on successful municipal infrastructure investments and moving away from a city-by-city approach will require a regionalisation of the programme, particularly for water and waste water. Implementation risks, including vulnerability to counterpart/stakeholder risk, are particularly significant in Tajikistan. Careful management and support by the Bank for weak public sector counterparties will remain critical. Commercialisation has been achieved to some extent with some clients but experience suggests that private sector participation remains an overambitious target. Donor partnerships are critical here. Technical assistance and investment grant utilisation in Tajikistan, nearly all of it in infrastructure, averaged €20 million per annum in 2012–2013. This compares to average ABI of €30 million and average infrastructure investments of €20 million over the same period.

Finally, with respect to energy efficiency and security, while reform and restructuring have moved slowly, more recent signs suggest greater governmental determination to turn around the state-owned power utility, Barki Tojik, and move it towards commercial viability and a separation between generation, distribution and transmission, thus creating opportunities for the EBRD to engage. However this policy risks being subordinated to strategic interests, including the TALCO aluminium plant which consumes up to 30 per cent of electricity generated in the country and acts as a source of state revenue. It may also be a second order priority relative to strategic energy projects such as the proposed Rogun hydro-power plant, which the government is determined to build despite opposition from downstream Uzbekistan. Whatever the merits of such strategic projects, it will be essential to address the critical challenges of reform and restructuring.

## 2.3 Key lessons

A number of key lessons are evident from the previous strategy period:

*i. Policy dialogue on reforms, in particular to the business environment, is paramount*

Neither the volume nor the quality of the Bank's investments in Tajikistan's private sector are satisfactory. This reflects the poor business environment and the experience of other investors. Nonetheless, a number of good reforms were adopted during the last strategy period and there may now be an opportunity to build on this momentum to achieve real enhancements to the business environment. The Bank should therefore now focus strongly on: implementation of reforms with direct impact on business, including with respect to tax administration and economic justice; working with foreign investors who can enhance the reform momentum; and intervening in particular cases and through specific events to affirm good practice. It will be necessary to reinforce the Investment Council and other channels of effective public-private dialogue, working with IFC and other donors to enhance effectiveness, and leveraging the Bank's operational experience with corporate and SBS clients.

*ii. A determined and careful focus on the energy and financial sectors is necessary*

Access to electricity and finance are the top two barriers to businesses in Tajikistan. Both sectors contain very large transition and service gaps. The EBRD has a leading comparative advantage in each and should attempt to maximise its impact through investments and policy dialogue. Under the previous strategy the Bank's impact was mitigated somewhat by a start-up profile in the energy sector (although, following the Qairakkom signing, the EBRD is now at the forefront of policy dialogue and investment), and the serious failure of corporate governance at AIB which impacted negatively the Bank's financial sector investments and policy dialogue. At the same time there are successes in the Bank's work with MFIs and mid-sized banks on which it can build. In both cases the previous strategy demonstrates the importance of close coordination and joined up actions with other IFIs, notably the IMF, World Bank and ADB.

*iii. The Bank should build on its successful, high transition impact potential infrastructure financing model*

The Bank's municipal investments have enabled it to reach regions across the country beyond the core centres of Dushanbe and Khujand. The investment needed to rehabilitate and build new infrastructure (water, waste water, solid waste, urban transport) even to minimum service levels is enormous, and no other donor agency in the country has been able to achieve the results in social outcomes or transition impact that the Bank has in cooperation with its EU and Swiss donor partners. The Bank has also worked to consolidate municipal water companies into regional entities with competent management, asset pooling and the capacity to extend finance beyond municipalities into surrounding rural areas. Both municipal infrastructure investments – due to their broad regional reach – and transport projects – contributing to strategic connectivity – are in line with the development goals of the Tajik authorities, and thus lift the Bank's overall status as a development partner and leverage on reforms across the board. However, securing stable and significant volumes of grant co-financing will be necessary.

- iv. Support for corporate investments and through the SBI will require a careful, resource-intensive approach*

Given the mixed results of the Bank's corporate portfolio to date, going forward it will need to focus on: obtaining resolution of currently impaired assets so as to improve the Bank's standing; targeting the highest quality clients (including foreign investors) for new direct investments; scaling up deployment of the MCFF instrument which shares due diligence and risks with local commercial banks; identifying other products to mitigate risk, including through the use of donor funded risk-sharing instruments; and stepping up provision of skills training and advisory services to address serious weaknesses in local business capacity.

Given the challenging operating environment, including the difficulty in attracting foreign investors willing to fund private sector transactions, the Bank's share of public sector projects has been higher than in its other countries of operation. This ratio is likely to persist over the next few years.

### **3 OPERATIONAL ENVIRONMENT**

#### **3.1 Political context**

Tajikistan is a presidential republic with a strong executive branch of power. President Emomali Rahmon was re-elected for another seven-year term in November 2013 and is likely to stay in office until the end of his term. Parliamentary elections in March 2015 brought victory to the ruling People's Democratic Party (PDP), maintaining its dominant position in the legislature.

Although the country has made significant progress since the end of a five-year civil war in 1997, many challenges remain, including pervasive corruption, poverty, unemployment and regional disparities. Following the 2013 presidential election, the government was reshuffled, with the prime minister and a number of key government ministers replaced. The new government has declared its commitment to implement urgently needed economic reforms, including in the banking and energy sectors, while private sector and infrastructure development are also emphasised as priorities.

Instability in neighbouring Afghanistan has the potential to spill over into Tajikistan and is particularly relevant in the context of the NATO withdrawal from Afghanistan in 2014. There were serious border incidents with the Kyrgyz Republic while relations with Uzbekistan remained strained over water, energy and transportation.

The prospects of Tajikistan joining the Eurasian Economic Union (EEU) are actively debated. There is a huge Tajik migrant community in Russia and a strong dependence of the Tajik economy on remittances from Russia. China has established a strong economic presence in the country through significant trade and investment.

#### **3.2 Macroeconomic context**

GDP growth slowed to 6.7 per cent in 2014 after growing by 7.4 per cent in 2013. Growth was primarily supported by the rapid expansion of construction, which grew by 25.3 per cent in 2014. However, a reduction in the rate of remittances due to the slowdown in Russia

translated into lower domestic demand and slower growth in services. Global market developments also negatively affected cotton and aluminium exports, while growth in agricultural output moderated. Inflation averaged 6.1 per cent in 2014, compared to 5 per cent in 2013. The impact of the collapsing Rouble on the Tajik Somoni was limited in 2014, with the currency depreciating by only 10 per cent, partly helped by monetary and administrative measures employed by the National Bank of Tajikistan (NBT).

GDP growth is expected to decelerate to 4.4 per cent in 2015, reflecting negative external developments, particularly the slowdown in Russia which is expected to affect the level of remittances and, to a lesser extent, trade. Slowdown in other trading partners, including Kazakhstan and China, is also expected to put pressure on GDP growth in 2015. Other major risks stem from recent increases in NPLs (which reached 19.6 per cent in Q3 2014), and the overall fragility of the banking system given the large exposure of banks to cotton and state enterprises, weak capital positions and dependence on liquidity support from the NBT. At the same time, sharply lower oil prices will somewhat mitigate the above negative factors and provide a boost to growth, although the positive impact is only likely to materialise over several years. Inflation is expected to average 6.4 per cent in 2015.

Accession to the EEU during the strategy period is a possibility. The accession presents both opportunities and risks for Tajikistan. It may reduce the risk of disruption to remittance flows from Russia (as well as other EEU countries such as Kazakhstan), as membership will reinforce free labour movement and protection of Tajik workers' rights in other EEU countries. More broadly, the accession will reduce trade barriers with other EEU countries, which could improve Tajik exporters' access to the common EEU market and potentially attract additional private investment, which is currently lower relative to GDP than in any other EBRD country of operation. However, the extent of these benefits will depend on concurrent improvements to Tajikistan's business environment and banking system. At the same time, accession will create risks for less competitive domestic industries, as more efficient competitors from other EEU countries enter the market, and trade barriers with non-EEU countries are increased.

### **3.3 Structural reform context**

Tajikistan continues to face formidable structural challenges, notwithstanding progress in some areas. Out of the Bank's 32 sectoral transition challenge assessments (see Annex 3), only one area has a medium gap, with all others still assessed as large. Reform areas have included agriculture, with the adopted resolution of the cotton debt problem and price liberalisation in the cotton sector, but land reform has remained stalled, although a new land code has been drafted. In the financial sector, a revised central bank law, a bankruptcy law for credit institutions and a law on anti-money laundering were all adopted in 2011, but there remains an acute need for strengthened supervision, which would require enhancing the capacity of the regulator and phasing out directed lending and similar practices. Tajikistan's banking sector remains weak with continued increases in the level of NPLs. The NBT needs to continue implementing the recently developed framework for regulating mobile banking products, which will improve banking penetration within the population.

Development of domestic capital markets and local currency interest rate benchmarks also could help improve risk management and local capital distribution. Tajikistan is one of the Early Transition Countries with which the Bank has signed a Memorandum of Understanding

on local currency and capital market development, underpinning with policy dialogue the Bank's local currency lending activities.

As noted above, access to energy remains a serious obstacle to business activity and economic growth. The focus in this sector has been mainly on improving governance and the transparency of large state-owned enterprises, with mixed results. In August 2011 the Government approved a corporate restructuring programme for Barki Tojik, with the aim of transforming the Company into a commercially viable entity with the ultimate objective of separating generation, distribution and transmission functions. In infrastructure and the municipal sector, however, progress has been more uneven and further restructuring, tariff increases and new thermal power generation capacity to balance insufficient winter capacity are needed.

Tajikistan's potential accession to the EEU may also affect the nature of structural reforms. In addition to its potential impact on remittances, cross-border trade and investment described above, the accession may create additional momentum for reform as Tajikistan's economic institutions integrate with other EEU countries. In the Kyrgyz Republic, for example, which is currently going through the accession process, there has been an impetus for reforms in areas such as customs infrastructure, sanitary testing and certification facilities to help prepare the country to operate in a single economic space.

### **3.4 Access to finance**

#### *Private sources of capital*

Tajikistan essentially has no capital markets, with little chance of significant capital market development in the near future. Government bond markets and money markets are virtually non-existent. Securities market legislation is rudimentary and requires significant improvement. The Ministry of Finance (MOF) issues sparingly, and only short term (there are some recapitalization bonds outstanding). The Equity Market Development Agency under the MOF is responsible for the development of capital market in Tajikistan. In June 2013 a stock exchange was registered with the Tax Committee, but still at the early stage of creation.

There is no state pension fund, and the deposit insurance fund has only been able to find assets for half of its funds under management. There may be scope for the issuance of a local currency bond by a local bank.

#### *Multilateral development banks and donor finance*

In Tajikistan the Bank has the highest dependency on donor co-financing for investments and technical assistance of any EBRD country of operation. Therefore strong cooperation with other IFIs (who operate in Tajikistan on a grant or deeply concessional basis) and donors is operationally essential. Moreover, on many of the key issues such as energy and banking, IFIs working together have the capacity to exercise real leverage.

The ADB is the largest multilateral actor in Tajikistan, providing US\$ 227 million of technical assistance and grants in 2013. Primary sectors of involvement are transport, energy, water supply, health and education, with ADB technical assistance and expertise for the restructuring of Barki Tojik of particular strategic importance. However ADB assistance may decline over the next three years in the context of its new country partnership strategy, which is likely to introduce a greater prioritisation of support for the private sector and shift from an exclusive deployment of grants to some concessional lending.

The World Bank/IDA provided credits at an average rate of US\$ 62 million per annum between 2010 and 2013, primarily for education, water management and municipal services, energy, health, and public financial management. The World Bank also provides advisory services and is the main financier for the CASA-1000 electricity transmission project which links summer surplus capacity in the Kyrgyz Republic and Tajikistan via Afghanistan to demand in India and Pakistan. Strategic energy issues are thus likely to be near the centre of World Bank activities in Tajikistan going forward.

IFC investment operations averaged less than US\$ 5 million per annum in 2011-2013, although a significant increase in signings and pipeline has taken place in 2014-2015. IFC is active in the financial and corporate sectors. IFC advisory services are more extensive, primarily relating to governance and the business environment and access to finance.

Overall, the new World Bank Group Country Partnership Strategy (approved in May 2014) focuses on strengthening the role of the private sector, promoting social inclusion and expanding regional connectivity.

With the successful completion of an Extended Credit Facility in 2012, the IMF does not currently have a programme in Tajikistan but operates a surveillance and significant technical assistance operation (the latter mainly in the areas of public financial management, tax administration and accounting and statistics at the NBT). Its two primary policy priorities are increasing transparency, accountability and governance at state-owned enterprises, including TALCO, and resolution of AIB in line with good international practice. The IMF and the authorities are not discussing a new programme, with the resolution of AIB the key contentious issue.

