

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

STRATEGY FOR TAJIKISTAN

As approved by the Board of Directors on 1 July 2003

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I. EXECUTIVE SUMMARY

In the two years since the adoption of the last Country Strategy in August 2001, Tajikistan has been making progress in implementing the principles of multi-party democracy, pluralism and market economics as stipulated in Article 1 of the Agreement Establishing the Bank. After years of devastating civil war, stability and normality have returned to Tajikistan. The key elements of the Peace Agreement between the Government and the United Tajik Opposition, concluded in June 1997, have been implemented. A constitutional referendum, formation of a coalition government and presidential and parliamentary elections in 1999 and 2000, although not fully in conformity with international standards, were important benchmarks in this process.

Notwithstanding these achievements, many problems and challenges remain. The judiciary is weak and does not contribute to eradicating corruption. The extension of the limit of the presidential term in office is a concern. The opposition warned that this extension may give the incumbent President the possibility of remaining in office until 2020. Although the OSCE did not formally monitor the constitutional referendum of 22 June 2003, they welcomed the calm atmosphere in which the voting took place but noted shortcomings in the electoral framework. In the wake of the anti-terrorist campaign in neighbouring Afghanistan, the external security of Tajikistan has improved. However, the long common border continues to make Tajikistan vulnerable to developments in Afghanistan. Afghanistan also is the source of a large and increasing flow of drugs being trafficked via Tajikistan and other Central Asian countries to markets in Russia and Europe. Apart from the direct health and social risks associated with increasing drug use and drug traffic, its proliferation also contributes to a growing informal sector and carries the risk of an increasing criminalisation of society.

Macroeconomic performance has improved significantly. Economic growth has been strong, particularly in the last three years (9.2 per cent growth on average), supported by increased production of key commodities (mainly aluminium and cotton) and strong domestic demand fuelled by increasing remittances from Tajiks working abroad. Moreover, there have been improvements in fiscal management, reducing the fiscal deficit to near-balance in 2002. The exchange rate has been relatively stable, although concerns persist over inflation and the consistency of monetary policy. The recent bilateral debt rescheduling agreements have reduced the debt stock to US\$ 985 million (82 per cent of GDP). The government also decided to limit public financed investments to 3 per cent of GDP (US\$ 40 million for 2003) and not to allow non-concessional sovereign borrowings under the IMF programme. Tajikistan is one of the countries included in the CIS-7 Initiative.

Tajikistan remains the poorest country among the Bank's countries of operation with a per capita income of US\$ 186 in 2002. Poverty is widespread (83 per cent of population is below the national poverty line¹). The poor are predominantly engaged in agriculture, many of them at subsistence level, while the private sector outside farming has so far created only limited job opportunities for the poor. The government has prepared a Poverty Reduction Strategy Programme (PRSP), which was approved in July 2002, and has been based on a countrywide consultation process with significant input from the IFIs, including the Bank. In May 2003, Tajikistan hosted the first Consultative Group meeting on its own territory, at which

¹ Income below Tajik Rouble 20,000 (US\$ 16) per month in 1999.

significant new aid commitments were received in support of the PRSP, but the authorities were urged to prioritise investments and emphasise their financial sustainability.

Despite significant reform progress in liberalisation, small-scale privatisation and the implementation of a land reform programme, the structural reform agenda for Tajikistan remains formidable. A key priority is poverty reduction and improved targeting of limited public resources, as well as improved revenue mobilisation. This is being addressed by other donors and the IFIs in the context of the PRSP. In relation to the Bank's area of expertise and comparative advantage, the critical transition challenges are to: (i) improve conditions for private sector development through restructuring and eventual privatisation or liquidation of large state-owned enterprises and through improvements in the investment climate in particular in the area of public governance; (ii) create a financial system that is able to service the financing needs of private domestic enterprises, in particular small and medium-sized companies which are likely to account for the bulk of job creation in the private sector; and (iii) improve financial and operational management in remaining public sector enterprises to reduce quasi-fiscal deficits and create the conditions for additional investment into the development of critical infrastructure.

Tajikistan's reform efforts alone will, however, not be sufficient to create the conditions for sustained growth and poverty reduction. The country is highly dependent on access to trade routes from Central Asia and to the markets of neighbouring countries. Its vast hydropower resources can only be efficiently developed in a regional context, whilst improved road and rail transport also relies on complementary regional investments. The Bank will continue to attempt to forge a regional policy dialogue for overcoming some of these constraints, noting, however, that given their severity Tajikistan is likely to remain dependent on concessional funding for a large proportion of its development needs for the foreseeable future.

Given the macro-economic environment and the stage of reforms mentioned above, the Bank will focus on the following during this strategy period.

1. Financing the Private Sector

The development of micro businesses and SMEs will form one of the pillars of the Bank's operational strategy. Despite the small size of individual projects, the support for entrepreneurship could have significant demonstration effects and spread to the economy at large through linkages. The Bank's main tools for the support of SMEs and micro-businesses will be credit lines administered through local banks, the Direct Investment Facility for equity investments, and the Trade Facilitation Programme for those enterprises engaged in foreign trade operations.

For enterprises larger than SMEs, the Bank's opportunities for financing alongside strategic foreign investors are limited due to the difficult investment climate and the geographical distance of the country from major source countries. Opportunities exist in agribusiness, cotton and natural resources, particularly mining of precious metals and aluminium smelting. Given the mixed experiences that the Bank or other financial institutions had with the private projects in the country, particular attention will need to be paid to the financial viability of proposed investments and the quality of the management and the sponsors.

2. Strengthening the Financial Sector

The banking sector in Tajikistan remains weak and undercapitalised and the number of banks, which are of sufficient quality to be considered as partners for the Bank, is limited. Those local banks chosen as partner institutions under credit lines and TFP facilities will benefit from the provision of a substantial amount of technical assistance to improve credit and financial management skills in general and in particular to introduce MSE and TFP financing as new products into the local banking sector.

The Bank is aware of the constraint placed on the expansion of its work in the financial sector by the high risk that many potential partner banks represent. Where possible and prudent, the Bank will seek to invest directly in the capital of existing or newly-established local banks to increase their ability to attract external funding as well as domestic deposits. However, given high risks, the Bank also expects to share risks with donors through the Central Asia Risk Sharing Special Fund (CARSSF) and other risk guarantee schemes, as a means to leverage its own resources and increase its exposure to the local financial sector.

3. Support for Critical Infrastructure

Investment needs in infrastructure are considerable in Tajikistan. Given limited public resources, however, prioritisation is essential among sovereign-guaranteed publicly financed projects. Since the Bank does not provide concessional funds, the Bank will concentrate on the financing of projects that would have cash flows sufficient to support debt without recourse to a sovereign guarantee. This could be the case in air transport, as well as some parts of the power sector. For other critical infrastructure projects, the Bank could, for example in the power and municipal infrastructure sectors, blend its resources with grants to achieve concessional terms if such funds are available. The Bank will proceed selectively with such an approach and coordinate closely with other donors and IFIs on the overall investment priorities of the country in the context of the PRSP. As an example of such coordination, the Bank will pay particular attention to project structures that combine the Bank financing with other IFIs as well as donor grant funds.

4. Policy Dialogue

During the strategy period, the Bank will continue to promote policy dialogue with the authorities in order to improve the investment climate and support their reform efforts. The Bank will closely co-ordinate with other IFIs and the business community to make such policy dialogue effective.

The Bank will also seek co-financing opportunities with other IFIs and bilateral institutions to mobilise greater resources into the country, especially projects that could enhance regional co-operation. The Bank's Environmental Policy and Public Information Policy will apply to all projects developed in Tajikistan.

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AKDN	Aga Khan Development Network
ALCO	Agency of Bank Liquidation and Credit Collection
BAS	Business Advisory Service
CAD	Civil Aviation Department
CARE	The Cooperative for American Remittances to Europe
CARSSF	Central Asia Risk Sharing Special Fund
CAS	Country Assistance Strategy
CG	Consultative Group
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
DAC	Development Assistance Committee
DFID	Department for International Development
DIF	Direct Investment Facility
ECFIN	Economic and Financial Affairs
ECHO	European Commission's Humanitarian Aid Office
EU	European Union
FDI	Foreign Direct Investment
FI	Financial Institutions
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GSM	Global System for Mobile Communications
GtZ	Deutsche Gesellschaft für Technische Zusammenarbeit mbH
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IADI	International Association of Deposit Insurers
IAS	International Accounting Standard
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Agency
IFC	International Financial Corporation
IFI	International Financial Institution
IFRC	International Federation of Red Cross
ILO	International Labour Organisation
IMF	International Monetary Fund
IMU	Islamic Movement of Uzbekistan
IUCN	World Conservation Union
JSC	Joint Stock Company
JV	Joint Venture
MP	Member of Parliament
MSE	Micro and Small Enterprises
NAP	National Action Programme
NBT	National Bank of Tajikistan
NEAP	The National Environmental Action Plan
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OGC	Office of the Secretary General
OSCE	Organisation for Security and Co-operation in Europe
PIP	Public Investment Programme
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Programme

SAC	Structural Adjustment Credit
SDC	Swiss Agency for Development and Co-operation
SECO	State Secretariat for Economic Affairs
SME	Small and Medium – sized Enterprises
SMP	Staff Monitored Programme
TACIS	Technical Assistance for Commonwealth of Independent States
TADAZ	Tajik Aluminium Plant
TAM	Turn Around Management
TC	Technical Co-operation
TFP	Trade Facilitation Programme
TSA	Tajik State Air Company
TSOB	Tajiksodirot Bank
TT	Tajik Telecom
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNICEF	United Nations International Children's Emergency Fund
US	United States
USAID	United States Agency for International Development
UTO	United Tajik Opposition
WB	World Bank
WFP	World Food Programme
WTO	World Trade Organisation

II. Country Strategy

1 The Bank's portfolio

1.1 Overview of the Bank's Activities to Date

Tajikistan became a member of the Bank in 1992. Until 1996 the Bank's operations had been limited to TCs. Since then the Bank approved seven investment projects (see Annex 5) involving both loans and equity. The signed commitments currently stand at EUR 27.5 million, out of which EUR 10.4 million have been disbursed. During the last strategy period the Bank signed two projects in transport and telecommunications. The current portfolio has a weighted project risk rating of 7.41 compared with a Bank average of 5.58.

Table 1. Tajikistan: Overview of the Bank's Activities to Date

	No. of Projects	Total Project Value (EUR million)	The Bank Finance (EUR million)	Debt (EUR million)	Equity (EUR million)	% share of Commitments
Private	2.3	20.2	9.8	8.0	1.8	33 %
State	3	25.3	17.7	17.7	0	67 %
Bank Equity	1	2.7	0.2	0	0.2 ²	1 %
Bank Lending	0.3 ³	3.6	3.6	3.6	0	12 %
Transport	2	12.5	6.7	6.7	0	25 %
Agribusiness	1	13.9	5.9	4.3	1.6	21%
Telecoms Info & M.	1	12.8	11.0	11.0	0	40 %
Totals	5.3	45.6	27.5	25.7	1.8	100 %

1.2 Assessment of the Last Strategy Period

The main operational focus of the last Strategy for Tajikistan (BDS/TA/01-1 (Final), 7 August 2001) was similar to that proposed in the current strategy period. The priorities were: (i) private sector development focusing on small and medium enterprises (SMEs) and micro-businesses; (ii) support for the financial sector to alleviate a key constraint for private sector growth in particular of SMEs; and (iii) selective support for critical investments in infrastructure.