The Islamic Development Bank (IsDB) is a significant player in Tajikistan, having hosted its annual meeting in Dushanbe in May 2013 and provided a cumulative US\$ 331 million of concessional loans since 1996. Key sectors of IsDB intervention are health and education, road infrastructure, energy, agriculture and microfinance. Its private sector arm, ICD, has provided some lines of credit to commercial banks.

The EU national programme from 2014 to 2020 will be focused on health, education and rural development. Funding for Tajikistan is also available from regional programmes, and in particular from the Investment Facility for Central Asia (IFCA).

Many bilateral development partners are active in Tajikistan, providing a total of US\$ 223 million of commitments in 2013 (down from a peak of US\$ 393 million in 2008), of which 70 per cent grants. The largest aid pledges are now from China, followed by US, Germany, Japan, Switzerland, UK, Saudi Arabia, Kuwait. The main target sector is transport, followed by social welfare and health.

A further key development partner is the Aga Khan Development Network, which has more than 3,500 employees in Tajikistan and is active in a broad spectrum of themes from economic development, education and rural development to health care, disaster management and cultural revitalisation. It is an active investor in energy and the private sector.

### 3.5 Business environment and legal context

#### *Business environment*

While the business environment remains challenging, certain important improvements have been made. Tajikistan ranked 166<sup>th</sup> globally (out of 189 countries) and 26<sup>th</sup> regionally in the World Bank Doing Business 2015 report, improving the performance on doing business indicators thanks to the streamlined procedures for starting business and implementation of new software at the one-stop shop. Dealing with construction permits was made less costly and an electronic system for filing and paying taxes was introduced. In 2013 the first credit information bureau was established to improve credit risk management by offering timely and credible information on borrowers to creditors. Currently the bureau receives approximately 60,000 enquiries per month and a range of banks and MFIs are using it. However significant administrative barriers to establishing new enterprises remain, and the dominance of enterprises owned by politically exposed persons hinders new entrants and the growth of private small and medium-sized companies.

#### *Legal context*

The Tajik legal environment has been characterised by some notable recent developments which continue to bridge the gap between the laws of Tajikistan and those of relatively more developed jurisdictions.

Amongst the positives is the ongoing work of the Tajik Parliament on draft amendments to the country's anti-corruption law which, if adopted in their current form, will give NGOs and international organisations active in Tajikistan a greater role in the fight against corruption and will set out the activities of Tajikistan's National Anti-Corruption Council in line with the National Programme on Projected Development of Tajik Constitutional, Defence and Security Legislation 2012-2015.

Tajikistan recently acceded to the Hague Convention Abolishing the Requirement for Legalization for Foreign Public Documents 1961 (the Apostille Convention). This will facilitate the international flow of documentation for both private and commercial purposes. In a similar vein, the Tajik Customs Service introduced a "single customs window" in July 2014 to facilitate customs clearance of the goods imported into Tajikistan.

In July 2014 the law on Islamic Banking in Tajikistan was passed. This law defines the scope of Islamic banking operations and the procedure for incorporation and the functioning of the Islamic credit organisations as well as the applicable licensing requirements. The successful implementation of this law should improve access to finance in Tajikistan in furtherance of the Country Strategy as it is likely to broaden the base of market participants.

However, despite the recent new laws and amendments covering Islamic banking, bankruptcies of credit institutions and the anti-money laundering law, there remains a large scope for improving regulation and supervision. Protection of property rights remains an issue as there have been several recent cases of state expropriation of Tajik-owned private property reportedly under politically motivated circumstances and without effective due process.

### 3.6 Social context

The total population in Tajikistan is 8 million, comprising over 80 ethnic groups, and with 73.7 percent of the total population living in rural areas. Poverty rates, measured by the percentage of the population living below the national poverty line, dropped from 81 percent in 1999 to 47 percent in 2009 and to 32% in 2015.

The official unemployment rate is 2.5 percent, but the actual number is estimated to be much higher. More than one million Tajiks currently work as labour migrants, predominantly in Russia and other former Soviet states. The overall labour force participation rate is estimated at 68 percent, which is relatively low as compared to other Central Asia countries. However, partly as a result of male migration, women's labour force participation is relatively high at 62 per cent, compared to the regional average of 50 per cent.

With a labour market currently not capable of absorbing the working age population, the country experiences an economically and socially challenging demographic situation. According to UNESCO, more than 50 percent of the population is below 24 years of age. The World Bank-ILO currently estimate the youth (15-24 year olds) unemployment rate to be 15.6 percent, with over a third of young people not in education, training nor employment, which is comparatively high for the region.

Literacy levels are generally high in Tajikistan and public education consists of 11 years of primary and secondary education. The overall levels of education of the population have decreased, however, over the past two decades, with less than 25 percent of the working-age population having a professional education. Access to education in rural areas has declined, exacerbating the rates of poverty in these regions and disproportionately affecting girls and women. Quality of education lags, and public spending on education is low, even though the government has initiated a series of reforms during the past 10 years. Tajikistan has achieved parity in primary education but still exhibits substantial gender gaps in secondary and tertiary education.

Closing the regional gap with regards to non-corruptive and transparent governmental institutions, accessibility of reliable public utility services and employment opportunities are among Tajikistan's main inclusion challenges. There are substantial regional disparities in access to jobs and access to services, particularly in relation to access to water and waste water connections. Despite efforts by the Tajik government to improve and expand health care, the system remains underdeveloped, with severe shortages of medical supplies affecting especially women, especially as it regards to sexual and reproductive health services.

Despite a relatively high rate of female labour force participation, there is a high incidence of gender segregation in the labour market, with women concentrated in lower-wage sectors (agriculture, health care, education, and hotels and tourism), and on average earning significantly less than men. The prevalence of women's entrepreneurship is also high as compared to that of regional averages (although still low as compared to that of men). According to the World Bank Enterprise Survey, in 2009, 34 per cent of businesses had one or more female owners (comparable to regional and European averages). However, women's businesses tend to be small, low-value and informal enterprises, such as small-scale market trading, and historically have had difficulty accessing finance. Overall, women are half as likely as men to obtain loans from formal financial institutions (3.2 per cent compared to 6.4 per cent) (Global Index 2011). The reasons behind women's low access to credit include lack

of property and traditional inheritance practices, financial illiteracy and limited business management skills.

Transition has been associated with an upsurge in traditional gender norms that locate women's primary responsibilities in the home (family/household duties) and men's in the public sphere (employment, business, political representation). These views are reinforced in rural areas by a revival of more conservative forms of Islam and an increased influence of customary practices which often de facto discriminate against women notwithstanding Tajik law's prohibition on discrimination on the basis of gender. The latest CEDAW report (2013) also highlights concerns over the low participation of women in public and political life. In addition, many women lack personal identification papers, preventing their access to services and finance, and in general limiting their rights.

### **3.7 Energy efficiency and climate change context**

The energy intensity of Tajikistan remains high, about 2.5 times greater than the EU-28 average. The main energy resource in the country is hydropower, from which more than 90 per cent of the country's electricity supply is derived. Tajikistan is considered one of the most vulnerable countries to climate change in the EBRD region, with its principal economic sectors such as energy and agriculture/agribusiness dependent on water resources and therefore exposed to climatic variability. Over 70 per cent of the Tajik people suffer from shortages of electricity during the winter.

Therefore, the country faces challenges that will require increased energy efficiency, climate resilience actions and support for energy security. Volatility of water flows as a result of climate change is likely to significantly impact the country's hydro based energy system, and putting in place plans to address this volatility remains a key priority over the next years.

Heat supply is another major issue for the country as the levels of natural gas, oil and diesel fuel it had are no longer sufficient or available to meet the rising demand of the country. In particular natural gas is no longer supplied from Uzbekistan, for political reasons. As the high dependency on such resources is essential for the provision of centralised heating, in order to heat their homes and energy inefficient buildings, many people had to shift to electricity instead.

The limited capacity and obsolete condition of existing energy infrastructure is an increasing problem, especially as the demand of the end user sector is continuously growing. When looking at electricity usage at TALCO, the largest end user, the company needs about 20 per cent more electricity per kilogram of aluminium produced than modern electrolysis facilities.

Energy efficiency improvements across sectors are therefore important to mitigate the increasing electricity demand and support more sustainable economic development. The power sector is also highly subsidized, and consequently tariffs for electricity in Tajikistan are low. In terms of renewable energy potential, there is potential to explore solar as well as other energy sources such as wind.

In addition, the inefficient use of energy and water resources across sectors remains a cause of concern and a priority for policy dialogue. On that front, Tajikistan is now developing a National Climate Change Adaptation Strategy with the support of international financial

institutions. The EBRD will continue to support improvements in the regulatory framework for energy efficiency, including heat supply regulations.

On climate resilience, there is an urgent need to consider all implications for water and energy resources. For example, the Qairakkum Hydropower rehabilitation project is a significant investment benefitting from a grant from the Pilot Programme for Climate Resilience under the Climate Investment Funds (CIFs). The establishment of a dedicated climate resilience facility is also planned for 2015. Overall, climate resilience is an area where the Bank could engage through significant co-financing, and it provides strategic opportunities for the Bank for a broader engagement with the international community in Tajikistan, in addition to opportunities for more innovative investment.

## **4 STRATEGIC ORIENTATIONS**

### **4.1 Strategic Directions**

Tajikistan is an early transition country with significant cross-sectoral transition challenges, a difficult business climate, and higher-than-average risks. Inadequate supply of electricity, poor infrastructure, vulnerability to climate change, inclusion gaps, as well as the country's relative geographic isolation present major constraints to economic growth, while the financial sector is not yet able to provide adequate access to finance, including for SMEs. Energy security should remain a top priority for the Bank, along with sustainability of financial institutions, support for SMEs through investment and active policy dialogue, and access to inclusive and reliable municipal services for businesses and communities. Climate resilience and support for women's entrepreneurship are also important features of a sustainable business environment in this context, and areas where the Bank has specialised knowledge and a comparative advantage. Finally, for the economy to grow, connecting Tajikistan to external markets will be critical.

Although Tajikistan has made some progress in transition, daunting challenges remain and the regional position of the country carries risks, including difficult relations with Afghanistan and Uzbekistan. The country's real economy and industrial base perform poorly across financial, efficiency and quality measures, and recent BEEPS analysis suggests that obstacles to doing business are still formidable. The new economic team formed after the re-election of President Rahmon late in 2013 has repeatedly stated that boosting job creation, export-generating private business and industry is a top national priority together with energy independence, food security and regional interconnectivity. This has acquired sharpened importance in the context of widespread anxiety about the impact on migrant worker and remittance flows of an economic slowdown in Russia.

Other elements of relevant country strategic context include:

- likely expansion of the Eurasian Union to the border between the Kyrgyz Republic and Tajikistan (and then possibly to Tajikistan), which may initially disrupt Tajikistan's heavily import-dependent economy and its export capacity as Tajik companies face increased competition in the enlarged market;
- the enormous growth in Chinese investments in Tajikistan, which go far beyond the well-known instruments for infrastructure investment, such as the Asian Infrastructure

Investment Bank and the Silk Road infrastructure fund, to cover also investments in energy, banking, chemicals, cement, agribusiness and other sectors of the economy, and which, according to media reports, are expected to total at least US\$ 6 billion over the next three years; and

- prioritisation by the government of development in Khatlon region bordering Afghanistan, where Bank activities are currently relatively small and the business environment is especially challenging.

Despite the challenges, the above context presents numerous potential opportunities for the Bank to support reforms through investments, capacity building and policy dialogue with ensuing results. Accordingly, during the new strategy period the Bank's activities will be guided by the following strategic orientations:

- **Enabling inclusive and sustainable economic growth by supporting expansion of private enterprise, developing banking infrastructure, and helping improve the business environment:** Economic growth is disproportionately fuelled by remittance flows, which drive consumption of imported goods. Development of a viable private sector is hampered by the weak financial sector. SMEs in particular are starved of affordable funding, as the systemic banks are thwarted by non-commercial practices, such as directed lending, as well as by a high level of NPLs and lack of skills. The Bank will support the development of private enterprise through the combination of targeted investment and advisory services and skills training, as well as policy dialogue to improve the business environment. This will include specific support for women entrepreneurs, and regional diversification of the Bank's activities. The Bank will seek to further stabilise the banking sector and enhance access to finance and know-how for SMEs through a variety of instruments, including development of MFIs by supporting microfinance and providing local currency funds, as well as business advice.
- **Contributing to improving public utility services, as well as their operational and financial efficiency through commercialisation and corporatisation:** Tajikistan experiences chronic seasonal electricity shortages which impose large economic losses, while the water sector and other municipal services are dominated by inefficient and financially unsustainable utilities dependent on fully depreciated and morally obsolete Soviet era infrastructure and highly vulnerable to climate change. Transportation within the country and across its borders is hampered by lack of infrastructure and poor maintenance practices. The Bank will work with public utilities and authorities across the municipal, power, and transport sectors to help build and rehabilitate infrastructure and will continue to promote commercialisation to achieve sustainable improvements in operational performance and provision of services, as well as address relevant inclusion factors (e.g., gender).
- **Fostering regional infrastructure connectivity and integration into the wider regional economy:** Tajikistan is landlocked and the potential for cross-border trade with each of its four immediate neighbours is constrained by challenging logistics and communication. Overcoming these disadvantages is further complicated by the lack of transport infrastructure, including the poor condition of the gateway and regional airports. Connecting the country more effectively to markets beyond its immediate region is thus a top priority of the new government. The Bank will encourage and

support quality FDI, leverage trade finance and business advice to help exporting companies, and engage in policy dialogue to reduce barriers to both inward investment and exports. The Bank will also look for opportunities to support selected infrastructure connectivity projects that can be implemented under its transition mandate and if sufficient donor grant co-financing is available when required and justified. The Bank will seek through its investments to support balanced economic development and connectivity across all Tajikistan's regions.

Across its main strategic orientations the Bank will aim at promoting **climate resilience** and **gender equality**. Tajikistan is highly exposed to the impacts of climate change on its glacier-contained water resources, and the Bank will look to incorporate innovative approaches to climate resilience in its municipal infrastructure projects, including, for example, in the upgrade of the Qairakkum hydropower plant.

Tajikistan also exhibits large-to-medium gender gaps with respect to health, labour practices, access to finance, employment and firm ownership. To help address these issues, the Bank has deployed for the first time a gender specialist in a resident office. The specialist in Dushanbe will advise the Secretariat of the Investment Council on gender equality and gender mainstreaming issues and also provide support to banking teams in identifying opportunities to integrate gender components in Bank investments and policy dialogue. The Bank will support women's entrepreneurship through a combination of private sector engagement as well as policy dialogue with the authorities.

## 4.2 Key challenges and Bank activities

***Theme 1: Enabling inclusive and sustainable economic growth by supporting expansion of private enterprise, notably SMEs, and helping improve the business environment***

### Transition challenges

- Private enterprises suffer from a challenging business climate, including the dominance of enterprises owned by politically exposed persons and broader interference from the state in the economy. Combined with large administrative barriers and an inefficient taxation structure, this environment has further hindered new entrants and the growth of private small and medium-sized companies.
- Insufficient managerial expertise and business know-how, and low overall productivity and efficiency continue to constrain the development and competitiveness of the SME sector. Private enterprises, particularly farmers, also continue to have difficulty accessing long-term finance, and poor financial literacy hinders access to finance for many small businesses.
- Significant direct and indirect state intervention in agriculture has been a serious challenge; distortionary lending practices as well as restrictions on the transferability of land have constrained the development of the sector.
- Low productivity and output quality and weak hygiene standards, as well as a lack of infrastructure, have limited the agribusiness sector's ability to add value. Inefficient use of energy and water resources has also eroded competitiveness and contributes to the high vulnerability of SMEs to climate change.
- The fragility of the financial sector constrains access to finance and the range of products available in the country. The fragility reflects the high exposure of the two

largest banks to cotton and related industries and state enterprise sectors, and a legacy of heavy state interference, in particular through state-directed lending.

- The financial sector is blighted by weak corporate governance and sub-standard credit and risk management practices among the majority of banks. Banks have limited or no access to international debt markets. Access to local currency funding also remains a challenge for financial institutions. Capital markets are virtually non-existent.
- Significant gaps remain in the regulatory framework for banking, MFI and leasing, and other non-bank sectors. The capacity of the regulator to carry out supervision needs strengthening.
- Significant differences exist in access to credit between companies from Dushanbe and the regions, and between men and women-operated businesses, creating material regional and gender gaps. Together with limited access to finance, the lack of skills and managerial capacity among women-operated businesses is also particularly harmful for the women-in-business segment.

### Operational response

- The Bank will step up its support for local businesses by providing access to high quality business advice through local consultants and international industry experts, expanding its investments through MCFF, providing local currency finance where possible, working with strategic investors to raise standards and develop value chains, and engaging in related policy dialogue. Building on the success of the TAFF, the Bank will work with the EU, DFID and other development partners on an investment and technical assistance programme to enhance competitiveness among SMEs, especially agribusiness.
- The Bank will continue to support the financial sector, the primary conduit for SME investment, through, *inter alia*, the Trade Facilitation Programme (TFP) and MSME credit lines to promote climate resilience, agri-business competitiveness and women's access to finance. The Bank will seek to progressively re-engage in one or more systemic banks should policy, regulatory and corporate governance preconditions permit. The Bank will continue to support the development of micro-finance institutions and small to medium-sized banks and will continue to explore ways with TCX and the NBT to enhance the availability of local currency. A commercial bank bond issuance, and products for remittance-backed finance, will also be pursued.
- A particular accent will be placed on addressing the barriers faced by women entrepreneurs and on promoting climate resilience. The EBRD will work on developing an integrated 'Women in Business' programme in areas such as enhancing access to finance, developing business skills and networking. This will depend on donor funding and readiness of partner banks to engage. The Finance and Technology Transfer Centre for Climate Change (FINTECC) and similar initiatives will also be marketed to support effective resource utilisation, and promote modern technologies and international best practices with strong demonstration effects.

### Policy dialogue and technical assistance

- As part of its efforts to improve the business environment, the Bank will continue to channel its policy dialogue through its support for the secretariat of the Investment Council. However it will attempt to strengthen and consolidate this support, while also diversifying its policy dialogue through other channels. In general, the Bank will focus less on new regulations and laws (although these continue to be important in

some areas) and more on monitoring and advocating their robust implementation. The Bank will also facilitate Tajikistan's outreach to foreign investors bearing in mind the reform leverage that can accompany such investment.

- The Bank will in particular step up its support to the Investment Council by financing a business specialist and a specialist on women's entrepreneurship, by deploying an enhanced level of analytical tools such as the BEEPS study as a basis for dialogue, and by working to enhance private sector engagement in the Council's activities. The key objective will be to empower and channel the voice of the private sector to enable it to define and impact the work programme of the Investment Council.
- The Bank will work with the State Committee on Property and Investments on the Action Plan on Entrepreneurship (2015-2020), and in particular on setting up the task force on women's entrepreneurship agreed as a result of EBRD policy dialogue.
- Through the legal transition programme the Bank will continue to support developments to improve the business environment, including e-procurement and judicial capacity building. The Bank will also explore opportunities to support capacity building of the judiciary and lawyers in the area of women's economic rights. Further details are provided in Annex 4.
- In the financial sector, the Bank will continue to focus on the need to improve corporate governance across the sector. With respect to capital markets the Bank will stand ready to support the development of fundamental infrastructure such as settlement, clearing and payment systems and a central securities depository. Dialogue on local currency lending will continue in line with the ETC MoU, including ongoing inflation targeting technical assistance.

**Results Framework for Theme 1: Enabling inclusive and sustainable economic growth  
by supporting expansion of private enterprise, notably SMEs, and helping improve the business environment**

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
1.1	Private enterprises, particularly SMEs, are constrained by a lack of access to finance, weak management expertise and low productivity and efficiency	<b>Strengthen private sector competitiveness through targeted investment, as well as advice on business practices and standards</b>	<ul style="list-style-type: none"> <li>• Direct/indirect financing, including through MCFE and where possible in local currency, supported by TC on corporate governance and operating practices</li> <li>• Business advice on improving management practices, productivity and quality standards</li> </ul>	<ul style="list-style-type: none"> <li>• SBS/TIMS indicators on number of client firms that reported growth, increased productivity and introduce standards (<i>Baseline – established at projects approval</i>)</li> </ul>
1.2	Financial sector fragility and poor corporate governance constrains access to finance, particularly for SMEs and women-operated businesses	<b>Support financial sector development through diversified products and improved governance</b>	<ul style="list-style-type: none"> <li>• Targeted credit lines (including MSME) and frameworks to promote climate resilience, agri-business competitiveness and women's access to finance, where possible in local currency, with capacity building TC</li> <li>• Policy dialogue on new banking products (e.g., mobile banking, women's access to finance) and banking sector corporate governance, and local currency lending under the ETC programme</li> </ul>	<ul style="list-style-type: none"> <li>• Total number/volume of SME loans, including (as applicable) breakdown for local currency loans and loans for climate resilience, agri-business competitiveness and women-led companies extended by PFIs (<i>Baseline – established at projects approval</i>)</li> <li>• Successful introduction of new banking products as a result of the Bank's facility offering and policy dialogue (e.g., mobile banking, women's access to finance) and improved corporate governance at client banks (<i>Baseline – N/A</i>)</li> </ul>
1.3	The business environment remains challenging	<b>Support improvements in the legal and regulatory framework supporting the business environment</b>	<ul style="list-style-type: none"> <li>• Support to Investment Council Secretariat and leveraging investor concerns through business associations</li> <li>• Judicial capacity building through the LTT programme</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence of successful enactment and/or implementation of IC-sponsored reforms related to improving the business environment (<i>Baseline – N/A</i>)</li> </ul>
<b>Context indicator:</b> $\Delta$ MSME ATC score ( <i>Baseline (2014) – 2- (Large)</i> ); change in the perception of the business environment in BEEPS ( <i>Baseline (2013) – Business Environment (3.15%)</i> )				

***Theme 2: Contributing to improving public utility services as well as their operational and financial efficiency through commercialisation and corporatisation***

Transition challenges

- In the power sector, limited progress has been made in separating generation, distribution and transmission functions. The sector is dominated by the vertically integrated, state-owned Barki Tojik, whose operation is compromised by poor corporate governance, inadequate revenue collection rates, significant electricity losses, increasing liabilities and subsidised tariffs. The company urgently needs to be restructured with the objective of improving its financial and operational efficiency.
- The Tajik water sector is at an early stage of development. In an effort to create regional water companies, local water and wastewater operations (with the exception of Dushanbe and Khujand) have been merged under the umbrella of the state holding company for municipal services, KMK. However, KMK managed water companies remain small and unsustainable, and further consolidation to enhance operational and financial sustainability is necessary. Corporate restructuring and further commercialisation (including restoration of physical supply, reduced water losses and increased water quality) is required.
- Aging energy and water infrastructure reduces the effectiveness and reliability of supply, imposing significant costs on businesses and households and compounding their vulnerability to climate change.
- In urban transport, municipal planning and regulatory capacity remains underdeveloped; the sector suffers from under investment as there are no explicit public service contracts between cities and service providers.
- Significant differences in quality and access to utility services between Dushanbe and the regions, as well as across regions, remain, reflecting material regional gaps.
- Regulatory frameworks and regulatory capacity in the water, waste water, telecommunications and power sectors remain significantly underdeveloped, and contractual arrangements between the owner/policy maker and the company are not well defined. Increases in tariffs and improvements in collection rates are required.

Operational response

- The Bank will continue to support, in conjunction with partner IFIs, implementation of the Corporate Restructuring Programme for Barki Tojik, which aims to transform the company into a commercially viable entity. Implementation of major recent investments such as the Sughd Loss Reduction Project for billing and metering, and the Qairakkum Hydropower Rehabilitation Project will also be central to the strategy, since future investments together with associated capacity building and policy dialogue will build on these projects' support for restructuring and energy sector reform.
- Energy loss reduction projects and associated corporate reforms will be a primary focus of the Bank's interventions alongside other operations that reduce Tajikistan's well known and chronic winter energy deficit and build climate resilience into Tajikistan's energy system. On the basis of clear progress with energy sector reform the Bank will participate in the Central Asia – South Asia Electricity Transmission and Trade project (CASA-1000).

- The Bank will continue to prioritise improving the quality, as well as operational and financial viability and corporate capacity, of municipal services, where donor co-financing is available and the Bank's transition and investment conditions can be met. The primary focus will be on water/wastewater, but solid waste and urban transport projects will also be pursued. In the water sector, the key strategic objective will be to implement the regionalisation agenda agreed with the government, in partnership with donors, thereby enabling investments across 21 cities, including smaller cities hitherto not bankable as standalone clients.
- In all municipal sectors the Bank will scale up its support for inclusive governance initiatives in a systemic manner, including by improving women's participation in water sector decision making through water users committees and councils and by addressing social issues such as informal waste picker arrangements.
- In general, the Bank will pay particular attention to opportunities for gender related actions to be taken within infrastructure projects. Close attention to the climate resilience of projects, in view of Tajikistan's unique vulnerability to volatility of water and energy supply, will also be a key feature of project design.