During the last strategy period, the Bank signed two projects: (a) Tajiktelecom Modernisation project; and (b) TSA Air Navigation Systems project. They met the third objective of the strategy mentioned above which was to support critical investments in infrastructure. Their transition impact is explained below (Section 1.3) and is positive in both cases. For these projects, the Bank adopted an approach of blending its resources with grants from donors (Japan and Switzerland) to achieve concessional lending terms. The Bank has not yet implemented a non-sovereign guaranteed project in the public sector, but the blending approach has allowed the Bank to substantially increase its portfolio in Tajikistan and demonstrate its commitment to the country.

² The Bank and IFC exited from this equity investment in TSOB bank in March 2003.

³ In case of framework arrangements for projects, the Bank calculates number of projects by dividing the committed amount by the framework amount approved.

Promoting SME and micro-business financing and supporting the financial sector proved to be more difficult to achieve. The main reason for the difficulty was that the Tajik banking system did not improve sufficiently for the Bank to increase its exposure to the sector. In particular, the depreciation of the Tajik currency had led to a continuous erosion of the capital base of most banks before the depreciation significantly decelerated in the recent past. The currency risk, however, remains an important risk factor. For instance, the Bank could not disburse the second tranche of the existing SME Credit Line with Orienbank because the capital base of the bank did not reach the minimum level required for such disbursement. In addition, the Bank was recently forced to exit from its equity investment in Tajiksodirot Bank (TSOB) for reasons explained below (see the last paragraph in Box 1 in Section 1.4 below).

Despite the improvements recorded in the political and macroeconomic situation, the investment climate remains too weak and the country is seen as being too remote to be of interest to western strategic investors. This was the main reason why the Bank was unable to sign a direct loan or equity investment in the private sector. The Bank will continue to explore such opportunities and market them actively during the current strategy period.

1.3 Transition Impact of the Bank's portfolio

The transition impact has been positive and significant in telecommunications and aviation. In the financial sector, the Bank's impact was mainly through technical assistance to the participating bank in the SME programme. In the private manufacturing sector the Bank's transition impact has been insignificant due to the difficult economic environment and lack of quality sponsors in the two projects in which the Bank invested.

In telecommunications, technical assistance in connection with the Tajik Telecom Modernisation project contributed to the development of the legal and regulatory framework including tariff reform and the creation of an independent regulator. It also facilitated the early-stage preparation of Tajik Telecom (TT) for a potential privatisation through improvements in corporate and financial management as well as upgrading of the physical facilities.

In aviation, the Bank's TC study on Aviation Restructuring was undertaken in connection with the Khoujand Airport Rehabilitation and TSA Air Navigation Systems projects for Tajikistan State Air Company (TSA). This led to the introduction of the Transport Law in October 2000 by which the regulatory functions of TSA were transferred to a newly-created Civil Aviation Department (CAD).⁴ In addition, TSA with the Bank's assistance is in the process of preparing separate business units within TSA and introducing IAS accounts for each business units.

The performance of the Credit Line to Orienbank was mixed due to the difficult economic environment and the frequent changes of its management. However, the SME Credit Advisor TC provided by the Bank to Orienbank and the Institution Building TC provided to TSOB have helped to improve management, credit risk assessment capabilities and financial transparency in these banks, with the potential to achieve demonstration effects on the rest of the sector if recent improvements are sustained.

⁴ The transfer of CAD, however, entailed another issue related to the corporate governance in aviation. The distinction between regulatory functions and TSA's operational functions has not been clearly understood by the CAD. This resulted in the frequent interference by CAD on TSA's day-to-day operations. The Bank is examining measures to improve the situation.

1.4 Lessons Learned

The success of the Bank's investments in the public sector suggests that significant transition impact can be achieved by leveraging the Bank's resources with grant funds and cross-checking reform covenants with other IFIs to ensure consistent implementation. Looking forward, the challenge will be to repeat these successes in the light of limited implementation capacity of the government through close coordination among all donors.

The financial difficulties of the two private sector investments underscore the importance of ensuring that such projects have quality management and good sponsors who are fully committed to the project (see Box 1).

The Bank experienced the country's weak investors' rights protection with the equity investment in TSOB. It also highlighted the importance of the corporate governance issues. While the Bank exited from the investment, it will continue to undertake policy dialogue with the authorities on these issues as they are crucial to allowing additional private and financial sector investments to be undertaken.

Box 1: Specific lessons from private sector investments

Khoujand Packaging was negatively affected during the early stage of the project by the Russian crisis since the company had originally planned to direct more than 85 per cent of its sales to the Russian market. The management did not react appropriately to the crisis and to date has not made sufficient efforts to turn the situation around. Due to the deterioration of the financial position of the company, the foreign sponsors have long lost interest. Both TAM and the BAS consultants assisted the Company without success. The lack of competent management open to external advice would appear to be the key problem in this project.

Obi-Zulol project started full production in February 2001. The project was expected to increase the country's export revenues. However, due to extended delays to the start of production and lower-than-expected sales in export markets, Obi-Zulol has not generated enough cash to service principal and interest payments. The Bank has been assisting the company's management in reaching a break-even level of sales and expanding to export markets. One of the problems behind the present situation was the difficulties of the marketing analysis and as a result the size of the investment was larger than could be supported by the current market. Market access restrictions to neighbouring Uzbekistan also played a role in depressing the company's sales performance.

The Bank made an equity investment (US\$ 200,000) in **TSOB** in November 2000⁵. In 2002 the Bank encountered a serious problem as TSOB issued free shares to some of the shareholders in April 2002 without informing the other shareholders. This resulted in the dilution of the Bank's shares to 8.3 per cent from the original 19.4 per cent. The Bank conducted a number of negotiations with the management of TSOB and consulted with the Central Bank without success. In March 2003, the Bank exited from the equity investment. The apparent weakness of investor right protection in Tajikistan underscores the importance of carefully choosing partner institutions, as well as continuing policy dialogue with the Central Bank to improve its regulatory enforcement capacity.

⁵ Subsequently the IFC invested in TSOB's equity for US\$ 200,000 in April 2002.

1.5 Portfolio Ratio

Thirty three per cent of the Bank's cumulative commitments are in the private sector. Because of the small size of the Bank's operations in the country, the portfolio ratio is significantly influenced by the two recent public sector transactions. The Bank's private sector focus in the current strategy period is expected to move the portfolio ratio gradually towards the 60 per cent target.

2 Operational Environment

2.1 The General Reform Environment

2.1.1 Political Conditions

The political situation has stabilised in recent years. For detailed political assessment, see Annex 1.

2.1.2 Social Conditions and Labour Issues

Tajikistan remains the poorest country in the former Soviet Union. Per capita GDP in 2002 was US\$ 186 at current exchange rates and US\$ 1,374 at PPP exchange rates. Tajikistan has been classified as IDA only by the World Bank. According to the Tajikistan Living Standard Survey, conducted in 1999 by the World Bank, 83 per cent of the population were below the official poverty line⁶, of which 17 per cent lived in extreme poverty.⁷ Poverty is highest in rural areas and among those without regular work. Average incomes were just US\$ 10.6 per month in 2001, meaning that a significant proportion of the working population earns less than a subsistence wage. The legislation on labour rights is largely in accordance with ILO conventions although it may not be fully enforced in practice (see Annex 1 for details).

To increase real incomes and living standards and to target better government assistance to the poor, the government approved a Poverty Reduction Strategy Paper (PRSP) in May 2002.⁸ This strategy forms the basis for future official donor assistance and outlines key policy priorities over the medium term. Particular emphasis is placed on improving the rural economy and the agriculture sector on which the majority of poor people depend. The PRSP does not contain a strong focus on private sector development, although both the government and donors realise that ultimately effective poverty reduction will require sustained growth and new employment opportunities in the private sector, which remains small outside the rural economy. Given the limited sovereign debt capacity, a key task for the government is to prioritise the investments envisaged under the PRSP and the public investment programme.

2.1.3 Regional Co-operation

Tajikistan is a small and land-locked country. It is highly dependent on good neighbourly relations for market access and significantly affected by regional security issues related to drug transit and the political situation in Afghanistan. Tajikistan's major export routes are through Uzbekistan and Kazakhstan to Russia. Limited trade also takes place with China through a road link in the East of the country. The routes south through Afghanistan into the Indian subcontinent have potential in the future, but have remained underdeveloped due to the instability in Afghanistan. Concerns over regional security and drugs have repeatedly disrupted trade flows from Tajikistan through border closures (and the mining of border areas) with Uzbekistan and transit restrictions in Kazakhstan. Uzbekistan's protectionist trade policies have also hampered market access for Tajik goods. As a result regional trade has declined significantly. While regional leaders have repeatedly made commitments to improve regional cooperation in trade and transit matters, this has not translated into concrete steps so far.

One of Tajikistan's main economic assets and a key export is hydropower. Tajikistan's trade in water and electricity is guided by complex bilateral barter arrangements. For example,

⁶ Tajik Rouble 20,000 (approximately US\$ 16) in 1999.

⁷ PPP US\$ 1.075 a day.

⁸ The main contributions of the Bank are indicated in the aviation and telecommunication sectors.

under annually negotiated bilateral agreements, Tajikistan purchases power from Uzbekistan and Turkmenistan during winter time and releases water in summer used for irrigation purposes. Tajikistan also exports surplus power in summer. The pricing arrangements implicit in these barter deals do not reflect true opportunity costs, and disagreements over terms have led to the accumulation of debts and repeated supply disruptions. Creating the economic conditions for efficient regional trade in power and water is a key challenge for Tajikistan's future and for the whole of Central Asia. The international community has recently stepped up its efforts to encourage regional cooperation in Central Asia. The EBRD's Annual Meeting also provided an important focal point for these efforts, and the IFIs have since created a working group to pursue joint policy initiatives, including thorough support to the ADB's Ministerial Conference on Regional Cooperation.

The Bank is also currently preparing the Regional Power Transmission Project to be co-financed with the ADB. The objective of the project is to promote cross-border power trade between Tajikistan and Uzbekistan. The ADB approved the Tajik component of the project and the Bank plans to finance the Uzbek component.

2.1.4 Legal environment

Tajikistan's legal environment is among the least developed of the EBRD's countries of operation. Other than a new leasing law introduced in April 2003, certain environmental protection laws in 2001 and in 2002, and a telecommunications law adopted in 2002, commercial law is substantially inadequate and the reform of the secured transactions laws has been minor. There have been no major legal reforms implemented since the adoption of parts I and II of a new Civil Code, in 1999, certain provisions of which now conflict with existing laws which govern secured transactions.

Bankruptcy laws are in place, and while further reform is being considered, the country lacks effective bankruptcy courts, trustees and enforcement mechanisms. The lack of implementation of laws and the problem of corruption in the judiciary are among the most serious constraints on Tajikistan's transition to a functioning market economy.

2.1.5 Environmental issues

Annex 2 contains a summary of environmental issues in Tajikistan.

2.1.6 Integrity issues

Tajikistan faces serious problems of weak governance and low government capacity. It ranks 175 among 195 countries according to the 2001 World Bank Governance Indicators on control of corruption. According to the 2002 Business Environment and Enterprise Performance Survey, 35 per cent of surveyed firms were paying bribes frequently, which is in line with other countries in the CIS. The average share of revenues paid in unofficial payments was 2.6 per cent, again similar to levels in other CIS countries.

Tajikistan's institutional environment is among the weakest in the region, despite good progress in economic reforms. The absence of qualified local personnel, for instance in accounting or corporate law, is a significant constraint on business, as many Tajiks have emigrated to Russia in search of higher incomes. Government capacity to implement and enforce legislation is relatively weak, given low public sector wages. The growing drug transit remains a problem. As examples from around the world demonstrate, drug traffic has the potential to criminalise society with serious negative implications for private investment.

There is no specific legislation on money laundering, but the law on external economic activity addresses the consequences of illegal financial activities.