#### Policy dialogue and technical assistance

- The focus for policy dialogue will be on commercialisation and corporatisation. In the energy sector, the Bank will engage with the Tajik authorities to strengthen the technical capacity of power sector officials and support the development of a new tariff methodology. Stakeholder engagement on tariff increases also has been important to the success of municipal infrastructure projects and the Bank will look for ways to extend this approach.
- The Bank will engage with the government to support the development of a rational framework for municipal services in the country (in particular water and waste water), including the pooling of assets and debt.
- To address barriers to access to services, the Bank will aim to ensure that all municipal infrastructure feasibility studies include a gender assessment, identifying potential opportunities to enhance the Bank's engagement in this area, for example, through the use of consultative mechanisms. The Bank will also attempt to ensure that public services are provided in a manner that addresses the concerns of men and women equally, for example, through capacity building of client staff.

**Results Framework for Theme 2: Contributing to improving public utility services  
as well as their operational and financial efficiency through commercialisation and corporatisation**

	<b>CHALLENGES</b>	<b>OBJECTIVES</b>	<b>ACTIVITIES</b>	<b>TRACKING INDICATORS</b>
2.1	The power sector remains largely state owned and inefficient, and only limited progress has been made on restructuring and corporate reform	<b>Support sustainability of power sector by corporate restructuring, rehabilitating assets and improving financial and operational efficiency</b>	<ul style="list-style-type: none"> <li>• Support corporate restructuring of Barki Tojik into commercially viable entity</li> <li>• Implement Sughd Loss Reduction and Qairakkum Hydropower Rehabilitation projects</li> <li>• Capacity building and policy dialogue on commercialisation and corporatisation of power sector utilities</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence of improvement in Barki Tojik's efficiency or financial performance due to restructuring (<i>Baseline – N/A</i>)</li> <li>• Evidence of energy loss reduction and increase in HPP capacity refurbished and/or made more climate resilient through the Bank's activities (TIMS) (<i>Baseline – established at projects approval</i>)</li> </ul>
2.2	Municipal enterprises are operated inefficiently. Regulatory framework, approach to tariff setting and collection issues constrain the sustainability of operators	<b>Improve financial condition, operational practices, sustainability and governance of municipal utilities, with a view to commercialisation and private sector participation</b>	<ul style="list-style-type: none"> <li>• Investments in water/wastewater, as well as solid waste management and urban transport</li> <li>• Supporting utility financial and operational performance improvement</li> <li>• Policy dialogue on water/wastewater tariff methodology improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence of improvements in financial and operational performance of municipal operators reported through TIMS/TCRF (<i>Baseline – N/A</i>)</li> <li>• Introduction of improved water/wastewater tariff methodology in line with cost recovery principles, as a result of the Bank's policy dialogue and technical assistance (<i>Baseline – N/A</i>)</li> </ul>
<b>Context indicator:</b> Δ in MEI and Power ATC scores ( <i>Baseline (2014) – Water &amp; Wastewater: 2 (Large); Urban Transport: 2 (Large); Power: 2 (Large)</i> )				

### *Theme 3: Fostering regional infrastructure connectivity and integration to the wider regional economy*

#### Transition challenges

- Export-oriented firms lack the skills and access to finance to develop competitively, and the business environment is not conducive to developing the necessary scale to compete internationally. There are also material administrative barriers to the entry of foreign firms and investments.
- Exporters' access to finance is constrained by the weak financial sector and substandard management skills among export-oriented companies. There is insufficient availability of trade finance products in the market, largely driven by lack of skills and capacity of banks to provide such products.
- Significant impediments to trade remain, including tariff and non-tariff barriers, corruption and governmental ineffectiveness, both within the Central Asia region, as well as with Russia, China and other countries.
- Critical infrastructure (roads, cross-border logistics) needs to be enhanced to facilitate cross-border trade. The road sector remains largely unreformed in all aspects, including institutions, financing and private sector participation. While some road construction has been undertaken by the private sector under IFI-funded contracts, there is little competition in the sector more generally.

#### Operational response

- With respect to commerce, the Bank will seek opportunities to support export-oriented private companies, including FDI sponsors, in developing supply chain linkages and export channels to connect the country to world markets. These activities will serve to increase export competitiveness in the manufacturing and service sectors as well as that of agricultural products, and potentially natural resources.
- The Bank will provide business advice to export-oriented SMEs focusing on enhancing their competitiveness and capacity to export, and will also finance these enterprises where bankable.
- The Bank will work with financial institutions to significantly expand its trade facilitation programme, including through export support facilities with partner banks drawing on trade finance guarantee instruments and capacity building technical assistance.
- The Bank also will assess the feasibility of co-financing strategic connectivity projects to Tajikistan's bordering countries and the wider region, as promoted by the government and other international institutions, within its transition mandate. In particular, the possibility of enhancing regional roads connectivity will be explored. The Bank will focus on promoting roads maintenance and a financially sustainable approach to roads maintenance operations, linked to new road building where appropriate. Transport connectivity will also be pursued in the aviation and airports sector, building on the Khujand airport project. The Bank will look for ways to foster integration of the regional electricity market, so as to enhance energy security.
- Notwithstanding this regional focus, the Bank will also be alert to opportunities to develop further connectivity within Tajikistan. In either case the Bank typically will look to act as co-financier alongside other financing institutions and will leverage its transition focused conditionality with these partners.

## Policy Dialogue

- The Bank will work through the Investment Council and other entities, such as the American Chamber of Commerce, to analyse barriers to trade for both foreign and domestic investors. Working closely with international partners, notably the IFC, the Bank will on this basis step up its engagement with the State Investment Committee and other government bodies to address these barriers.
- Independent of individual investment decisions, in its policy dialogue with the government and in exploring co-financing with other international institutions, the Bank will consistently emphasise the need for strategic infrastructure projects to be linked to sustainable, commercially oriented rehabilitation of existing infrastructure and sector governance reform. Indeed, Bank investment in such projects, subject to appropriate transition-oriented conditionality, will only provide additional leverage for policy dialogue.

### Results Framework for Theme 3: Fostering regional infrastructure connectivity and integration to the wider regional economy

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
3.1	Tajikistan is poorly integrated in regional and global trade, with weak local corporate competitiveness, and limited exports, import substitution and foreign direct investment	<b>Support foreign investment and the competitiveness of Tajik enterprises</b>	<ul style="list-style-type: none"> <li>• Support foreign investment as a source of high quality corporate governance, environmental and social, and product quality standards, and as an anchor for development of local value chains</li> <li>• Support export-oriented companies through business advice and investments in developing supply chain linkages and export channels</li> <li>• TFP lines through banks to facilitate exports</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence of increased FDI in EBRD supported sectors that contributes to supply chain linkages and export channels for local enterprises (TIMS) (<i>Baseline – established at projects approval</i>)</li> <li>• Evidence of increase in productivity and standards of local (export oriented) companies supported by the Bank (TIMS/SBS) (<i>Baseline – N/A</i>)</li> <li>• Volume of trade finance lines opened by partner banks (<i>Baseline – 0</i>)</li> </ul>
3.2	Critical regional transport and energy cross-border infrastructure remains insufficiently developed	<b>Support the development of key regional infrastructure in conjunction with promoting integration and sector reform</b>	<ul style="list-style-type: none"> <li>• Financing well-selected infrastructure projects (roads, aviation and electricity) employing reform-oriented conditionalities and providing capacity building assistance</li> <li>• Policy dialogue on commercially oriented rehabilitation and sector governance reform</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence of increased or improved cross-border physical infrastructure (e.g., roads, aviation and electricity) and connectivity as a result of Bank activities (TIMS/TCRF) (<i>Baseline – established at projects approval</i>)</li> <li>• Demonstrated progress in implementation of reforms, including in relation to roads maintenance (TIMS/TCRF) (<i>Baseline – N/A</i>)</li> </ul>
<p><b>Context indicator:</b> Change in perception of obstacles relating to transport and customs/trade regulations in BEEPS (<i>Baseline (2013) – Transport (53.04%); Customs and Trade Regulations (-40.61%)</i>)</p>				

### 4.3 Potential Risks to Country Strategy implementation

There are a number of significant risks to implementation of this Country Strategy. These are grouped into four categories below. Broadly speaking the Bank has no mitigating control over the first category, potentially some control over the second and third categories; and a high degree of control over the fourth category.

*i. Macro shocks*

An external economic shock such as a serious and sustained economic downturn in Russia would have negative impacts on migration, on remittance flows and hence on Tajikistan's GDP, unemployment and consumption. This could potentially impact negatively EBRD clients in the financial and corporate sectors. The geopolitical setting, and in particular the long borders with Afghanistan and Uzbekistan also carry risks of instability. Even the border with the Kyrgyz Republic was subject to serious tensions during 2014. All such tensions have a negative economic impact given Tajikistan's reliance on limited routes to market for trade, as well as on perceptions of international investors.

*ii. Business environment negatives*

A failure to push through reforms to the financial or energy sectors would have profound negative effects on the business environment. For example a failure to strengthen systemic banks and provide a consistent regulatory framework for the financial sector could lead to erosion of already limited capital bases, growth of NPLs, a corrosion of corporate governance and to bank failures, with further constraints to availability of credit. Failure to reform Barki Tojik would put at risk IFI investments, undermine further the capacity of business to operate, and raise insurmountable questions around the implementation of strategic energy projects such as CASA-1000. Other serious risks include failure to address the skills gap in the economy and failure to create an environment of administrative stability, for example with respect to tax and economic justice. Without progress in these areas EBRD operations and the economy at large will continue to suffer.

*iii. Lack of progress with improving governance*

Some of the constraints to private sector growth and to implementation of infrastructure projects have arisen from a blurring between public and private spheres. A continuation of such practices would present significant risks to this strategy. For example a resumption of state directed lending by commercial banks would be dangerous for EBRD investments, the financial sector at large, and for the whole economy. Equally the perception of misuse of state instruments by well-placed individuals to advance private interests comes at a high cost to the investment climate. In infrastructure sectors, good cooperation is required with the authorities to ensure sound sovereign and sub-sovereign procurement.

*iv. Resources*

To fully achieve its strategic objectives in Tajikistan the Bank will need to equip itself with the right products, and a failure to innovate or develop these would represent a risk to strategy implementation. In particular the availability of local currency is essential to operations in the financial and corporate sectors, yet TCX rates and availability have been volatile.

As noted, EBRD operations in Tajikistan are more grant intensive than any other country of operation, and high ratios of co-financing will be necessary for energy and infrastructure projects in particular, taking into account considerable affordability constraints and the high costs associated with the Bank's environmental standards. Some, but not all, public sector projects are likely to require grant and TC resources in a ratio to EBRD investment as high as, and occasionally higher than, 1:1. Thus an expansion of such operations would require an expansion of donor and net income co-financing.

#### **4.4 Environmental and Social Implications of Bank Proposed Activities**

The Bank's Environmental and Social Policy and Performance Requirements will apply to all projects carried out in the Republic of Tajikistan. The Bank will work closely with clients in developing Environmental and Social Action Plans with the objective of:

- defining the respective roles and responsibilities of both EBRD and its clients in designing, implementing and operating projects in line with Tajikistan regulations and standards and the applicable EBRD Performance Requirements;
- setting a strategic goal to promote projects with high environmental and social benefits; and
- mainstreaming environmental and social sustainability considerations into all activities carried out in Tajikistan.

The main environmental issues in Tajikistan are the impact of climate change on key sectors such as agriculture and hydropower, the degradation of soils in rural areas, pockets of high air pollution caused by industry and motor vehicles in urban areas, water pollution from agricultural runoff, the management of domestic and industrial waste and sewage, and the management of water resources.

Soil erosion affects an estimated 70 percent of irrigated cropland. Overgrazing also contributes to soil erosion. Air pollution is a particular problem during times of the year when atmospheric conditions hold industrial and vehicle emissions close to the surface in urban areas. In summer, dust and sand from the deserts of Uzbekistan and Turkmenistan cause air pollution across the entire south-western lowland region. Forest degradation also is a serious problem as trees are cut to expand pasture land on collective farms, while Tajikistan has a significant potential for afforestation projects.

The main social issues in Tajikistan are poverty and the lack of employment opportunities, the lack of input-output commercial chains for agricultural products, the lack of access to and reliability of public services (electricity, water and sanitation; education), food insecurity, gender inequalities, poor transport connectivity, and the low level of private sector investments and job creation.

The EBRD will work closely with its clients to maximise benefits in terms of access to employment and/or services, including equal opportunities for women and those who are considered to be vulnerable. The Bank's environmental and social due diligence of potential projects will be designed to ensure that vulnerable groups, who might be disproportionately affected by a project, are identified. This will enable both adequate mitigation measures to be put in place as part of the project design as well as interventions that will enhance these groups' ability to benefit from the Project's activities. Stakeholder engagement will be

carried out in a culturally sensitive manner that is aimed at including the participation of both men and women and/or those groups who might otherwise not have a voice.