2.2 Macroeconomic conditions relevant for the Bank's operations

Since the end of the civil war, Tajikistan has experienced rapid growth. The average growth rate in the last five years (1998-2002) was 7.3 per cent, driven by strong industrial and agricultural output (five year average of 9.2 per cent and 9.4 per cent respectively) and domestic demand fuelled by increasing remittances (estimated at some US\$ 80 million in 2002). Cotton and aluminium continue to account for the bulk of production, but there is some evidence of economic diversification and productivity increases in other sectors. GDP grew by 10.2 per cent in the four months of 2003. However, growth is expected to decelerate in the medium term, as early gains based on improved capacity utilisation are exhausted. Aluminium production at the TADAZ⁹, in particular will soon face capacity constraints.

Inflation has been on a downward trend since 2000 ending last year at 14.5 per cent. However, public sector wage increases, growing energy and food prices and a temporary resumption of directed credits kept inflation above target throughout 2002 and inflation spiked during the first quarter of 2003. Looking forward, there remain some inflationary pressures this year due to planned utility tariff increases and a 20 per cent wage increase in the public sector (April 2003).

Due to low tax collection rates and lapses in expenditure management, the fiscal balance was chronically in deficit in the past decade. However, in 2002 the government achieved a near budget balance. Strong economic growth and the establishment of a Ministry of State Revenues and Customs in early 2002 have improved tax collection, while restraints on spending have contained the growth of expenditures. However, with fiscal revenues at 16.1 per cent of GDP and external debt over 80 per cent of GDP, further improvements in fiscal management are required to achieve sustainable public finances. To achieve fiscal sustainability, the IMF imposed a ceiling of 3 per cent of GDP (about US\$ 40 million for 2003) on the externally financed PIP. Moreover, quasi-fiscal activities remain problematic as the quasi-fiscal deficit in the energy sector is estimated at 5.3 per cent of GDP in 2001 (1.9 per cent for gas, 3.0 per cent for electricity and 0.5 per cent for heating), although there were significant tariff increases and improvements in cash collection recently.

Tajikistan, as a small land-locked country, has a fairly open economy with share of trade¹⁰ in GDP of 123 per cent in 2002. However, exports are highly concentrated in a few commodities (cotton and aluminium) and are affected by price fluctuation of these commodities. The trade deficit narrowed and FDI inflows increased in 2002, but repayments to the IMF because of earlier misreporting kept gross reserves unchanged. On the institutional side, the country made some progress in WTO accession. In May 2002, tariffs and the number of tariff-exempt goods were further reduced and a WTO memorandum on the trade regime was approved by the parliament in December 2002 and submitted to the WTO in February 2003. Moreover a new customs code and tax code are being introduced in compliance with international practices.

The informal economy in Tajikistan appears to be large. A large number of small/micro enterprises, especially in rural areas and in the agriculture sector, do not pay appropriate taxes

⁹ A state owned aluminium smelter, which accounts for around 60 per cent of export revenues.

¹⁰ Imports plus exports over GDP.

and barter transactions are substantial. Moreover, drug trafficking probably accounts for substantial part of the informal economic activities.¹¹

Bilateral debt rescheduling agreements in 2002, most importantly with Uzbekistan, Kazakhstan and Russia, have reduced the debt stock to US\$ 985 million (82 per cent of GDP), from a peak of US\$ 1,226 million (124 per cent of GDP) in 2000. Debt service due is expected to decline in the next few years (from 25.6 per cent of exports in 2001 to 13.4 per cent in 2004) due to the grace periods agreed under the new agreements, but it will increase again from 2005 (a peak of 19 per cent of exports in 2007). Nonetheless, external debt in net present value terms accounted for 129 per cent of exports and 339 per cent of fiscal revenues in 2002. Tajikistan thus remains vulnerable to debt servicing problems and highly dependent on continued access to concessional international financing (see Section 2.4 below).

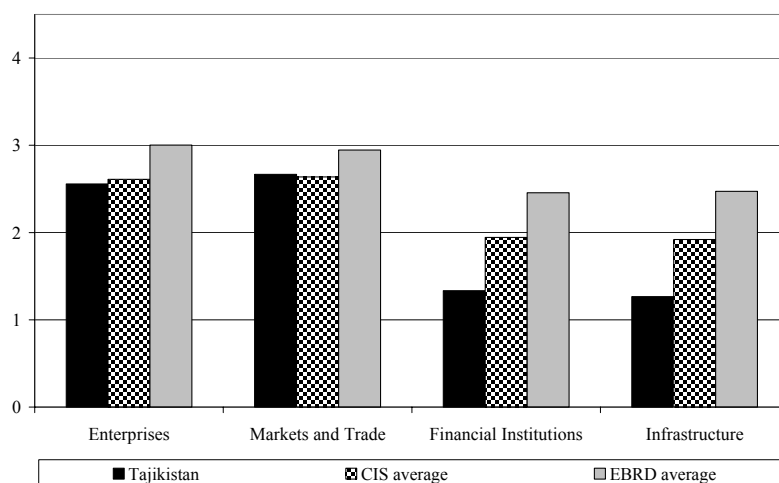
2.3 Progress in Transition and Remaining Challenges

Tajikistan has made impressive gains in economic reform over the past five years, since the end of the civil war. However, the country faces enormous challenges in moving forward, related to a complex political situation in a potentially volatile region, and the combination of fundamental development issues with specific transition challenges. Government capacity to implement and enforce new legislation is poor and the functioning of domestic markets still impeded by many informal and physical barriers.

The biggest gains in structural reforms have been made since 1997 in the areas of price and trade liberalisation and the privatisation of small scale enterprises (see Chart 2.1). Tajikistan maintains a floating exchange rate regime with full currency convertibility and relatively open trade policies and applied for membership in the WTO in May 2001. The government is also making efforts to meet all requirements for acceptance of the IMF's article VIII on full current account convertibility. However, the transition progress of the financial sector, infrastructure as well as corporate restructuring and privatisation of large scale firms has been slow. Recent progress and detailed challenges in the three areas of private sector development, financial sector reform and infrastructure improvement are examined below.

¹¹ According to the ICG report (April 2003), as much as 30 per cent of the population are in some way associated with the drug business. It is estimated that it accounts for 10-15% of GDP.

Chart 1 Progress in Transition (EBRD transition indicators, 2002)



Note: 1 indicates little or no progress and 4+ indicates a standard similar to advanced market economies (see Transition Report for more details).

It is apparent that Tajikistan's main economic challenges go beyond the establishment of well-functioning markets and supporting market institutions. The country faces fundamental tasks of overcoming poverty and breaking out of its geographical isolation.

The Bank needs to define its role in this larger process in close collaboration with other partners. Many of the pressing social needs are of a kind that cannot be directly addressed with commercial funding, and instead will rely on grants. The country's high external debt puts a severe constraint on commercial funding for public sector infrastructure projects, including in the critical transport and energy sectors, although opportunities of co-financing with donor grants and other concessional lenders may exist. In the light of this, the Bank's most important contribution will be to promote private investment in Tajikistan:

The three critical transition challenges that the Bank can help to address directly are:

- to ***improve conditions for private sector development*** through improvements in the investment climate in particular in the area of public governance. Promoting private investment and entrepreneurship in the micro and SME sector is particularly important since it will directly contribute to poverty alleviation.
- to ***create a financial system*** that is able to service the financing needs of private domestic enterprises, in particular small and medium-sized companies which are likely to account for the bulk of job creation in the private sector.
- to ***improve financial and operational management in public sector enterprises***. Sovereign operations are constrained, but possibilities exist for non-sovereign operations in air transport, and grant co-financing in other areas of critical infrastructure, such as power water and other municipal utility services. The Bank's approach to infrastructure financing is based on cost recovery, taking into account affordability constraints and addressing these through targeted income support.

2.3.1 Privatisation and Enterprise Reform

As of end-2002, small-scale privatisation was almost complete. The private sector share in GDP is estimated to have increased from 30 per cent in 1997 to 50 per cent in 2002. However, only half of the medium and large-scale state enterprises scheduled for privatisation have been privatised so far (including all 22 cotton ginneries) and 300 medium and large-scale entities are to remain fully state-owned.¹²

Moreover, weak governance structures and government interference impede effective restructuring. With the exception of gold mining, where there has been some inflow of FDI, most branches of industry suffer from the lack of outside funding and management expertise, particularly in those firms sold to insiders. Moreover, the restructuring of TADAZ, in which the World Bank has been involved, has been delayed due to disagreements over a required financial audit of the company. A new privatisation strategy was approved by the parliament in December 2002, but was unsatisfactory to the World Bank as the majority of the listed enterprises are not operating.

With over half of the population dependent either directly or indirectly on agriculture, rural reforms are critical to improve economic opportunities and the standard of living for the majority of the population. After a slow start, land reform has been progressing well as around 50 per cent of co-operative farm lands have been converted into dekhkan farms (individual land plots). A land registry has been established and land registration fees have been reduced. Private plots achieve significantly higher yields as those managed by cooperatives or state-owned farms and land reform have been one source of agricultural growth. However, many private plots are too small to achieve scale economies and have relied, so far, on the availability of cheap family labour. Improvements in rural credit and input markets as well as marketing of rural produce and reductions in internal trade barriers will be needed to sustain recent productivity gains. Moreover, Tajikistan's irrigation infrastructure is in significant disrepair, as the previous system relied on cheap energy to fuel the extensive system of pumps. This is an area of donor focus, with efforts going into improved water management and the design of technologically more appropriate irrigation systems.

The key challenge in the enterprise sector remains the attraction of foreign investment, in sectors such as mining, cotton processing and possibly some areas of infrastructure, where potential returns are sufficient to compensate for the significant country risks; and from domestic sources for the many SMEs that will be the backbone of the economy's sustained recovery in the future. Large scale enterprise restructuring, including TADAZ, needs to proceed in parallel to reduce the drain on public resources and create a level playing field for all investors.

2.3.2 Financial Sector Development

The banking sector remains fragile and underdeveloped. Bank deposits account for only 4 per cent of GDP, with the bulk of sector liabilities in the form of foreign loans. Domestic credit accounts for 18.6 per cent of GDP. These ratios are comparable to other low-income CIS countries but significantly lower than in other transition economies. Both deposits and credits have been growing quite rapidly in recent years, as the economy has enjoyed some

¹² Most of the medium-scale privatisations are considered too small for the Bank to participate (e.g. the largest ones in 2002 were a sewing factory for US\$ 0.5 million and a construction company for US\$ 0.4 million). All utility and infrastructure companies are state-owned.

remonetisation and has benefited from the inflow of remittances. The majority of bank assets are held by four large banks¹³, with cotton financing the largest single exposure of the sector.

The consolidation of the banking sector has progressed in recent years (the number of commercial banks declined from 24 in 1994 to 13 in March 2003). However, banking supervision continues to be weak and the restructuring of the largest banks remains slow. Only five banks have achieved the minimum capital requirement of US\$ 1.5 million by mid-2002. This requirement will be raised to US\$ 2 million by end-2003 and US\$ 3 million at end-2005, but many banks, including well-managed small banks, might face serious difficulties in meeting these targets. Many banks are still effectively operating as “pocket banks” for specific branches of the economy, limiting the scope for competition, and making outside investments into the sector more difficult.