When carrying out the environmental and social due diligence of new projects, the EBRD will proactively seek cost-effective actions that could be implemented to ensure a good environmental and social insertion of these projects. These actions, along with environmental and social capacity building initiatives or specific measures to support people livelihoods or biodiversity/ecosystems conservation will be targeted for Technical Cooperation support.

Protection of the environment and the health of the population is at the heart of a new nuclear safety fund which will be established by the EBRD to address the extensive legacy of Soviet era uranium mining and processing in Tajikistan and other Central Asian countries. Multiple sites with large amounts of radioactive and toxic waste have been left behind which are largely unprotected or badly maintained and are in urgent need of remediation. It has been widely acknowledged in the international community that the Central Asian countries require support in dealing with this legacy and the EU has taken the initiative to call on EBRD's nuclear safety expertise.

#### **4.5 EBRD co-operations with MDBs**

Tajikistan has a well-developed and structured Donor Coordination Council comprising a number of specialised working groups, including a Private Sector Development working group. These fora provide an opportunity for information sharing among donors, IFIs and the broader international community, and as a basis for common action on selected issues.

Along the three themes, the Bank will cooperate with other partners as follows:

On private enterprise, SMEs and the business environment, the Bank will form partnerships with donors such as DFID, GIZ, KfW, IFC advisory services, SECO and USAID who have a strategic focus on supporting private sector development and provide grants, technical advice and policy dialogue that complement or directly support the Bank's activities. With respect to the financial sector, the Bank will closely coordinate its activities and policy dialogue with the World Bank, IFC and IMF.

On public utility services, the Bank will continue to work with the EU and SECO in the water sector and other municipal services and will also work closely with the proposed water strategy and fund led by the World Bank. The ADB will continue to be a core partner, along with the World Bank on energy sector reform issues, and it is anticipated that the three institutions will continue to deploy a shared policy dialogue platform and common conditionalities across investments. The Pilot Programme for Climate Resilience will continue to be a major co-financing partner. The ADB is also an important partner in the transport sector, both as co-financier and policy dialogue partner, and it is foreseen that cooperation with JICA will be developed in this sector.

On connectivity and integration to the wider regional market, many of the same donor and IFI partnerships will apply. Co-financiers on private sector development and infrastructure generally see a regional integration dimension as an additional reason for cooperation.

## ANNEX 1 – POLITICAL ASSESSMENT

Tajikistan is committed to the principles of multiparty democracy, pluralism and market economics, as outlined in Article 1 of the Agreement Establishing the Bank, although the implementation of these principles remains moderate and uneven.

Tajikistan is a presidential republic with a strong executive that is not sufficiently balanced by the legislature or judiciary. President Emomali Rahmon was re-elected for another seven-year term in office in November 2013. According to the OSCE/ODIHR election monitors, the election took place in a peaceful environment, but restrictive candidate registration requirements resulted in a lack of genuine choice and meaningful pluralism. The last parliamentary elections took place on 1 March 2015 and brought victory to the ruling People's Democratic Party (PDP), which won the elections both on the party list and in single mandate constituencies.

Following the presidential election, the government was reshuffled, with the prime minister and a number of key government ministers replaced. The new government has stated its commitment to implement urgently needed reforms in the banking and energy sectors while private sector development is also emphasised as a priority.

Tajikistan has several political parties, including opposition parties, and a network of NGOs but development of genuine political pluralism is a challenge. Corruption is a serious issue across the society. The country's human rights record is poor with many challenges remaining.

Externally, instability in neighbouring Afghanistan has the potential to spill over into Tajikistan and is especially relevant in the context of the planned withdrawal of NATO-troops. This year also saw a serious border incident with the Kyrgyz Republic while relations with Uzbekistan remain strained over water, energy and transportation issues.

### **Free Elections and Representative Government**

#### *Free, fair and competitive elections*

General presidential and parliamentary elections are held on a regular basis at the national level and the principle of universal suffrage is observed.

Since the country's independence in 1991, international observer missions systematically point to shortcomings in Tajikistan's electoral processes. This was also the case in the last parliamentary and presidential elections in 2010 and 2013 respectively.

The legal framework regulating elections consists of the Constitution, the Constitutional Law on Elections of the President, and relevant provisions of other pieces of legislation such as the Law on Political Parties, the Law on Assemblies, Rallies, Activities and Demonstrations, the Law on Periodic Print and Other Mass Media, the Criminal Code and the Codes on Administrative Offences and Civil Procedure. According to the OSCE/ODIHR, "the Constitution guarantees the right to elect and to be elected, as well as freedoms of

association, assembly and expression. However, the legal framework needs to be significantly improved to provide a sound basis for the conduct of democratic elections.”<sup>1</sup>

The 2010 parliamentary elections were the third multi-party elections since the end of 1992-1997 civil war. The elections confirmed the dominant position of the governing People’s Democratic Party (PDP), which won 54 seats in a 63-member lower chamber of parliament. According to the OSCE/ODIHR, they “failed to meet many key OSCE commitments contained in the OSCE 1990 Copenhagen Document and other international standards for democratic elections. [...] Serious irregularities took place on election day, including a high incidence of observed proxy voting.”<sup>2</sup>

The last parliamentary elections took place on 1 March 2015. According to the OSCE/ODIHR election observation mission, “...the 1 March parliamentary elections took place in a restricted political space and failed to provide a level playing field for candidates. Although the government stated its ambition to hold democratic elections, and some improvements were made to the electoral law, restrictions on the right to stand, freedoms of expression and assembly, and access to media limited the opportunity to make a free and informed choice”.<sup>3</sup> By contrast, observers from the CIS and Shanghai Cooperation Organisation did not report any serious irregularities.

The 6 November 2013 presidential election was the fourth since Tajikistan’s first multi-candidate election in 1994. Constitutional amendments passed in 1999 and 2003, extended the president’s term in office from five to seven years and allowed the incumbent to stand for two additional consecutive terms. President Emomali Rahmon won the election with 84 per cent support at 87 per cent turnout. His closest rival took 5 per cent of the votes. The OSCE/ODIHR observation mission concluded that “the election in Tajikistan took place peacefully, but restrictive candidate registration requirements resulted in a lack of genuine choice and meaningful pluralism. The campaign was formalistic and limited voters’ opportunity to make an informed decision. Extensive positive state-media coverage of the official activities of the incumbent President provided him with a significant advantage.”<sup>4</sup>

The OSCE/ODIHR also observed that the 2013 presidential election was essentially conducted according to the same legal framework as the 2006 presidential election, despite previous OSCE/ODIHR recommendations aimed at improving the electoral legislation. The key shortcomings identified included unduly restrictive candidacy requirements, vague provisions on essential aspects of the election process regarding voter registration, campaigning and election day procedures. Noted restrictions on freedom of speech were not conducive to democratic elections.<sup>5</sup>

#### *Separation of powers and effective checks and balances*

According to the Constitution, Tajikistan has a presidential form of government with the president exercising significant influence over the two other branches of power – the

<sup>1</sup> OSCE/ODIHR Election Observation Mission (2014): Presidential Election November 2013, Final Report, p.5.

<sup>2</sup> OSCE/ODIHR Election Observation Mission (2010): Parliamentary Elections February 2010, Final Report, p.3.

<sup>3</sup> OSCE/ODIHR International Election Observation Mission: Republic of Tajikistan, Parliamentary Elections, 1 March 2015, Statement of Preliminary Findings and Conclusions, 2015, p.1.

<sup>4</sup> OSCE/ODIHR Election Observation Mission (2014): Presidential Election November 2013, Final Report, p.3.

<sup>5</sup> OSCE/ODIHR Election Observation Mission (2014): Presidential Election November 2013, Final Report, p.1.

legislature and the judiciary. Despite the constitutional provision about the separation of powers, checks and balances in the political system are limited and largely ineffective.

The executive branch of power exercises wide authority relative to the parliament with the latter yet to develop into a body balancing the strong executive power. Debates in the parliament occur mostly when the executive specifically requests them. Among various responsibilities, the president appoints the prime minister and other ministers, as well as the executive authorities at the central and regional level.

The judiciary is de jure independent but de facto remains largely subordinated to the executive with the president controlling it through his constitutional prerogative to nominate and dismiss judges and the prosecutor general.

#### *Effective power to govern of elected officials*

Tajikistan's elected officials have effective power to govern without restraints. The military is under civilian control and does not play a decisive role in the country's political decision-making process. Religious, corporate, business or other non-elected entities play an important role in the country but do not possess excessive powers to influence elected officials.

### **Civil Society, Media and Participation**

#### *Scale and independence of civil society*

Civil society organisations (CSOs) in Tajikistan have been dynamically developing in the last decade with some 3000 CSOs registered in 2013.<sup>6</sup> These organisations are engaged in a wide range of activities, including humanitarian and charitable work; the defence of human rights and support for the rule of law. Most NGOs are structurally dependent on foreign funding. According to the NGO Law Monitor, the impact of the civil society has increased as the number, scope and reach of CSOs have grown steadily.<sup>7</sup>

The activities of NGOs are regulated by the Law on Non-governmental Associations. There are ongoing concerns about restrictions on CSOs in several legislative proposals aiming at introducing restrictive reporting obligations to state authorities. The Ministry of Justice has excessive oversight power resulting in delays in registration and operation of CSOs.

The right to form trade unions is envisaged by law and labour rights are broadly respected in practice. Many unions still operate as quasi-official institutions representing interests of the state rather than those of workers. For fear of government retaliation, trade unions make only limited demands regarding workers' rights.

#### *Independent pluralistic media that operates without censorship*

Freedom of the press and freedom of expression are enshrined in the Constitution and are guaranteed by law. The law specifically prohibits press censorship.

Although there is a broad range of media operating in the country, the government uses means to control media content. Despite pressure from the government, there are some independent media outlets in Tajikistan. The main concerns in this area are safety of journalists, level of their professionalism and self-censorship. A growing number of people

<sup>6</sup> World Bank (2014): Strengthening Ties with Civil Society in Tajikistan, under: <http://www.worldbank.org/en/news/feature/2014/03/04/strengthening-ties-with-civil-society-in-tajikistan>.

<sup>7</sup> International Centre for Not-For-Profit Law (2014): NGO Law Monitor.

are gaining access to the Internet. While online content is not censored, the authorities regularly block access to websites that are known for critical reporting.

In a positive step, the Criminal Code was amended in 2012 to partially decriminalise defamation but criminal penalties for insulting the president or other officials remained.

*Multiple channels of civic and political participation*

Citizens of Tajikistan generally have access to multiple channels of civic and political participation. The country has a number of political parties, including opposition parties, and a developed network of civil society organisations which represent a broad range of views.

The government is required by law to provide citizens with information regarding policies and subjects that affect them. However in practice official information channels are poor in content, with information not always delivered in a timely fashion.

*Freedom to form political parties and existence of organised opposition*

Tajikistan formally has a functioning multiparty system, also including opposition parties, but most of the political parties do not play an important role in the country's governance.

In addition to the ruling, pro-presidential PDP, other parties represented in parliament include the Agrarian Party, the Communist Party, the Islamic Renaissance Party and the Economic Reform Party, each party having two seats in the legislature.

Opposition political parties are weak and fragmented and do not present a serious challenge to the ruling party. The Constitution guarantees freedom of association but the activities of independent political parties are closely monitored.

**Rule of Law and Access to Justice**

*Supremacy of the law*

The Constitution as the supreme law of the country is accepted by all political forces. The right to a fair trial is envisaged in the legislature, although the strong position of the prosecutor and the lack of independence of the judiciary continue to affect this right. Corruption in the judiciary in particular affects the right to a fair trial.

*Independence of the judiciary*

Some progress has been made in the establishment of the judicial framework in areas crucial for the functioning of the legal infrastructure. However, despite efforts aimed at strengthening the judiciary, lack of its independence is concerning. This includes the process of the selection and dismissal of judges as well as influence of the executive power over the judiciary. As in many of Tajikistan's neighbouring countries, since independence the judiciary has been chronically underfunded, which makes reforms in this area more difficult.

*Government and citizens equally subject to the law*

The Constitution guarantees the equality of all citizens before the law. Impunity remains a problem, with the authorities not always taking steps to prosecute officials who violated the laws.

*Effective policies and institutions to prevent corruption*

Corruption is a serious problem, as acknowledged by the authorities. It affects the entire society and has a detrimental impact on the development of the country. According to Transparency International's latest (2014) Corruption Perception Index (CPI), Tajikistan is ranked 152<sup>nd</sup> out of 175 countries.<sup>8</sup>

There is a legal framework to combat corruption and the government has taken some measures in this area including the ratification of the United Nations Convention against Corruption, the establishment of the National Council and the adoption of the strategy on combatting corruption. Rampant levels of corruption have remained part of the country's life despite repeated presidential announcements that anti-corruption efforts were being stepped up.

**Civil and Political Rights***Freedom of speech, information, religion, conscience, movement, association, assembly and private property*

As a member of the UN and the OSCE, Tajikistan has ratified core international treaties on civil and political rights and the fundamental conventions of the International Labour Organisation (ILO), which form an integral part of the country's legal system.

However, according to local and international observers, the implementation of these commitments has been poor. Specialised human rights monitors identified main problems as being related to restrictions on the free flow of information, the abuse of detainees, women's rights, the functioning of civil society organisations, conditions of poor religious freedoms and the lack of proper implementation of adopted laws, with freedom of expression and freedom of assembly frequently quoted as areas which require special attention.

*Political inclusiveness for women, ethnic and other minorities*

The law prohibits discrimination based on race, gender, disability, language, or social status. However, there are reports suggesting that the law is not enforced systematically.

There are no legal restrictions on the participation of women in politics and women are holding senior government positions. At the same time, there are continuing reports of acts of all types of violence against women. In many instances violence against women remains underreported.

While minority groups, including ethnic minorities, are entitled to take part in political life of the country, in reality their participation in decision-making bodies is rather limited.

There are continuing reports of violence against lesbian, gay, bisexual and transgender (LGBT) persons by both state and non-state actors, and there are concerns about the failure on part of the state to address such violence.

*Freedom from harassment, intimidation and torture*

Tajikistan is a signatory of the UN Convention against Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment. Torture is prohibited by law. Despite acknowledgment of torture, only few cases of alleged torture made it to trial. Human Rights monitoring

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<sup>8</sup> Transparency International, Corruption Perceptions Index, 2014.

organisations continue to report cases of torture by law enforcement agencies. There are concerns that allegations of torture and ill-treatment are not promptly, impartially or effectively investigated and prosecuted, thus creating a climate of impunity.

## ANNEX 2 – SELECTED ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013
<b>Output and expenditure</b> <i>(Percentage change in real terms)</i>							
GDP	7.8	7.9	3.9	6.5	7.4	7.5	7.4
Private consumption	5.4	5.1	4.9	4.7	4.4	4.3	4.1
Public consumption	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Gross fixed capital formation	90.0	1.9	-2.0	6.0	5.6	5.3	5.1
Exports of goods and services	-1.3	16.0	7.1	6.6	6.2	5.9	5.5
Imports of goods and services	1.7	17.6	7.7	7.1	6.7	6.2	5.9
<b>Labour Market<sup>1</sup></b> <i>(Percentage change)</i>							
Gross average monthly earnings in economy (annual average)	40.4	41.8	22.8	24.6	24.7	25.6	25.1
Real LCU wage growth	23.2	18.8	17.8	11.6	8.6	17.7	7.5
Unemployment rate (end-year)	2.5	2.1	2.1	2.2	2.5	2.4	2.4
<b>Prices</b> <i>(Percentage change)</i>							
Consumer prices (annual average)	13.2	20.4	6.5	6.5	12.4	5.8	5.0
Consumer prices (end-year)	19.8	11.9	5.0	9.8	9.3	6.4	3.7
<b>Fiscal Indicators</b> <i>(In per cent of GDP)</i>							
General government balance	-5.5	-5.1	-5.2	-3.0	-2.1	0.6	-0.8
General government revenues	22.5	22.1	23.4	23.2	24.9	25.1	26.9
General government expenditure	28.0	27.2	28.6	26.1	27.0	24.6	27.7
General government debt	34.6	30.0	36.2	36.3	35.4	32.3	29.2
<b>Monetary and financial sectors</b> <i>(Percentage change)</i>							
Broad money (M2, end-year)	78.8	-2.4	40.7	18.6	33.1	19.5	19.7
Credit to private sector (end-year)	66.2	22.2	12.2	-31.6	28.7	13.0	38.9
<i>(In per cent of total loans)</i>							
Non-performing loans ratio	0.8	2.4	5.9	6.5	5.3	6.6	9.9
<b>Interest and exchange rates</b> <i>(In per cent per annum, end-year)</i>							
Local currency deposit rate	0.7	0.9	1.1	2.1	0.7	0.5	0.5
Foreign currency deposit rate	1.0	1.2	1.7	1.7	1.1	1.1	1.6
Local currency lending rate	22.5	19.2	25.5	18.8	21.0	17.0	23.3
Foreign currency lending rate	21.6	17.8	28.6	22.6	22.2	21.4	24.3
Market rate / Discount rate / Policy rate	15.0	13.5	8.0	8.3	9.8	6.5	5.5
<i>(Somonis per US dollar)</i>							
Exchange rate (end-year)	3.46	3.45	4.37	4.40	4.75	4.76	4.77
Exchange rate (annual average)	3.44	3.43	4.14	4.38	4.60	4.76	4.77
<b>External sector</b> <i>(In millions of US dollars)</i>							
Current account	-319.3	-392.6	-294.9	-68.9	-310.4	-111.1	-118.0
Trade balance	-1,673	-2,721	-1,980	-2,089	-3,111	-3,330	-3,748
Merchandise exports	385.2	457.3	407.9	459.7	592.8	824.1	794.0
Merchandise imports	2,058	3,178	2,388	2,549	3,704	4,154	4,542
Foreign direct investment, net	160.0	157.0	66.0	15.6	65.0	233.5	105.4
Gross reserves, excluding gold (end-year)	40.1	103.9	174.6	324.2	289.3	297.9	460.7
External debt stock	1,519	2,384	2,572	2,851	3,152	3,510	3,674
Public external debt	1,120	1,371	1,691	1,943	2,124	2,169	2,189
Private external debt	400	1,012	880	908	1,028	1,342	1,486
<i>(In months of imports of goods and services)</i>							
Gross reserves, excluding gold (end-year)	3.5	4.3	4.4	4.5	na	na	0.8
<b>Memorandum items</b> <i>(Denominations as indicated)</i>							
Population (end-year, million)	7.2	7.4	7.5	7.6	7.8	8.0	8.1
GDP (in millions of somonis)	12,780	17,609	20,623	24,705	30,069	36,161	40,525
GDP per capita (in US dollar)	514.5	696.3	661.0	740.7	836.2	953.3	1,044.9
FDI (in million of US dollars)	160.0	157.0	66.0	15.6	65.0	233.5	105.4
External debt - reserves (in US\$ million)	1,479	2,280	2,397	2,527	2,863	3,212	3,213
External debt/GDP (in per cent)	40.9	46.4	51.7	50.5	48.3	46.2	43.2
External debt/exports of goods and services (in per cent)	198.2	275.6	340.4	329.3	270.7	213.8	230.9
Broad money (M2, end-year in per cent of GDP)	21.4	15.2	18.2	18.0	19.7	19.6	21.0

## ANNEX 3 – ASSESSMENT OF TRANSITION CHALLENGES

Market Str:	Market Inst:	Key challenges:
<b>CORPORATES</b>		
<b>Agribusiness</b>		
Medium	Large	<ul style="list-style-type: none"> <li>Reducing both direct and indirect state intervention, promoting lending to the sector on fully commercial basis through facilitating the transferability of land;</li> <li>Promoting the development of modern warehouses by eliminating bureaucratic hurdles;</li> <li>Improving hygiene and quality standards to add value as well as farming practices to prevent further degradation of land.</li> </ul>
<b>Manufacturing and Services</b>		
Large	Large	<ul style="list-style-type: none"> <li>Concerted efforts should be made to improve the overall business environment in order to overcome the small market size and significant barriers to trade from being double-landlocked;</li> <li>Improving the efficiency and productivity of large enterprises through further commercialisation and privatisation;</li> <li>Reducing administrative barriers to new entry and government interference in businesses.</li> </ul>
<b>Real estate</b>		
Large	Large	<ul style="list-style-type: none"> <li>Ensuring the protection of property rights, increasing transparency and addressing the problem of corruption;</li> <li>Developing a modern regulatory framework for real estate;</li> <li>Increasing the supply of modern commercial property across all sub-segments;</li> <li>Introducing modern construction techniques and technologies, including energy efficiency and sustainability.</li> </ul>
<b>ICT</b>		
Large	Large	<ul style="list-style-type: none"> <li>Privatising the fixed line incumbent Tajiktelecom;</li> <li>Developing the telecommunications infrastructure (broadband internet);</li> <li>Ensuring independence of the telecommunications regulator;</li> <li>Further developing the regulatory framework (e.g. in terms of the implementation of competitive safeguards such as number portability, access to the incumbents network etc.).</li> </ul>
<b>ENERGY</b>		
<b>Natural Resources</b>		
Large	Large	<ul style="list-style-type: none"> <li>Supporting private investment in the country's mining industry and stimulate the use of new processing technologies;</li> <li>Developing an adequate institutional and legal</li> </ul>

Market Str:	Market Inst:	Key challenges:
		<p>framework for the mining sector, in particular with respect to EHS&amp;S issues;</p> <ul style="list-style-type: none"> <li>• Addressing infrastructure barriers and bottlenecks in the mining sector;</li> <li>• Adopting reforms in the gas and oil downstream sectors to enable access for private investors;</li> <li>• Creating an independent regulatory agency and set cost-reflective tariffs;</li> <li>• Improving transparency, accountability and good governance in the extractive sector.</li> </ul>
<b>Sustainable Energy</b>		
Large	Large	<ul style="list-style-type: none"> <li>• Introducing cost reflective tariffs for end-user consumers;</li> <li>• Developing legal and institutional framework for supporting sustainable energy;</li> <li>• Further reducing network losses;</li> <li>• Strengthening the capacity of the regulator;</li> <li>• Supporting decentralised, off-grid private RE projects, in particular substitutes for wood-fired installations.</li> </ul>
<b>Power</b>		
Large	Large	<ul style="list-style-type: none"> <li>• Establishing and independent regulator;</li> <li>• Introducing cost reflective tariffs for end consumers along with adequate measures to protect vulnerable consumers;</li> <li>• Improving payments discipline.</li> </ul>
<b>INFRASTRUCTURE</b>		
<b>Water and wastewater</b>		
Large	Large	<ul style="list-style-type: none"> <li>• Improving the regulation;</li> <li>• Developing the contractual arrangements between the owner/policy maker and the company;</li> <li>• Further increasing of tariffs and collection rates with practical measures considering affordability;</li> <li>• Corporate restructuring and further commercialisation (including restoration of physical supply, reduced water losses and increased water quality);</li> <li>• Introducing meters and meter-based billing;</li> <li>• There are currently many small and unsustainable companies, and consolidation efforts should be made to enhance operational and financial sustainability.</li> </ul>
<b>Urban Transport</b>		
Large	Large	<ul style="list-style-type: none"> <li>• Developing city-wide urban transport policy (i.e. integrated urban transport strategy);</li> <li>• Increasing autonomy of publicly owned companies and development of contractual arrangements with the municipalities;</li> <li>• Commercialising and restructuring of urban transport companies;</li> </ul>

Market Str:	Market Inst:	Key challenges:
		<ul style="list-style-type: none"> <li>Improving the quality of services and operational performances;</li> <li>Initiating the steps towards private sector participation;</li> <li>Introducing e-ticketing system and improvements in collection rates.</li> </ul>
<b>Roads</b>		
Large	Large	<ul style="list-style-type: none"> <li>Establishing commercial and sustainable institutional framework, possibly including the establishment of semi-autonomous road agency;</li> <li>Reforming road user charges and its allocation to the road sector (mainly for maintenance);</li> <li>Activating maintenance activities involving the private sector.</li> </ul>
<b>Railways</b>		
Large	Large	<ul style="list-style-type: none"> <li>Establishing of the arms-length relationship between the government and railway management;</li> <li>Increasing financial and operational transparency;</li> <li>Establishing of the financial sustainability.</li> </ul>
<b>FINANCIAL INSTITUTIONS</b>		
<b>Banking</b>		
Large	Large	<ul style="list-style-type: none"> <li>Broadening financial intermediation such as an increase in asset/GDP ratio;</li> <li>Improving corporate governance and business practices in the sector;</li> <li>Increasing share of local currency assets in total banking assets;</li> <li>Strengthening regulatory framework and its enforcement;</li> <li>Facilitate role of foreign strategic investors.</li> </ul>
<b>Insurance and other financial services</b>		
Large	Large	<ul style="list-style-type: none"> <li>Broadening access to insurance, including widening a range of products available in the insurance market;</li> <li>Improving corporate governance and business conduct and strengthening skills base in the insurance sector;</li> <li>Facilitating establishment of new private pension funds;</li> <li>Facilitating establishment of a necessary legal and regulatory framework in private pension sector;</li> <li>Broadening access to leasing;</li> <li>Facilitating improvements in the legal and regulatory framework governing the leasing sector.</li> </ul>
<b>Micro, Small and Medium-sized enterprises</b>		
Large	Large	<ul style="list-style-type: none"> <li>Expanding bank lending;</li> <li>Further improving coverage of credit information bureau;</li> <li>Improving financial and book-keeping skills of MSMEs;</li> </ul>