The National Bank of Tajikistan (NBT) has prepared restructuring plans for the two largest banks (Agroinvestbank and Savings Bank). Agroinvestbank will be separated into one commercial bank (non-cotton) and one credit union (cotton finance) while the state owned Amonatbank, currently serving as a fiscal agent for the government, will be financially restructured and operated on a commercial basis. Moreover, the Agency of Bank Liquidation and Credit Collection (ALCO), which was created to deal with the assets of the liquidated banks, will be closed as it proved inefficient. From April 2003 the government has decreed a two-month capital amnesty, aimed at bringing some of the estimated large private holdings of cash into the banking system and make it available for investments in the economy. After ten days extension and lifting the frozen period, approximately US\$ 170 million were legalised but most of the deposited money were withdrawn immediately. This amnesty has increased deposit growth in the banking sector and decrease the size of the unofficial economy, but raises significant concerns over: (i) the legalisation of money obtained from criminal activities and (ii) moral hazard and hence the encouragement of future tax evasion.¹⁴

The critical challenge in the sector remains the improvement in the functioning of the domestic financial institutions, to increase confidence and attract additional domestic deposits, and to provide competitive access to finance for domestic enterprises. This will need to be addressed both with additional capital contributions into the sector (including possibly through the creation of new banks) and continued technical support to increase credit skills among existing banks. Further improvements in macroeconomic management and in the supervisory capacity of the NBT will also be critical to allow additional investment in the financial sector to take place.

2.3.3 Infrastructure reforms

Tajikistan inherited an infrastructure from Soviet times that required extensive investment in rehabilitation and modernisation. However, the civil war and the collapse of state revenues have meant that the government has been unable to fund even basic maintenance expenditures and the quality of the existing assets has consequently sharply deteriorated. A particular concern is the quality of irrigation, which is being addressed by a number of donor initiatives, with limited scope for commercial financing. Other priority areas are transport, water supply and power.

¹³ Agroinvestbank, Orien Bank, Savings Bank (Amonatbank) and TSOB hold about 85 per cent of assets and 70 per cent of household deposits.

¹⁴ Amnesty has been extended for 10 days until 10 June 2003.

Over the past 2-3 years, the government has begun to implement a series of institutional and tariff reforms to lay the foundations for future investment in infrastructure. With the establishment of a Ministry of Energy and Ministry of Transport, regulatory functions were essentially separated from operations but the regulators remain under-resourced. The government's Public Investment Programme includes numerous infrastructure projects, and the authorities are aware of the need for further tariff and institutional reform if such investments are to be financial in a sustainable manner over the medium term. There is increased interest among donors and in the government for combining concessional funds with a commercial approach, which tries to attract private risk capital to the sector to enhance its efficiency and put it on a more solid financial basis.

Notable progress has recently been made in tariff reform. In the power sector, under an ADB supported programme, average prices rose substantially over the last few years. Barki Tajik, the state owned electricity company, has reached a 95 per cent collection ratio and payment arrears from budgetary organisations and public enterprises have been significantly reduced. In the telecom sector, tariff reform has also begun, with monthly subscription, local call and related charges increasing by 174 per cent in June 2002. A formula for automatic adjustments of tariffs has been agreed by the Ministry of Communications and the Anti-monopoly Committee, which will reflect the financing costs for new investments undertaken by the incumbent operator, Tajiktelecom. Tajiktelecom has also made strenuous efforts to increase its revenue collections, which reached 88 per cent of total billings in the first half of 2002. However, collections from state entities are much lower and substantial payment arrears remain from previous years, affecting the financial health of the company. Privatisation is regarded as premature under the present environment, as a tender would be unlikely to attract competent private bidders.

In the aviation sector, the regulatory functions of Tajikistan State Air Company (TSA) have been transferred to a newly created Civil Aviation Department (CAD) within the Ministry of Transport. Moreover, it is envisaged that three business units (air transport services, airport services and air navigation services) will be financially separated and cross-subsidisation is expected to be minimised. With the entry of non-Tajik airlines, competition is also expected to increase in the near future.

The critical challenge in infrastructure is to prioritise investments given limited public funds and to promote private investment in the modernisation of infrastructure. The Bank can contribute to meeting this challenge through its commercial approach, and related support to institutional development. However, it will coordinate its activities closely with the other donors and IFIs to invest in line with the government's priorities.

2.4 Access to Capital

Tajikistan remains essentially dependent on official financing from donors and IFIs for most of its public investment as well as to finance a structural current account deficit. Although FDI has been increasing in 2002, it remains significantly below the level of official flows and is unlikely to replace such flows anytime soon. Commercial bank lending has been provided to the cotton and aluminium sectors, largely for working capital purposes, but at terms that are not always advantageous for Tajikistan.

Tajikistan has held two successful Consultative Group meetings in Tokyo in 2001 and in Dushanbe in 2003, with donors' commitments of around US\$ 400 million and US\$ 900 million respectively. However, the experience over the past two years has been that

only around 60 per cent of commitments made were disbursed, with donors concerned in particular about weak implementation capacity in the government. Moreover, slow progress in some critical reform areas has delayed IMF and World Bank financing over the 2001-2003 period, further reducing the actual flow of disbursements to some estimated US\$ 250 million (of which US\$ 130 million if IFI financing is excluded) over the two-year period. Assuming a similar disbursement ratio under the 2003 CG commitments would imply annual disbursements of US\$ 150 million – around 15 per cent of GDP. The PRSP envisaged a total of US\$ 689 million for the next two years, of which US\$ 543 million should be raised externally, although donors continue to be concerned over the lack of prioritisation in the PIP, which may limit financing.

Private sector access to medium and long-term finance is extremely limited in Tajikistan. Interest rates remain high and most bank lending is short-term (up to three months). Access to bank lending is especially difficult for micro and small/medium enterprises (which account for more than 90 per cent of total enterprises in terms of number). The 2003 International Crisis Group report on Tajikistan notes that most existing donor supported micro-finance programmes are too small to benefit the more dynamic urban firms, while existing SME credit lines are insufficient to fill the demand for credit among such enterprises.

One sector, which has attracted private financing is the cotton sector. In 2002, reportedly US\$ 90 million in commercial, non-guaranteed credits were provided to the sector by foreign investors and on-lent to cotton producers at a rate of 12 per cent. Another sector is aluminium. The state owned aluminium company (TADAZ) holds around US\$ 110 million in commercial debt, much of this working capital finance from alumina suppliers. There are no functioning domestic equity markets and access to international debt/equity markets by Tajik enterprises remains almost impossible.

3 Strategic Orientations

3.1 Bank's Priorities for the Strategy Period

In line with the difficult investment and transition challenges facing Tajikistan, the Bank's main priorities in the strategy period will be:

- (i) financing the private sector, focusing on small and medium sized enterprises and micro businesses,
- (ii) strengthening the financial sector through technical assistance and where possible additional capital injections, and
- (iii) supporting critical infrastructure projects with a clear focus on high priority, commercially oriented investments in close collaboration with other donors and IFIs.
- (iv) maintaining policy dialogue.

Considering the difficulties in implementing investment projects in the country, the Bank will actively utilise the Central Asia Risk Sharing Special Fund (CARSSF), introduced in June 2002, to support private sector development through facilitating broader participation of local banks in financing, thus enhancing financial sector development. The Bank will also seek to develop further co-operation with other donors, who have shown their growing interest in the country on such occasions as the CIS7 initiative and the recent CG meeting in Dushanbe. These areas of co-operation will include (i) active utilisation of co-financing grants, which will enable the Bank to implement critical infrastructure projects, and (ii) further contributions to CARSSF¹⁵.

During the strategy period, the Bank will continue to promote policy dialogue with the authorities in order to improve the investment climate and support their reform efforts. The Bank will closely co-ordinate with other IFIs and the business community to make such policy dialogue effective. The Bank will also seek co-financing opportunities with other IFIs and bilateral institutions to mobilise greater resources into the country, especially projects that could enhance regional co-operation.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Financing the Private Sector

Transition Goals

The Bank's main transition goal in this sector is to strengthen the private sector base of the economy. Despite the recent encouraging expansion of private sector employment, making this expansion sustainable will be key to absorbing Tajikistan's rapidly expanding and largely rural population. Although the Bank's investment through its SME and micro-business credit lines or through DIF projects will be small relative to the needs of the country, they could serve to generate significant demonstration effects and encourage entrepreneurial activity. The Bank will also aim to strengthen Tajikistan's integration into the world economy through

¹⁵ So far Swiss Government contributed EUR 6 million (TFP, MSE and DIF) and German Government EUR 2.45 million (TFP) for the total of EUR 8.45 million. The Swiss Government is considering further contribution of EUR 2 million to the MSE programme in Tajikistan.

its TFP facility. For a country as geographically isolated as Tajikistan, reducing the costs to foreign trade can be critical for facilitating exchange.

The second major goal of the Bank in the private sector is to attract additional foreign investment into larger local enterprises. Tajikistan is not an attractive investment location for reasons to do with geography and market access, recent experiences of political instability, weaknesses in governance and state capacity, and general levels of poverty. Yet, opportunities do exist, primarily in extraction and processing of natural resources, including agricultural products and the Bank will seek to market these actively. As medium and large scale privatisation and restructuring gathers pace, additional investment opportunities may become available and allow the Bank to support these critical reforms.

Operational Focus

Entrepreneurship development

The Bank will support micro and small enterprises by providing credit lines through selected local banks. The programme provides small, mainly short-term loans to various entrepreneurs including manufacturing, trading and services. The Bank is negotiating with two local banks, which will be qualified as the first participating banks, and other banks are expected to be invited during the strategy period, if they are qualified. The programme will be supported by comprehensive TC for participating banks.

The Bank is actively looking for small investment projects with local entrepreneurs through the Direct Investment Facility. In the selection process, the Bank will consider lessons learned with the existing private projects and will undertake thorough due diligence, market analysis and monitoring. The Bank also will consider utilising the CARSSF to share project risks, if the project demonstrates excellent transition impact.

Trade Facilitation

The Bank will consider establishing a TFP facility, which provides guarantees against letters of credit of local banks to importers and exporters to and from Tajikistan. The programme will help Tajik enterprises' access to international and regional markets and enhance Tajikistan's integration to international market. The Bank will select appropriate local banks to administer the programme and support them by comprehensive TC to develop trade finance skills. Other than the standard TFP, the Bank will study the possibility to provide export-finance to the agricultural sector, such as input financing and equipment leasing to cotton producers, together with commercial banks already active in the region.

Support for FDI, Privatisation and Restructuring

Because of the difficulties in the operational environment, foreign investors' interest in Tajikistan has remained limited, and is concentrated on small scale investment opportunities in the textiles, agribusiness and manufacturing sector. However, the Bank considers that opportunities exist in the agribusiness and cotton sector, where a positive impact will influence a large number of the rural population, as well as natural resources, particularly mining of precious metals. The Bank will explore possibilities to enhance foreign investments in such sectors. In the mining sector, in view of the challenging conditions and mixed results experienced by other financial institutions, the Bank's operations will be limited to supporting viable joint venture companies with suitable foreign sponsors. Moreover, the Bank will study the possibility of utilising such schemes as machinery leasing or export financing. Regarding private sector projects, particular attention will need to be

given to the financial viability of proposed investments and the quality of the management and the sponsors.

While the Bank's operational focus will remain concentrated on small private projects, the Bank will also seek to support privatisation and restructuring of large state enterprises. The Bank will continue to co-operate with WB/IFC on restructuring and privatisation of the state aluminium company, TADAZ. Among the critical issues to be considered in the restructuring of TADAZ are i) the smelter's viability at full cost energy prices (an IFC sponsored study seems to indicate that TADAZ would be profitable at full cost prices) ii) the financial situation of the company, given its high level of debt on the balance sheet and iii) its corporate governance and the role of the existing input supplier and off taker in the future restructuring and possible privatisation of TADAZ. The Bank supports the World Bank's Action Plan, which requires, as a first step, the publication of a full financial audit.

3.2.2 Strengthening the Financial Sector

Transition Goal

The transition goal in this sector is to work selectively with local financial institutions to improve their performance and provide safe intermediaries for the Bank's MSE, SME and TFP facilities. By asking for high standards of corporate governance and financial transparency, and potentially through participating in existing or newly-created financial institutions in Tajikistan, the Bank expects to strengthen competition in the sector and achieve demonstration effects, as other financial institutions attempt to emulate the success of the Bank's partner banks. It should be noted, however, that given the challenging conditions in the sector at present, progress will necessarily be gradual and is likely to suffer from occasional setbacks.