<b>Market Str:</b>	<b>Market Inst:</b>	<b>Key challenges:</b>
		<ul style="list-style-type: none"> <li>Improving business environment for MSMEs such as lower compliance costs of taxes.</li> </ul>
<b>Private equity</b>		
Large	Large	<ul style="list-style-type: none"> <li>Broadening companies' access to PE financing, including by launching PE/VC initiatives;</li> <li>Improving corporate governance, accounting and business practices of corporate companies.</li> </ul>
<b>Capital Markets</b>		
Large	Large	<ul style="list-style-type: none"> <li>Facilitating increase in liquidity in local capital markets;</li> <li>Improving the legal and regulatory framework governing capital markets;</li> <li>Improving trading, clearing, and settlement infrastructure and operations.</li> </ul>

ECONOMIC INCLUSION<sup>9</sup> GAP RATINGS

ECONOMIC INCLUSION		
Inclusion gap dimension	Inclusion gap	Key challenges
<b>Regions</b>		
Labour Markets	Large	<ul style="list-style-type: none"> <li>Improving access to local jobs in rural areas, particularly in Gorno-Badakhshan.</li> <li>Strengthening measures to formalise employment, particularly to absorb the working age population (especially targeting women and youth).</li> </ul>
Access to Services	Large	<ul style="list-style-type: none"> <li>Resolving access to water and waste water connections in rural underserved regions, channelling demonstrable impacts in economic opportunities for the local population.</li> <li>Improving access to health, with the focus to improving women's economic opportunities.</li> </ul>
Institutions	Medium	<ul style="list-style-type: none"> <li>Improving access to public services through policy dialogue in relation to anti-corruption and good governance.</li> <li>Improving public financial management systems supporting the already on going work on the public financial management reform, by IDA, the EU, the Swiss Government and DfID.</li> </ul>
<b>Youth</b>		
Labour Market Structure and Opportunities for Youth	Medium/Medium	<ul style="list-style-type: none"> <li>Developing effective progression routes from training into employment through closer links between employers and education providers.</li> <li>Creating work-based learning opportunities and career guidance (especially targeting young women).</li> </ul>
<b>Gender</b>		

<sup>9</sup> The EBRD Economic Inclusion gaps rate the institutions, markets and education systems across all of EBRD's countries of operation in terms of their capacity to extend economic opportunity to individuals regardless of their gender, age or place of birth. These gaps measure *differences* in opportunities – between 15 to 24-year-olds and older workers, and between women and men – rather than opportunity *levels*. Gaps are reported in this Country Strategy where there exists an Inclusion Gap above Small. These gaps are consistent with the EBRD 2014 Inclusion Gap update.

Labour Practices	Large	<ul style="list-style-type: none"> <li>▪ Improving client HR policies with regards to increase female employment.</li> <li>▪ Incentivise clients to improve equal opportunities practices.</li> </ul>
Access to Finance	Large	<ul style="list-style-type: none"> <li>▪ Supporting FIs in the development of financial products and services specifically aimed at women-led SMEs and female entrepreneurs.</li> <li>▪ Supporting women-led SMEs by developing business training opportunities.</li> </ul>
Access to Health	Large	<ul style="list-style-type: none"> <li>▪ Strengthening measures to reduce the maternal mortality rate and low contraceptive prevalence in the country through improved awareness of and access to quality medical care.</li> </ul>
Legal Regulations	Medium	<ul style="list-style-type: none"> <li>▪ Improving the enforcement of the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW).</li> </ul>
Employment and Firm Ownership and Education	Medium/Medium	<ul style="list-style-type: none"> <li>▪ Improving access to jobs for women, beneficially through work-based learning opportunities and student career guidance.</li> <li>▪ Incentivise the private sector to adopt equal opportunities employment standards.</li> <li>▪ Incentivise clients in developing female leadership programmes.</li> <li>▪ Improving entrepreneurial opportunities and training opportunities for women, through client programmes and/or through policy dialogue.</li> </ul>

## ANNEX 4 – LEGAL TRANSITION

### Introduction

This annex offers critical analysis on selected legal topics relevant to the Bank’s investment strategy in Tajikistan during the forthcoming period. It is based on the assessments of commercial laws conducted by the EBRD Legal Transition Programme.<sup>10</sup> For ease of reference, the analysis is presented along two of the main strategic orientations defined in this country strategy, in particular the actions proposed under ‘Policy dialogue and TC’.

### 1. Supporting expansion of private sector enterprise and helping improve the business environment

#### *Contract enforcement / judicial capacity*

Tajikistan’s judiciary comprises courts of general jurisdiction (city, district and regional courts, and the Supreme Court), as well as a separate system of economic courts for commercial disputes, the apex of which is the Supreme Economic Court. The jurisdiction of the commercial courts is defined *ratione personae*, and is enlivened by the involvement of legal entities in the relevant dispute. The judges of the Supreme Court and the High Economic Court are appointed by the Parliament on the recommendation of the President, and lower court judges are appointed by the President on the recommendation of the Council of Justice (COJ). Judicial appointments are for renewable terms of ten years. The COJ is responsible for the oversight, training and development of the judiciary. Since 2006, judicial training has been entrusted to the Judicial Training Centre (JTC), which is supervised by the COJ. Candidates for initial appointment complete a one-year judicial internship program prior to being appointed as a judge. Continuous judicial training is carried out pursuant to a training plan drawn up periodically on the basis of needs assessments undertaken by the JTC.

The EBRD Judicial Decisions Assessment carried out from 2010 to 2012 found that the quality of judicial decisions in Tajikistan was among the lowest in the CIS. In order to address concerns about the level of judicial competence in commercial law, the Bank initiated a wide-ranging judicial training programme which trained most judges in the country in 10 core areas of commercial law. Concerns persist about the level of executive interference in judicial decision-making. Whilst clear evidence on the extent of the problem is not available, the absence of judicial tenure creates a shadow of uncertainty, whereby judges are ever mindful of how their decisions might affect their reappointment prospects. In addition, there is a lack of transparency surrounding legal proceedings generally. Judicial decisions are not available to the general public, despite procedural rules which mandate that court proceedings themselves be open to the public. This undermines confidence in the administration of justice, and makes it more difficult for the authorities, lawyers and civil society to detect aberrant decisions which may indicate improper conduct. Lack of access to judicial decisions also adversely affects the ability of lawyers to prepare good quality submissions for court, deprives judges of the benefit of reasoning from analogous cases, and hinders the efforts of local and foreign investors to understand how their legal rights are likely to be enforced in the case of dispute.

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<sup>10</sup> See [www.ebrd.com/law](http://www.ebrd.com/law)

Poor enforcement of judicial decisions is also a problem in Tajikistan. The 2013 EBRD Enforcement Agents Assessment found enforcement of decisions in Tajikistan to be among the least effective in the CIS. It is believed that enforcement agents have little success in searching for assets to seize and sell in satisfaction of judgment debt. Agents receive little professional training and are poorly paid, and although there is a bonus system, it is not considered to encourage strong performance. A further problem is the lack of stiff penalties for failure to cooperate with the enforcement process. In particular, interest does not accrue on judgment debt.

Immediate priorities for reform in the justice sector include the establishment of a free, comprehensive and easily searchable database of judicial decisions; an overhaul of the enforcement framework; and systematic professional training for enforcement officers.

### *Public Procurement*

Public procurement in Tajikistan is regulated by the Law of the Republic of Tajikistan on Public Procurement of Goods, Works and Services, adopted in March 2006. In the 2010 EBRD assessment the Tajik law scored ‘low to medium compliance’ with international standards; following an amendment adopted in 2011, in the 2012 review the legislation improved and scored ‘medium compliance’ with international standards.

The Tajikistan legal framework is based on the 1994 UNCITRAL Model Law and provides for basic features of public procurement policy, but is clearly outdated. The law provides for open tender as a default procurement procedure and establishes rules for tender solicitation and evaluation; still public procurement planning and contract management is not regulated. There are no negotiated procedures available for complex projects and no special regulations for concession projects. Also, the legislation allows for domestic preferences. In 2010, an independent regulatory authority was created, but still there is no remedies body in place. The local market is small and underdeveloped and international bidders are normally not allowed to bid. Local procurement practice in Tajikistan is rather irregular and inconsistent. The 2010 survey reported that generally public contracts are not completed within the budget or on schedule.

The 2012 legislation review undertaken by the Bank has confirmed that reforms are undertaken and that the legal framework is improving; however, changes in the primary law have not been sufficient and there is a need to develop new legislation. Presently, a draft law is being discussed. Since 2012, the World Bank and the EBRD UNCITRAL Initiative, a joint technical cooperation of the EBRD and UNCITRAL, are assisting the Ministry of Economic Development and the State Procurement Agency in the public procurement reform project.

Due to domestic preferences international bidders are not welcome. Sustainability policies for public procurement are not known. Modern purchasing techniques are not provided in the law. Regulatory reforms should address in particular the following shortcomings:

- absence of independent review and remedies mechanisms;
- preferential treatment of domestic bids;
- lack of extensive eProcurement procedures;
- insufficient regulation of procurement planning and contract management;
- lack of procedures for small value contracts and commonly purchased goods and services.

## 2. Improving public utility services

### *Energy sector*

Hydropower is the major source of electricity in Tajikistan, with more than 90 per cent of the generated electricity coming from hydropower plants (HPP). Significant electricity shortages are observed particularly in winter, due to high demand for heating, disruptions in natural gas imports and dependence on a hydropower system that has limited capacity in winter due to low river flows. Apart from hydropower, other sources of energy, such as solar, wind, biomass and geothermal energy have significant potential to meet some of the energy needs of the country.

Over the past years, Tajikistan has taken important steps to develop renewable energy sources, which is reflected in the adoption of the “National comprehensive programme to target the widespread use of renewable energy sources, such as the energy of small-rivers, solar, wind, biomass, and underground sources for 2007-2015” (“Renewables Programme”) in 2007 and the Law “On the use of renewable energy sources” in 2010. The Renewables Programme requires the Government of Tajikistan to ensure favourable conditions for the creation of joint ventures for new production technology for solar and other forms of renewable energy. The Law “On the use of renewable energy sources” outlines the mandate of the Government, the sector ministry and local authorities on energy management issues. While the adoption of this law is in itself a progressive step, it is perceived as not sufficiently clear on the rights and entitlements of the potential developers, and it only provides a general framework for the administration of the renewable energy projects. A number of by-laws were also enacted to regulate the connection of producers to the grid, transmission losses and certain tax exemptions for small and efficient HPPs. Electricity tariffs have a social dimension and are based on the average household’s income; domestic tariffs are cross-subsidised by other consumers. Electricity tariffs are prescribed by the planning department of Barki Tojik and subject to approval by the Antimonopoly Committee. According to the Law “On the use of renewable energy sources”, renewable energy tariffs are set in accordance with the project’s cost of electricity and heat produced.

The Ministry of Energy and Water Resources is the public authority managing the energy sector. It is the primary government body responsible for the development and implementation of energy policy. The general energy strategy of Tajikistan aims to achieve energy independence of the country, and the energy policy of Tajikistan is focused on improving power systems. The power supply is carried out by the state power utility Barki Tojik, a natural monopoly which generates, transmits, and distributes electricity in the entire country. The latter has been experiencing a difficult financial and operational situation due to poor corporate governance, inadequate revenue collection rates, significant electricity losses, increasing liabilities and low tariffs. Reforms regarding Barki Tojik are envisaged, e.g., through the Resolution of the Government of the Republic of Tajikistan No. 431 “On approval of the Individual Plan of Restructuring of the Open Joint Stock Company Barki Tojik for 2011–2018”, which recommended Barki Tojik’s unbundling in three phases in order to improve the company’s financial performance and attract private investment.

Since 2014 EBRD, through its Legal Transition Team, has been providing technical assistance (“TA”) to Tajik energy authorities aimed at improving the regulatory framework

for the energy sector. In particular, the objective of the first phase of this TA is to a) strengthen technical capacity of energy sector officials by carrying out a training programme on proven international best regulatory practice; b) raise awareness of the need for regulation and tariff transparency; c) prepare an implementation plan on the legal, regulatory and institutional changes that need to be adopted in tandem with the sector restructuring. Provided that there is Government commitment, EBRD would plan to roll out a second phase of technical assistance focused on drafting and implementing these changes and establishing a regulatory authority for the energy sector.

Further reforms should focus on commercialisation of the energy sector by restructuring Barki Tojik to ensure effective operation of its main functions (generation, transmission and distribution) and foster sector investment. This will have to be complemented with a strong commitment to improve the legislative and regulatory framework in the energy sector, which would include further incentives for involving private investments, establishing an independent regulator in the sector and tariff policy reform. These reforms should be combined with training, capacity building and awareness raising programmes to target sector authorities, industry, SMEs, investors, as well as energy efficiency and renewable energy specialists. The country should continue taking advantage of the international support offered in the area of energy, renewable energy and energy efficiency and pursue the agreed reform agenda with its international partners.

#### *Electronic Communications /Telecoms*

The sector is governed by the Law on Communications, drafted in 2002, as amended in 2006 and 2008, and supplemented by government and ministerial orders, the Administrative Violations Code and the Law on Licensing (the ‘Law’).

The legal framework for communications in Tajikistan includes few features that align with best practice. The Law contains insufficient separation between policy, regulatory and operations functions, so the regulator lacks independence. The “Communications Service” (CS) is responsible for developing sector policy, while the Authorised State Body for Supervision and Regulation in the Field of Telecommunications (ASB) acts as the regulator, responsible for implementing sector policy. ASB’s independence can be seen as compromised by its association with the CS structure, which also manages the state’s ownership interest in the sector. The licensing powers of ASB are addressed in the Law on Licensing, which subjects public telecoms networks to individual licences, not a more desirable general authorisation and notification regime. The Law does not require a competitive tendering process for issuance of new licences. The Law no longer includes any meaningful market analysis or SMP/dominance provisions after the 2008 amendments (ASB was previously responsible for preventing unfair competition and monopolistic activities). The Anti-Monopoly Body is understood to now exercise these functions under the Law on Competition, which presumes dominance at 50 per cent or higher market share and presumes non-dominance at less than 35 per cent market share. The Anti-Monopoly Body also regulates infrastructure access charges based on cost estimates and to encourage competitive markets. Tariff regulation and approval powers of ASB, including over interconnection tariffs, appear to have been eliminated as part of the 2008 amendments to the Law. However, ASB appears to still be separately authorised under the Law on Consumer Protection to approve retail tariffs of dominant service providers. The State Committee on Radio Frequency Spectrum (SCRFS) is responsible for development and implementation of uniform frequency allocation policy and ensuring radio equipment electromagnetic compliance. The

SCRFS establishes the National Plan of frequency allocation, develops spectrum “recommendations and procedures”, represents Tajik interests in international organisations, prohibits inappropriate use of spectrum or radio equipment and requires spectrum users to obtain authorisations. The structure, functions and authority of the SCRFS are further elaborated in the 2004 “Regulations on the State Committee of the Republic of Tajikistan on Radio Frequencies”. A separate Law on Spectrum requires a “contest” among multiple operators seeking spectrum. The law does not address spectrum trading or provide specific powers to address radio frequency disputes.

The EBRD has, through its Legal Transition Team, provided legal and regulatory reform support to the government during 2002/3 and 2008/9 aimed at overhauling the legal, regulatory and institutional framework for the sector to better harmonise with proven best practice and address the deficiencies highlighted above. Comprehensive and detailed recommendations have been provided to the government in this respect but remain to be acted upon.

Major and meaningful steps towards full liberalisation of the sector and adoption and implementation of modern sector regulation is essential if the electronic communications sector is to deliver anything near its potential benefits for Tajikistan and its citizens, both as a sector in its own right and as an engine of modern economic development.

## ANNEX 5 – GENDER PROFILE

### *Gender Inequality and Human Development*

According to the UNDP's Human Development Report 2013, Tajikistan ranks 57<sup>th</sup> out of 187 countries on the Gender Inequality Index (GII).<sup>11</sup> On the Human Development Index (HDI), Tajikistan ranks 125<sup>th</sup> out of 187. The 2014 World Economic Forum Global Gender Gap Index ranked Tajikistan 90<sup>th</sup> out of 142 countries.<sup>12</sup> The SIGI index<sup>13</sup> ranks Tajikistan 40<sup>th</sup> out of 86 countries.

### *Education*

According to UNESCO estimates from 2011-2012, although primary school enrolments are close to parity levels (96 per cent for girls and 99 per cent for boys), girls have lower enrolment in secondary school (79 per cent for girls and 88 per cent for boys), as well as higher drop-out rates, and are even less likely to enrol in tertiary education (15 per cent for women and 29 per cent for men). Poverty, lack of support for girls' education, lack of access to transport and safety concerns, lack of sanitation facilities, and cultural beliefs that prolonged schooling negatively affects marriage prospects, are all deterrents to girls' education (UNESCO/UNICEF 2013).

### *Labour participation and gender pay gap*

Women's labour force participation (LFP) is relatively high at 62 per cent, compared to the regional average of 50 per cent (ILO 2012). Women's employment levels were negatively affected during transition when jobs were scaled back in the public sector and social services (including childcare) dismantled. More recently, the 2008 financial crisis resulted in a more than 40 per cent reduction of women in waged employment (versus 30 per cent of men) in 2012 (Danzer & Ivaschenko, 2010; Eurasianet, 2012). Part of the relatively high level of female LFP is due to high levels of male emigration (mostly to Russia). Tajikistan is now the most remittance-dependent country in the world, with remittances accounting for 48 per cent of GDP (World Bank, 2014). There is strong gender segregation in the labour market, with women concentrated in lower-wage sectors (agriculture, health care, education and hotels and tourism), and on average earning significantly less than men.

Formally employed women are entitled to 140 days of paid maternity leave and receive 100 per cent of their salary while on leave, paid for through social security. There is no provision for paid paternity leave, and homeworkers are exempt from all maternity-related social benefits.

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<sup>11</sup> The GII is a new index for the measurement of gender disparity and is a composite measure which captures the loss of achievement, within a country, due to gender inequality, and uses three dimensions to do so: reproductive health, empowerment, and labour market participation.

<sup>12</sup> The WEF Global Gender Gap Index measures the gap between men and women in four fundamental categories: Economic Participation and Opportunity, Educational Attainment, Health and Survival and Political Empowerment. It varies between 1 – indicating no gap between men and women, and 0, meaning a very high gap between men and women. Tajikistan's score is 0.338.

<sup>13</sup> SIGI: The Social Institutions and Gender Index (SIGI) is a composite measure of gender equality based on the OECD's Gender, Institutions and Development Database. The index uses 12 indicators on social institutions, which are grouped into 5 categories: Discriminatory Family Code, Restricted Physical Integrity, Son Bias, Restricted resources and assets and restricted civil liberties. Each of the SIGI indicators is coded between 0, meaning no or very low inequality, and 1, indicating very high inequality. Tajikistan's 2014 score is 0.13927 and it has been categorized within countries with medium gender gaps.

*Entrepreneurship, access to finance and credit*

According to the ILO, women comprise 41.5 per cent of those self-employed, while men represent 52.6 per cent. There are relatively high levels of women's entrepreneurship in Tajikistan compared to regional averages (although Tajik women are still under-represented compared to men). According to the World Bank Enterprise Survey in 2009, some 34 per cent of businesses have one or more female owners (in line with the regional average of 33 per cent). Women's businesses tend to be small, low-value and informal enterprises, such as small-scale market trading, and many rely on remittances for supplementary income. The National Agency for Statistics reported that women represented 31.8 per cent of individual entrepreneurs and managed 17.7 per cent of SMEs in 2012.

Women face greater difficulty accessing credit than men in Tajikistan, particularly because they are less likely to own property which could be leveraged as collateral and societal perceptions that women are less creditworthy (World Bank 2012). Other factors such as legal and financial illiteracy as well as limited formal business education, also play a role in constraining women's access to finance. Overall, women are half as likely as men to obtain loans from formal financial institutions (3.2 per cent compared to 6.4 per cent) (Global Index 2011). Microfinance is an important source of credit for women in Tajikistan. Women represented 62 per cent of all clients of microfinance institutions in 2009. The majority of microloans to women are used to support market-trading activities (including in rural areas) (IFC, 2009).

*Inheritance and property rights*

Access to land is a critical issue in Tajikistan, due to the country's large rural population and major land reform in recent decades. The Civil Code grants all citizens the right to own, manage and dispose of property, while the Family Code grants spouses equal rights with respect to ownership, use and disposition of both personal property and common property. Despite land reform, women still face ongoing challenges in claiming their rights. In 2012, just 8 per cent of private farms were headed by women, down from 12.3 per cent. The Land Code requires that redistributed land should only be allocated to those qualified to run it, leading to most land certificates, being issued in the name of husbands or, if women are widowed, in the name of an adult son. Practical matters such as the fact that additional names on the certificate result in higher taxes, also limit the number of titles issued jointly in men's and women's names. Women's land ownership is also affected by traditional inheritance practices that favour sons.

*Participation in politics and decision-making*

Transition has been associated with an upsurge in traditional gender norms that locate women's primary responsibilities in the home (family/household duties) and men's in the public sphere (employment, business, political representation). These views are reinforced in rural areas by a revival of more conservative forms of Islam. Tajik law prohibits discrimination on the basis of gender (Art. 3) and guarantees equality in respect to political participation (Art. 4). However, the latest CEDAW report (2013) highlights concerns over low participation of women in public and political life. According to 2014 data from the Inter-Parliamentary Union, since the 2010 elections, there are 10 women out of 63 representatives in Tajikistan's lower house of parliament (15.8 per cent) and 4 out of 34 members in the upper house (11.8 per cent). Gender based violence is also emerging as an important problem in the country, in the form of forced marriages, polygyny, domestic violence, and sexual harassment in the workplace (for which there is not legislation).



## ANNEX 6 – EBRD AND THE DONOR COMMUNITY

Donor funded technical cooperation (TC) in Tajikistan has allowed the Bank to undertake early diagnostic work, including feasibility studies and preparation of investment opportunities, build capacities of prospective clients, in particular project implementation support in the infrastructure sector, and share transition experience from policy makers and private sector stakeholders from EBRD Countries of Operations in Central and Eastern Europe.

Significant donor funds were provided to support projects in the form of investment grants that supported mainly water rehabilitation and solid waste assignments in the municipal and environmental infrastructure sector – where there are particularly significant affordability constraints and high costs associated with adoption of the Bank’s environmental standards. In addition, Tajikistan has benefited from donor-funded assignments that have contributed to the growth of local private SMEs through a range of advisory and investment programmes, including the Business Advisory Services, the Enterprise Growth Programme and the Investment Councils.

For the past four years, there has been an increased donor support in key municipal infrastructure projects for water supply, public transport and, where possible, solid waste management with strong social and environmental benefits. The focus of donor grants is expected to remain in improving the basic infrastructure of urban areas in Tajikistan. Additionally, donor funds are expected to support policy dialogue and legal transition with a view to helping the Government advance its reform agenda and building judicial capacity. Efforts will be made to ensure that donor funding benefits clients and end-beneficiaries in outer regions of the country to support regional inclusion.

To sustain these needs, the EBRD will rely on a number of donor funds administered by the Bank or managed externally, in addition to resources made available by its shareholders:

- **Early Transition Countries Multi-Donor Fund (ETC Fund)** with contributions from 14 bilateral donors has financed projects in 10 countries for the last 10 years with Tajikistan being the largest recipients of these grants. The ETC Fund will continue to provide TC grants across a range of sectors, focusing mainly on first-tier priority such as improving access to and delivery of affordable basic services in MEI.
- **Bilateral donors:** grants will be sought from bilateral donors who have expressed interest in supporting activities in Tajikistan across sectors and activities such as municipal infrastructure, sustainable energy and policy dialogue assignments. Historically, Japan, Switzerland (SECO) and most recently United Kingdom have been particularly active donors in Tajikistan.
- **The EU Investment Facility for Central Asia (IFCA)** will remain an important source of funding for TC and non-TC grants for Central Asia, mainly in support of investment operations co-financed with other IFIs in such sectors as environment, energy, and private sector development. For the next EU financial framework (2014 – 2020) it is likely IFCA funding will remain similar to the current level, i.e. €20 million per annum (no pre-set allocation by country). It is understood that additional funding from the EU national programmes may be channelled through the IFCA. The 2014 - 2020 **EU**

**National Programme** in Tajikistan is likely to focus on three key areas: Rule of Law, Education, and Integrated Rural Development, which the Bank may try to access.

- **EBRD Shareholder Special Fund (SSF)** endowed by the Bank's net income. The SSF is a complementary facility to donor resources and will provide TC and non-TC support in areas where there is a shortage or lack of support, but where it remains as a priority area for the Bank to advance transition.
- **The Environmental Remediation Account for Central Asia:** a multilateral account initiated by the EU and managed by the EBRD, which will address the extensive legacy of uranium mining and processing in the Republic of Tajikistan, the Kyrgyz Republic and the Republic of Uzbekistan. The resources of the Account will be used to remediate high priority sites to protect the environment and the health of the local population and prevent potential cross-boundary contamination as well as strengthening Recipient Countries' capacity and legal framework in managing radioactive waste from mining and milling processes.