Operational Focus

Micro Financing and Trade Facilitation

The key tools for the Bank to improve the operational performance of local banks will be the provision of short to medium term funding through MSE lines, medium and long-term funding through SME lines and TFP facilities, all combined with technical assistance components. The Bank will undertake thorough due diligence of selected local banks to identify viable partner banks for establishing such facilities. In addition, for TFP in particular, the CARSSF will be a crucial tool to increase the Bank's opportunities to work with local banks that satisfy the Bank's conditions on financial transparency and corporate governance but that have insufficient capital to support the Bank's exposure.

Partner banks will also be requested to improve their performance with respect to corporate governance, transparency, and anti-money laundering procedures as part of a Corrective Action Plan that will be combined with the implementation of the MSE credit line.

Technical Assistance to Banking Sector

MSE and TFP envisage provision of substantial technical assistance to improve credit assessment and financial management skills and to help to introduce these new products to the local banks.

The Bank will also continue policy dialogue to improve regulatory and supervisory conditions in the sector. One instance of these ongoing efforts was the Seminar on Deposit Insurance System for Central Asia, which was co-organised by the Bank and IADI (International Association of Deposit Insurers) in January 2003 in Basle, mainly funded by the Swiss Government in cooperation with the Japanese Deposit Insurance Corporation. The seminar provided a unique opportunity for bank regulators, including NBT (who currently prepares law on deposit insurance), to understand the benefits and risks involved in Deposit Insurance Schemes and contributed to establish well-functioning systems in the Central Asian countries.

Strengthening the Capital Base in the Sector

Although the Bank experienced serious corporate governance issues arising from the dilution of the Bank's equity in TSOB, the Bank will seek opportunities, with caution, to participate in the equity of selected existing or newly-established banks in order to increase the capital base and the level of financial intermediation in the Tajik banking sector. Thorough due diligence on selected partner institutions will be key to these efforts, as will be the ongoing policy dialogue with the NBT to enhance mutual understanding of the conditions necessary to promote direct private investment in the banking sector. The Bank will strengthen policy dialogue with regard to the issues related to corporate governance, banking regulations and supervision, considering the experiences with the TSOB. Where possible, the Bank will seek to mobilise additional official and private sources of co-investment into the capital of selected banks.

3.2.3 Support for Critical Infrastructure

Transition Goals

The main transition goal in this sector is to improve the quality of infrastructure in a way that is commensurate with the limited public resources available and that creates the basis for sustainable future operation of infrastructure enterprises, where possible through the attraction of private investment. As mentioned in Section 2.3.3, the state of infrastructure deteriorated sharply during the last decade due to the poor maintenance and lack of new investments. The Bank will aim to support new investment selectively in the light of the limited borrowing capacity of the country. By advocating a commercially oriented approach, combining investments in rehabilitation and modernisation with tariff and regulatory reforms, the Bank will aim to contribute to reduce quasi fiscal deficits in the public sector (particularly in energy) and set free resources for critical social spending priorities. The Bank will be consistent with the Government priorities of the projects in its Public Investment Programme and seek, where possible, co-financing from donors, private investors and other IFIs to optimally allocate project risks among parties, and achieve a maximum degree of leverage for intended transition impact.

Operational Focus

Aviation continues to be a priority sector for the Bank's operations in Tajikistan. The sector occupies a vital position due to the country's geographical remoteness and the current lack of economic integration with the rest of the region and the world. Aviation projects will provide transition impact to the Tajik economy on trade, labour mobility, information and communications through increased traffic. There has been a sharp increase of passenger traffic and the current fleet of TSA cannot cope with the underlying demand. Since the Government's ability to provide sovereign guarantee is limited due to its borrowing capacity, the Bank will seek to introduce non-sovereign guaranteed operations with the Tajikistan State Air Company, a commercially managed entity, and rely on its cash generation. The Bank is financing a feasibility study to review the viability of the project.

Another priority area, both to the Bank and the Government, relates to municipal and environmental infrastructure. Specifically the Bank will support such sectors as water supply and urban transport in major cities where the population suffers severely from the poor quality of services. The Bank will support, within the existing tight affordability constraints, a commercial approach by municipal entities to improve service delivery and cost control, while introducing gradually cost recover tariffs and improved collection practices to enable these utilities to provide a financially sustainable service in the medium term. This will require significant organisational restructuring while municipalities need to ensure that adequate project implementation and supervision capacity at enterprise and municipal level is in place to undertake new investments.

In order to fund such projects within the affordability constraints of Tajikistan, grant co-financing will be required. In addition such grant components are also necessary to achieve the concessional terms, required for the public sector borrowing and to ensure that the funding will be consistent with the restrictions on new public debt and annual public debt service allocation agreed between the Government of Tajikistan and the IMF. The Bank needs to approach the donor community for potential grant co-financing and technical co-operation to leverage the loan financed capital investments with grants.

The Bank will select other infrastructure projects with a view to promoting a commercial approach to projects that would lead to financially sustainable entities as mentioned above. In light of the rich hydro power resources, the Bank could explore possibilities in small scale power projects. The Bank needs to be innovative to structure such projects and mobilisation of grant funding could be an important element for a viable solution.

3.2.4 Policy Dialogue

During the strategy period, the Bank will continue to promote policy dialogue with the authorities in order to improve the investment climate and support their reform efforts. The Bank will closely co-ordinate with other IFIs and the business community to make such a policy dialogue effective, including in the context of the development of the PRSP.

3.2.5 Environmental Impact of Bank Strategy

The Tajikistan Strategy provides a mix of projects, many of which have environmental benefits. Microbusiness and SME investments can contribute to sustainability, and MEI projects, including water supply and urban transport, can provide opportunities for

environmental benefits. Projects in aviation are likely to lead to improvements in air safety in the region.

In contrast to projects with primary environmental or safety benefits, the Bank will need to select projects carefully in natural resources or cotton sectors. This is particularly important for smaller funding amounts where leverage may be weak. The irrigation associated with the cotton sector in the Central Asian Republics is linked to depletion of water in the Aral Sea and the associated concerns, so any projects proposed in this sector will need particular scrutiny to ensure they meet the Bank's policy requirements. It is likely that projects in the cotton sector would need to be associated with capacity-building initiatives, such as technical cooperation projects to assist with environmental management, water management, integrated pest management, and other key issues.

The Bank's 2003 Environmental Policy and Public Information Policy will also help increase transparency associated with EBRD projects.

4 Co-operation with other International Organisations

Given the level of poverty and limited budget of the government, Tajikistan needs substantial aid, particularly in the form of non repayable grants. During the fourth Consultative Group meeting in May 2003, multilateral and bilateral donors pledged US\$ 900 million over the next three years, including US\$ 200 million of humanitarian aid. This amount is much greater than that of the last consultative meeting held in Tokyo in 2001 (around US\$ 400 million of commitments, but only US\$ 233 million disbursed by May 2002). The aid programmes are based largely on the PRSP, focusing on improving social conditions (health, education, and poverty), infrastructure, governance and public services. The emphasis on the private sector is relatively smaller in the PRSP, but other donors recognise the critical importance of private investments and the complementarity between their investments and those of the EBRD. In the public sector, despite the generous commitments, there is concern among some donors that projects are so far not sufficiently prioritised and need to be designed in ways that would reduce over time the reliance on outside grant financing. In infrastructure, these concerns point to the benefits of a commercial approach, combining private investment and IFI funding with donor grants to alleviate any affordability constraints.

Tajikistan is one of the countries under the CIS-7 initiative, an international initiative to promote poverty reduction, growth and debt sustainability in low-income CIS countries. The Initiative brings together the seven low income and indebted CIS countries, with a support from the four sponsoring organizations (ADB, EBRD, IMF and World Bank) and a group of bilateral creditors/donors.

4.1 International Monetary Fund (IMF)

The IMF has worked with Tajikistan since May 1996. Since 1998, the government of Tajikistan has been implementing an economic reform programme with the support of a three-year arrangement under the Poverty Reduction and Growth Facility (SDR 100.3 million). The PRGF, which had disbursed a total of SDR 78.3 million, went off track in December 2001 due to delays in structural reforms. But the government satisfactorily implemented a Staff Monitored Programme (SMP) that covered the first half of 2002. During a series of Article IV consultation, the Fund welcomed Tajikistan's strong economic growth but expressed concerns about continued high inflation and structural reforms. The IMF approved a new PRGF for SDR 65 million (US\$ 87 million) in December 2002 for the next three years. The programme remains on track and the first review is expected to be completed by July 2003. The Bank has maintained close contacts with the IMF on issues related to macroeconomy.

4.2 World Bank Group

Tajikistan became a member of IBRD and IDA in 1993 and of the IFC in 1994. To date, World Bank Group assistance has consisted of poverty reduction, policy advice, institutional capacity building, financing of post-conflict needs through rehabilitation and reconstruction operations and resource mobilization. To benefit the most vulnerable groups in rural areas, the emphasis is put on creating ways of transferring agricultural assets from public to private hands, enhancing incentives, and investing in rural infrastructure. This is complemented by investments in health, education, and social funds. As of September 2002, IDA had committed US\$ 302 million for 20 operations, of which US\$ 45.5 million has been disbursed. There are 11 on-going operations with a commitment of US\$ 151.5 million. As for the Structural Adjustment Credit (SAC II), the government failed to meet two important conditions and its second tranche has been pending subject to fulfilment of the following

conditions; completing an IAS audit of TADAZ and developing a new privatisation plan for TADAZ. The government is currently working to meet these conditions. The Bank has supported the preparations of the SAC II in particular in telecommunications and aviation.

To date the IFC has financed the following: (i) a large gold mining operation (Zeravshan Gold/Nelson gold) from which it recently withdrew after suffering setbacks, (ii) two commercial operations (a supermarket project and a marble/granite processing facility), (iii) a Tajik/Italian auditing firm, and (iv) equity investment in Tajiksodirot Bank (TSOB from which IFC exited at the same time at the Bank). The Bank's co-operation with IFC includes the TSOB investment, co-financing on the MSE project under preparation and the policy dialogue with the Government on TADAZ.

A new World Bank Country Assistance Strategy (CAS) was approved recently (US\$ 80 million for 2003-2005), which focuses on three key objectives; improving community-based support, fostering private sector activities, and strengthening the institutions needed for a market economy.

4.3 Asian Development Bank

Tajikistan became a member of the Asian Development Bank (ADB) in April 1998 and ADB has financed projects for a total of US\$ 172.9 million to date. In 1998, the ADB approved the first project for a post conflict infrastructure programme loan (US\$ 20 million) to support reforms in the transport and energy sectors. In 1999 the ADB approved two projects: Social sector rehabilitation project (US\$ 20 million) and an emergency flood rehabilitation project (US\$ 5 million). In 2000 they approved three projects for a total of US\$ 57.6 million: a road rehabilitation project, a power rehabilitation project and the emergency restoration of Yavan water conveyance system. In 2002 the ADB approved four projects (total of US\$ 70.3 million): emergency rehabilitation assistance, regional trade facilitation and customs cooperation program, agriculture rehabilitation, and regional power transmission modernisation. The latest country strategy and program (for 2003-2005) envisages annual commitments of US\$ 40 million for assistance in social development, energy, agriculture, governance, and infrastructure. As mentioned earlier (Regional Cooperation), the Bank is preparing a co-financing project on Regional Power Transmission with the ADB.

4.4 United Nations Development Programme

The United Nations Development Programme (UNDP) has been in Tajikistan since 1994. The UNDP focuses on three broad areas: good governance and capacity building at the national level, rehabilitation, reconstruction and development, and protection and sustainable management of natural resources. Moreover, the UNDP is keen to achieve the Millennium Development Goals and focuses on these areas, including democratic governance, poverty reduction, crisis prevention, energy and environment, ICT and HIV/AIDS.

4.5 The Aga Khan Development Network

The Aga Khan Development Network (AKDN) has been active in Tajikistan since 1992, mobilising over US\$ 150 million for its various programmes from its own resources, from the Ismaili Imamat and Ismaili Community around the world and its own donor partners. The activities were initially focused on drug issues and humanitarian aid and are now being expanded into agricultural reforms, health, education, physical infrastructure improvement and culture. In addition, AKDN is starting to invest in the financial sector, including micro finance on which the Bank has been exploring a potential co-operation with AKDN.

Annexes

- Annex 1 Political Assessment
- Annex 2 Environmental Developments
- Annex 3 Legal Transition
- Annex 4 Selected Economic Indicators
- Annex 5 Signed Bank Operations
- Annex 6 Bilateral Assistance
- Annex 7 TC Assistance

Annex 1: Political Assessment

In the two years since the adoption of the last Country Strategy in August 2001, Tajikistan has been making progress in implementing the principles of Article 1 of the Agreement Establishing the Bank.

After years of devastating civil war (1992-1997), stability and normality has returned to Tajikistan's political life. The country has six political parties, including opposition parties, several political movements and a growing network of NGOs. Tajikistan is the only country in the CIS, which has a functioning Islamic party (Islamic Renaissance Party), which is represented in the country's legislature. Tajikistan's experience in ending civil war, achieving national reconciliation and integrating opposition factions into government has been widely recognised. It is now important to maintain the achieved balance in order to further economic and political reforms.

The key elements of the Peace Agreement between the Government and the United Tajik Opposition (UTO), concluded in June 1997, have been implemented. A constitutional referendum, presidential and parliamentary elections in 1999 and 2000, and formation of a coalition government were the milestones of the process. In 2002 the authorities abolished compulsory exit visas, transferred the penitentiary administration from the Ministry of Interior to the Justice Ministry and created a governmental commission for the implementation of international commitments in the field of human rights. Externally, the success of the coalition forces in neighbouring Afghanistan diminished, if not fully eliminated, external threats.

Notwithstanding these positive achievements, many problems and challenges remain. The extension of the President's term in office, approved by national referendum of 22 June 2003, is a concern. Tajikistan was the poorest republic of the Soviet Union and remains among the most impoverished countries in the region. Widespread poverty, high unemployment, low salaries, combined with a weak judiciary and significant drug transit, adds to the atmosphere conducive to corruption and provides potential breeding grounds for extremism. This makes poverty alleviation a key priority for the country.

Elections and constitutional referendum

The Constitution of 1994 established a system of separation of legislative, executive and judicial powers. In September 1999 the Constitution was amended to introduce a seven-year mandate for the President and a bi-cameral structure of the Parliament (Majlisi Oli), comprising the National Assembly or upper chamber (Majlisi Milli) and the Assembly of Representatives or lower chamber (Majlisi Namoyandagon).

The pro-presidential People's Democratic Party has the majority in the upper chamber where 8 out of 33 deputies are directly appointed by the Head of State. In the lower chamber, out of 63 parliamentarians, 8 MPs represent the Communist Party and 2 are members of the Islamic Renaissance Party. The last parliamentary elections took place three years ago in February/March 2000. This was the first multi-party election in the history of Tajikistan. The OSCE noted that the elections fell short of international standards but signified an accomplishment in terms of including the former warring parties in the electoral process.

The presidential election in November 1999 was not monitored by the OSCE as it failed, according to the OSCE, to ensure a competitive election. As the result of the election Emomali Rakhmonov, who was first elected for a five-year term in 1994, was re-elected for a term of non-renewable seven years, i.e. until the year 2006.

However, the parliament proposed to amend the Constitution to lift this limitation on the presidential term in office. The constitutional referendum of 22 June 2003, decided the issue together with other amendments to the country's main law. The representatives of the Tajik civil society expressed concerns that they had not been properly consulted during the referendum process. Opposition parties raised objections about the timing of the proposed referendum and the amendment lifting the current limit on the President's term. They argued that this will give the incumbent President the possibility of remaining in office until 2020, i.e. for another 14 years (two seven-year terms) after his current term in office expires in 2006. It was also noted by international observers that on the referendum day Tajik citizens were asked to give one yes-no answer on a large number of questions covering complex constitutional issues. According to official data, 96 per cent of the electorate went to the polling stations on 22 June and 93 per cent voted in favour of 56 constitutional amendments. Although the OSCE did not deploy an observation mission and thus was not in a position to comment on the voting process, two OSCE offices (the OSCE Centre in Dushanbe and the OSCE Office for Democratic Institutions and Human Rights) noted that the unusually high turnout of 96 per cent raised concerns regarding the accuracy of the reporting of results. On the positive side, the OSCE welcomed the calm atmosphere in which the referendum took place.

Rule of law and human rights conditions

Tajikistan's overall human rights record remains poor, notwithstanding some positive elements in the last two years. According to independent human rights monitors, there are continued restrictions of the freedom of speech, freedom of assembly and freedom of media. Independent journalists faced harassment and pre-publication censorship.

Last year the authorities eased restrictions on freedom of expression by granting operating licenses to three independent radio stations in the Tajik capital. In 2002 the government also established a Commission for Implementation of the International Commitments in the field of Human Rights, chaired by the Deputy Prime Minister. The commission has been charged with coordinating activities of various government agencies in this area. Six working groups have since been established with the prime objective of preparing National Reports on the implementation of international commitments of Tajikistan.

There are no significant reported problems in the area of labour rights. The Constitution and the laws of the country provide basic legal framework for the freedom of association, elimination of forced and compulsory labour, the abolition of child labour and non-discrimination in respect of employment and occupation. There were reported cases of forced labour and the infringement of the minimum age of employment. Tajikistan ratified major ILO conventions geared towards establishing a basic framework in the area of labour rights.

The OSCE has an active presence in the country through its Centre in Dushanbe. Its mandate includes supporting national reconciliation, democracy building measures and protection of human rights. The broadened mandate of the Centre now also encompasses economic and environmental activities and efforts to assist the government in strengthening border

management. The OSCE is involved in advising the government on a number of important laws, including those on election, religion and media. The OSCE acted as a catalyst to mobilise various actors to undertake the important task of de-mining the border and other areas of Tajikistan.

External Relations

The proximity of Afghanistan, with which Tajikistan shares a long border, has been and remains an important external factor for Tajikistan. The success of the coalition forces in the anti-terrorist campaign in Afghanistan have reduced the risk of importing instability and armed incursions from the territory of Afghanistan. However, reported cases of continued functioning of the remnants of Taliban, Al-Qaeda and Islamic Movement of Uzbekistan (IMU), continues to be a matter of concern for Tajikistan and its Central Asian neighbours.

Afghanistan is also a major source of drugs which are trafficked via Tajikistan and other Central Asian countries. Significant volumes of drugs continue to cross the Afghan-Tajik border, despite major efforts by the Tajik authorities in co-operation with the UN specialised agency and the Russian border guards which have led recently to an increased seizure of narcotics.

Tajikistan continues to maintain traditionally close relations with Russia. A member of the CIS, the country is also an active participant in the CIS Collective Security Treaty. In April 2003, during the Russian President's visit to Dushanbe, the establishment of a Russian military base in Tajikistan was announced. Another important decision taken at the same time was the launch of the CIS Collective Security Organisation, comprising Russia, Belarus, Armenia, Kazakhstan, Kyrgyz Republic and Tajikistan. The Tajik President has been elected Chairman of the CIS Collective Security Council for one year.

Although at the moment Tajikistan is importing energy from neighbouring Uzbekistan, the country has significant hydro energy potential and is capable of exporting electricity. This underscores the importance of effective regional co-operation for Tajikistan creating better opportunities for trade and investment. Tajikistan is a keen member of regional groupings such as the Eurasian Economic Community together with Russia, Belarus, Kazakhstan and the Kyrgyz Republic, and the Central Asian Co-operation Organisation, which has all Central Asian countries as members with the exception of Turkmenistan.

Annex 2: Environmental Developments

Tajikistan is a unique country in Central Asia, with significant water resources, arable land and mountainous regions, and a number of rare animal and plant species. The country's rivers constitute two major river systems of Central Asia, the Amu Darya and the Syr Darya which feed the Aral Sea. The rivers enable irrigation of about 80 per cent of the arable land and contributing to Tajikistan's specialisation in cotton production and hydroelectric power generation for aluminium production. Irrigation uses up to 90 per cent of all fresh water consumption in the country, although Tajikistan has lower per capita annual water consumption and land irrigation than other Central Asian countries.

Inappropriate and intense use of pesticides and fertilizer in the major cotton producing areas of the country have resulted in contamination of soil, surface, and ground water in some areas. The Global Environment Facility (GEF) together with other donors has developed the Aral Sea Basin Program to address the root causes of the overuse and degradation of the international waters of the Aral Sea Basin (Uzbekistan, Kazakhstan, Tajikistan, Turkmenistan, and Kyrgyzstan).

Tajikistan is implementing a state ecological programme for use of natural resources (land, water, air, biodiversity) and human health (until the year 2010). New environmental laws in 2001 included the Law on Land Management and the Water Code, and Laws on the State Environmental Review (Expertiza), on Waste of Consumption and Production and amendments to the 1996 Law on Environmental Protection were introduced in 2002. The World Bank is working with Tajikistan to develop a National Environmental Action Plan (NEAP) by the end of 2003, in accordance with the NEAP, however funding is yet to be secured for this initiative. The World Bank country strategy for Tajikistan plans technical assistance in this area in 2004.

Tajikistan's most noticeable environmental issues are soil erosion, soil damage due to irrigation, deforestation, environmental damage associated with aluminium smelters; inefficient use of water resources, and natural disasters (e.g., floods, drought, landslides). The inadequate supply of clean drinking water appears to be the single greatest health hazard in the country. Environmental impacts from large scale mining and logging projects during the Soviet period, combined with impacts from irrigation (water logging of soil and salinisation), resulted in environmental degradation and pollution. Deforestation also reduced habitat for rare and endangered species, such as the snow leopard. According to the World Conservation Union (IUCN), the number of animal species in Tajikistan considered to be threatened has almost doubled from 1995 to 2000.

The Government of Tajikistan has signed and ratified a number of international conventions on environment, including the Convention on Biodiversity, the Ramsar Convention on the protection of wetlands (94,600 ha of land are designated Ramsar sites), the UN Convention on Climate Change, the UNESCO World Heritage Convention, and the UN Convention on Combating Desertification. A memorandum of understanding has been signed with the Convention on Conservation of Migratory Wild Animals regarding the conservation and restoration of the Bukhara deer. A series of seminars were held in 2002 on developing a National Strategy and Action Plan under the Biodiversity Convention. A draft National Plan has also been prepared under the Convention on Climate Change.

Desertification is a key issue for Tajikistan, and in 2001, the Government agreed a National Action Programme (NAP) for combating desertification, following three years of drought. The NAP was completed with the assistance of UNDP, UNESCO, the Convention Secretariat, and donors (Switzerland and Finland) and agrees a strategy of scientific and technical actions, such as developing strategic mapping on desertification and defining priorities. The NAP was made public in a forum and broadcast by national media in Tajik, English, and Russian languages. The public and NGOs participated in the formation of the NAP. While many ministries are involved in various aspects of the NAP, joint responsibility for the programme is given to the State Committee for Land Management and the Ministry of Environmental Protection.

Drought in the region has caused a shortage of food, and increase of erosion and land degradation. Power shortages have resulted in people increasing deforestation, and this has accelerated the desertification process. New programmes on environmental education and training (2000-2010) have been implemented to increase the understanding of desertification in the government and general population. It is hoped that this will help the Republic's ability to deal with drought.

Tajikistan is responsible for implementation of the Preservation of Mountainous Ecosystems component of the Central Asia Regional Environmental Action Plan (REAP) until 2012 and beyond funded by the Asian Development Bank.

Tajikistan has a number of environmental non-governmental organisations (NGOs) (nearly 40 in 2002). There is a strong evidence that the NGOs are becoming more active, with a number of them being directly involved in development of NEAP and implementation of REAP.

Tajikistan signed and ratified the Aarhus Convention on Public Access to Environmental Information, Public Participation and Access to Justice in Environmental Decision Making in 2001.

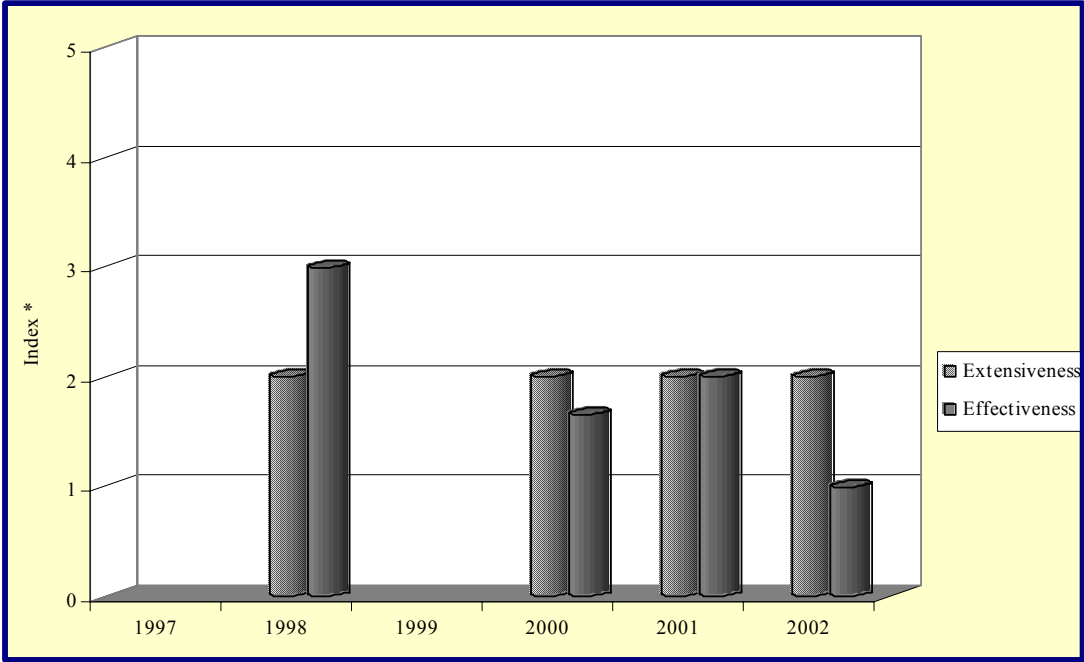
As the poorest country of the CIS, Tajikistan needs to address environmental and related health issues in the context of economic improvement of the people. Tajikistan is unable to implement the many obligations under the conventions and plans on its own, and is working with international institutions and organisations. Significant assistance is likely to be needed in the foreseeable future to improve environmental management and requirements.

Annex 3: Legal Transition

COMPARATIVE ASSESSMENT OF TAJIKISTAN’S COMMERCIAL LAW

I. Assessment Over Time

Extensiveness and Effectiveness of Tajikistan's Commercial Law¹⁶



Source: OGC Legal Indicator Surveys; 1997 – 2002

*Note: Indicators along the y axis range from 1 (little progress) to 4+ (substantial progress). No data is available for 1997 and 1999.

As the above graph reveals, there has been no progress in the perception of the legal system generally, which is probably due to the problems associated with the courts and difficulties in entrenching adequate respect for the rule of law. The survey suggests that more attention and resources need to be directed towards building effective institutions to implement the existing commercial laws and to improve these laws.

¹⁶ The EBRD conducts a Legal Indicator Survey each year to measure the progress in legal reform in Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States, as viewed by local lawyers and academics. The results of such survey are based on responses to the questionnaire sent out to lawyers practising in any given country. The survey represented their perception of the country’s legal system and, in particular, the degree to which key commercial and financial laws have reached internationally acceptable standards (extensiveness) and to which extend these laws are implemented and enforced (effectiveness). The survey is based purely on local lawyers' perception of their own country legislation and does not represent EBRD's own view on these legal systems. In addition, it must be noted that each respondent is asked to answer the questionnaire for his/her country only, and not on a comparative basis.

II. Situation Other Transition Countries

Based on the 2002 EBRD Legal Indicator Survey, the commercial laws of Tajikistan are perceived as "detrimental" for supporting investment and other commercial activity. Compared with other countries in Central Asia, these results appear to be the worst in the region. Although care needs to be taken in drawing conclusions, anecdotally the Bank's own experience and observations about the quality of the laws in the region suggest that the local lawyers' perceptions are credible.

LEGAL SECTOR ASSESSMENT

1. Bankruptcy

The principal pieces of legislation regarding bankruptcy are the Law on Bankruptcy of 1993 as amended in 1996, 1997 and 1998 (the "Bankruptcy Law"), the Tajik Civil Code and the Economic Procedure Code.

The Bankruptcy Law is applicable to enterprises regardless of their form of ownership. It does not necessarily call for compulsory liquidation of an enterprise in an insolvency situation. The Bankruptcy Law stipulates possibilities for support and recovery of an enterprise and restructuring procedures, such as the so-called external administration of the debtor's property or such as reorganisation.

External administration of a debtor's property shall consist in the handover of managing functions by a debtor-enterprise to an administrator appointed by the economic court. In order to restore the company solvency and to allow continuation of the enterprise's operations, the external administrator shall take measures (e.g. sale of assets or other) according to the plan approved by creditors.

Reorganisation shall consist in the provision of financial assistance to a debtor-enterprise by its owner or creditors. Reorganisation procedures shall be initiated by the economic court on the basis of a petition. During the proceedings, amicable settlement between the parties may take place. Non-judicial proceedings shall also be allowed, when the debtor can negotiate with creditors and when the enterprise either continues its operations or is liquidated on a voluntary basis under the creditors' supervision.

A new draft bankruptcy law is currently in preparation aiming at harmonising the legal framework with modern requirements and the new Tajik Civil Code

2. Capital Markets

The primary law governing the securities market is the Law on Securities and Stock Exchange promulgated in May 1992 and amended in 1998. This Law lays out basic principles for the issuance and circulation of securities and for regulating activities of various market participants. There is also a Regulation on Investment Funds issued by the Government in 1997. However, despite these legislative efforts, capital markets in Tajikistan are still in a very early stage of development and little practical reform has taken place in this area. Banking reform remains a priority and focus of the Government.

3. Concessions

Article 35(1) of the Law on Foreign Investment states that foreign investors and enterprises having received foreign investments may enjoy the use of concessions for the exploration of natural resources and their engagement in other economic activities. Concessions are governed by the 1997 Law on Concessions (the "Concessions Law"). The Concessions Law applies only to foreign investors and not to domestic investors. Concessions arrangements are governed by agreements between foreign investors and state authorities.

Under the Concessions Law, the typical term of a concession agreement is 50 years, though this can be extended to up to 99 years. The Concessions Law defines a concession as an agreement that gives foreign investors the right for temporary exploitation of certain assets. These include mineral resources, hydroelectric power, cotton industry, construction, water, air space, flora and fauna and other natural resources.

Concessionaires are selected through competitive tenders/auctions, though under some circumstances a concession may be granted on the basis of direct negotiation between the local authorities and a foreign investor. The concessionaire must pay a fee for registration of the concession agreement. If there is a dispute between a concessionaire and the concession granting authority, the economic courts of Tajikistan have jurisdiction, unless international treaties specify another form of dispute resolution.

A concession does not provide for unlimited rights for the use of state assets. Furthermore, Tajikistan has a priority right to purchase products from the concessionaire. Profits earned by a concessionaire remain the property of the concessionaire. However, the Concessions Law is unclear as to whether the profits may be repatriated or whether local currency laws restrict this. Unlike in a number of other jurisdictions, the Concessions Law does not contain a so-called "stability clause", stating that in the event that a new law introduces rules that are less favourable than those on the basis of which the agreement was signed, the terms of the concession agreement would remain in force.

4. Company Law and Corporate Governance

The Law on Joint Stock Companies (the "JSC Law") was adopted in 1991 and has been amended several times since then, with the most recent one in 1998. Currently, there is no separate corporate governance code in Tajikistan.

According to the JSC Law, a joint stock company ("JSC") must be registered with the relevant local notary office; the Ministry of Finance maintains a State Registration List, which includes all registered and liquidated companies. A JSC can be of open or closed type and a closed JSC can not have more than fifty shareholders. Each JSC must keep a register of shareholders. A shareholder can not alienate shares in such a closed JSC without the consent of other shareholders.

A JSC must hold an annual meeting of shareholders each year. According to the JSC Law, the time lapsed between two annual meetings of shareholders should not be more than fifteen months. Written notices must be sent to each shareholder no later than 30 days before the proposed date of such a meeting. Shareholders with at least 10 per cent of the shares of a JSC are entitled to request a special meeting of shareholders to be convened. The board of directors of a JSC is elected by the annual meeting of shareholders. The number of directors

is determined at the annual meeting. A director is elected for a period of two to five years and is eligible for re-election without limitation. A JSC must also establish an auditing commission, which is elected by the annual meeting of shareholders. Members of the auditing commission may not be members of the board or executive directors.

While the JSC Law provides a basic framework governing the formation, operations and liquidation of JSCs, the Law is deficient or silent on many important issues concerning JSCs, minority shareholders as well as general investors. These issues include, among others, timely information disclosure, measures against self-dealing and conflict of interest transactions.

Assessed against OECD's Principles of Corporate Governance, the existing body of Tajik law regulating corporate governance issues rates least well among similar laws in the Bank's countries of operations, according to the 2002 results of the Bank's Corporate Governance Sector Assessment Project, in which corporate-governance related "laws on the book" in each of the Bank's countries of operations were reviewed and evaluated.

5. Secured Transactions

Security rights on movable and immovable assets are governed primarily by the Civil Code (Part 1) of 30 June 1999, which entered into force on 1 January 2000. The Mortgage Law, which was enacted on 20 June 1994 and amended in 1995 and 1998, also provides regulation of security rights over both movable and immovable property. Since to a large extent the Civil Code provisions and the Mortgage Law provisions cover the same matter, there is a great deal of uncertainty as to which provisions will be applicable.

Mortgages can be taken over immovable assets (real estate), as well as enterprises (which qualify as immovable). Pledges over movable assets may require transfer of possession by the debtor, or may be non-possessory. However, no adequate system of publicity is provided.

Security rights over real estate, enterprises, goods in circulation and processing, means of transport and space objects, and other assets subject to state registration must be registered with the administrative agency that is in charge of registering these assets. Although the implementing decree of the Law on Mortgage provides that a body in charge of registration should be formed within three months after the publication of the Mortgage Law, no such central registry exists in practice.

Moreover, according to Tajik law, companies and registered entrepreneurs shall maintain a pledge record book. Since such registration is not a prerequisite of the validity of the charge and there are no penalties for failure to maintain the book, pledge books are not maintained in practice. Hence, creditors in Tajikistan have no means by which they can find out the existence of previous security rights granted by a prospective borrower, and if they take security over assets, they run the risk of having to compete with other creditors on enforcement.

The legal provisions (Mortgage Law, Civil Code and others) are very unclear on a number of key points, such as the priority of secured creditors outside and within bankruptcy proceedings, the possibility for a third party to obtain title over the pledged assets free of charge in the ordinary course of business (especially for goods in circulation), and the methods of realisation of the charged assets. The Civil Code provisions that have recently been adopted have not changed the general restrictive approach to secured transactions.

In 1996, the EBRD launched a legal reform project to help Tajikistan develop a secured transactions law. The Bank produced an extensive analysis of existing laws in order to assist in identifying the reforms that were necessary and the best ways of implementing them. The project was brought to a standstill because of the lack of commitment from the Tajik authorities. The Bank worked with other organisations (German development agency GtZ and the Asian Development Bank) to re-establish contact, without success. It was found appropriate to abandon the project in late 2000.

6. Telecommunications

The telecommunications sector in Tajikistan is currently governed by the recently adopted Telecommunications Law of 2002 (the "Telecom Law") and is regulated by the State Inspectorate of Communications, a body within the Ministry of Communications. It is intended that an independent regulatory agency, provided for in the new Law, will take over responsibility for the sector upon functional establishment (likely during 2003/4).

The telecommunications network in Tajikistan is among the least developed in the former Soviet Union. The sector continues to be dominated by TajikTelecom (TT), the state-owned incumbent operator, which is responsible for providing local, long-distance and international telephone services throughout the Republic. Besides TT, the main market player with a virtual monopoly in basic services, there are three licensed mobile operators, Tajiktel, and Somoncon and GSM Millennium. In addition, there are a number of small internet service providers, two paging providers, and a number of small telephony service providers.

While the telecommunications sector is underdeveloped by comparison with some of its CIS neighbours, the Government of Tajikistan has, with the assistance of the EBRD, been implementing significant reform since November 2000. With the help of EBRD, through the Tajikistan Telecommunications Regulatory Project (now in its second phase), a modern, transparent and investor friendly policy and international standard framework communications law have been adopted for the sector. The policy includes provision for liberalisation of the market for services in the medium term and directs the establishment of an independent regulatory authority. The new Law contains modern provisions relating to licensing, tariffing and interconnection.

Full implementation of this framework is essential to facilitate liberalisation and privatisation. While the Government of Tajikistan has made significant strides towards reform of the sector to date, much will now depend upon the implementation of the individual rules and procedures for the sector. In this regard, the functional establishment of an independent regulator will be critical and the Government must ensure appropriate support for the regulator together with the necessary powers to implement sector reform initiatives.

LEGAL REFORM PROJECTS

Telecommunications Technical Cooperation Projects

The EBRD Tajikistan Regulatory Development Project is now in its second phase and continues to assist Tajikistan to develop and implement a regulatory framework likely to promote a "level playing field" and encourage private investment. Achievements to date including adoption of modern telecommunications sector policy and framework law. The project is continuing, assisting with practical implementation of the reform initiatives contained in the policy and framework law (establishment of an independent regulatory authority, tariff reform, new licensing procedures and development of a universal service framework).

In addition, the EBRD is also engaged in a corporate development technical cooperation project with TT. The purpose of this programme is to provide assistance to the Director General of TT and his senior management team on a range of important organisational and strategic issues, including organisational and corporate strategy development and accounting and auditing reform.

Annex 4: Economic Indicators

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
									Estimate	Projection	
Output and expenditure											
	<i>(Percentage change in real terms)</i>										
GDP	-11.0	-18.9	-12.5	-4.4	1.7	5.3	3.7	8.3	10.3	9.1	7.0
Industrial gross output	-7.8	-25.4	-13.6	-24.0	-2.1	8.1	5.0	10.3	14.4	8.2	na
Agricultural gross output	-7.1	-6.5	-25.9	2.0	3.6	6.3	3.8	12.4	11.0	15.0	na
Employment											
	<i>(Percentage change)</i>										
Labour force (annual average)	-2.1	0.5	0.2	-6.0	3.5	0.8	-3.5	0.2	4.3	-5.4	na
Employment (annual average)	-3.3	-0.1	0.5	-6.6	3.4	0.3	-3.3	0.5	4.8	-2.6	na
	<i>(In per cent of labour force)</i>										
Unemployment (annual average) 1/	1.2	1.7	2.0	2.6	2.8	3.2	3.0	2.7	2.3	2.7	na
Prices and wages											
	<i>(Percentage change)</i>										
Consumer prices (annual average)	2,195.0	350.0	609.0	418.0	88.0	43.2	27.6	32.9	38.6	12.2	18.4
Consumer prices (end-year)	7,343.7	1.1	2,133.3	40.5	163.6	2.7	30.1	60.8	12.5	14.5	17.2
Producer prices (annual average)	1,080.0	327.8	1,080.0	449.0	95.7	27.8	41.2	43.5	28.7	10.1	na
Producer prices (end-year)	5,995.9	301.9	628.3	77.7	121.7	5.9	64.0	33.9	9.4	18.8	na
Gross average monthly earnings in economy (annual average)	746.3	116.1	164.2	219.6	68.3	84.8	35.2	30.6	50.7	33.6	na
Government sector 2/											
	<i>(In per cent of GDP)</i>										
General government balance	-22.3	-10.1	-6.1	-5.8	-3.3	-2.7	-2.3	-1.6	-1.1	0.6	-0.4
General government expenditure	46.5	52.9	24.4	17.9	15.5	13.9	14.9	15.2	16.3	15.5	na
General government debt	na	na	na	70.0	73.0	63.0	83.0	94.0	88.0	77.8	75.3
Monetary sector											
	<i>(Percentage change)</i>										
Broad money (M2, end-year) 3/	na	na	-19.4	93.2	110.7	53.9	39.0	64.5	33.4	37.4	na
Domestic credit (end-year)	na	na	na	94.0	201.8	363.6	-6.0	90.2	54.3	20.2	na
	<i>(In per cent of GDP)</i>										
Broad money (M2, end-year) 3/	90.0	92.4	19.1	8.3	8.6	8.1	7.4	8.6	9.5	8.3	na
Interest and exchange rates											
	<i>(In per cent per annum, end-year)</i>										
Monetary policy rate	na	na	152.5	72.0	81.0	36.4	20.1	20.6	23.4	21.0	na
Interbank interest rate (up to 1 month)	na	na	na	na	na	na	na	na	na	na	na
Deposit rate (up to 3 months) 4/	30.0	30.0	100.0	109.0	89.0	15.7	11.4	41.3	25.5	12.1	na
Lending rate (up to 3 months) 4/	30.0	30.0	500.0	122.0	74.0	49.7	30.6	18.3	21.3	12.1	na
	<i>(Somoni per US dollar)</i>										
Exchange rate (end-year) 5/	0.012	0.036	0.294	0.328	0.748	0.977	1.436	2.200	2.510	3.000	na
Exchange rate (annual average) 5/	0.010	0.022	0.104	0.293	0.564	0.777	1.238	1.823	2.383	2.783	na
External sector											
	<i>(In millions of US dollars)</i>										
Current account	-200	-163	-99	-75	-61	-120	-36	-63	-74	-25	-67
Trade balance	-183	-127	-59	-16	-60	-139	-27	-46	-121	-81	-18
Merchandise exports	456	559	779	770	746	586	666	788	652	696	788
Merchandise imports	639	686	838	786	806	725	693	834	773	777	806
Foreign direct investment, net	9	12	10	18	18	25	21	24	9	22	22
Gross reserves (end-year), excluding gold	2	1	4	14	30	65	58	87	96	96	129
External debt stock	509	760	869	867	1106	1179	1233	1226	1024	985	1062
	<i>(In months of imports of goods and services, excluding alumina and electricity)</i>										
Gross reserves (end-year), excluding gold	0.4	0.0	0.1	0.3	0.6	1.5	1.7	2.1	1.9	1.8	na
	<i>(In per cent of exports of goods and services, excluding alumina and electricity)</i>										
Debt service due	14.9	12.1	36.1	34.1	15.1	15.7	11.9	17.5	25.6	23.4	20.4
Memorandum items											
	<i>(Denominations as indicated)</i>										
Population (end-year, millions)	5.7	5.8	5.9	5.9	6.0	6.1	6.2	6.2	6.3	6.5	na
GDP (in millions of Somoni)	7.1	17.9	69.8	308.5	632.0	1,025.2	1,345.0	1,806.8	2,512.1	3,344.6	3,949.9
GDP per capita (in US dollars)	121.8	140.7	114.1	177.0	186.6	216.3	174.1	160.6	167.6	185.8	na
Share of industry in GDP (in per cent) 6/	32.8	22.0	34.0	25.7	19.7	18.1	19.1	20.4	22.6	19.3	na
Share of agriculture in GDP (in per cent) 6/	21.0	19.1	36.2	36.0	27.1	19.8	16.8	17.4	26.7	21.1	na
Current account/GDP (in per cent)	-28.8	-20.1	-14.8	-7.1	-5.4	-9.1	-3.4	-6.4	-7.0	-2.1	-5.3
External Debt - Reserves, in US\$ millions	507	759	865	853	1076	1114	1175	1139	928	889	na
External Debt/GDP (in per cent)	73.2	93.8	130.0	82.4	98.7	89.4	113.5	123.7	97.2	81.9	na
External Debt/Exports of goods and services (in per cent) 7/	353	193	217	169	218	290	304	297	321	303	na

Note: Data for 1995-2001 represent official estimates of outcomes as reflected in publications from the national authorities, the International Monetary Fund, and the World Bank.

Data for 2002-2003 reflect EBRD evaluations, partly based on information from these sources.

1/ Officially registered unemployed. The World Bank estimates the true unemployment rate in 2000 at more than 30 per cent of the labour force.

2/ Excludes transfers from the State budget to the Pension Fund and Employment Funds and externally financed PIP.

3/ Series before 1998 is for Somoni broad money only, after includes foreign currency deposits (M2).

4/ Interest rates were set by the parliament until June 1995. Thereafter rates refer to 1-3 month maturity. For 2002, only new loans and deposits are included in the average.

5/ Russian Roubles (until 1994) and Tajik Roubles (until October 2000) are converted to Somoni.

6/ Figures are based on current prices. Variations in the shares thus reflect inter alia changes in relative prices.

7/ Exports of goods and services excluding alumina and electricity

Annex 5: Signed Bank Operations

Signed Bank Operations in Tajikistan (EUR million, as at 31 May 2003)

Operation Name	Signing Date	Total Project Value	EBRD Signed Finance	EBRD Signed Debt	EBRD Signed Equity	EBRD Disbursed
Tajikistan FII - Orienbank	19-Dec-96	3.6	3.6	3.6	0.0	1.9
Khoujand Packaging	28-Jul-97	3.3	1.4	1.4	0.0	1.4
DIF – Obi-Zulol Water Bottling Plant	04-Sep-98	10.6	4.5	2.9	1.6	4.5
Khoujand Airport	22-Apr-99	6.3	2.1	2.1	0.0	2.1
TSOB Equity Investment	26-Nov-99	2.7	0.2	0.0	0.2	0.2
Tajiktelecom modernisation project	02-Oct-01	12.8	11.0	11.0	0.0	0.1
TSA Air Navigation Systems	02-Oct-01	6.2	4.6	4.6	0.0	0.2
		45.6	27.5	25.7	1.8	10.4

Annex 6: Bilateral Assistance

Canada

Canada has decided to increase its support to Central Asia and Tajikistan has been selected as the country of focus for Canadian development co-operation, provided through the Canadian International Development Agency (CIDA). Financial resources available for Tajikistan are expected to increase regularly over the next few years, starting with indicative disbursements in 2003 in the range of US\$ 4 million. This could be supplemented with additional CIDA funding through multilateral organizations such as the EBRD and the OSCE. Tajikistan has also received Canadian humanitarian assistance over the past few years, including over US\$ 650,000 in support through Red Cross and UN agencies. CIDA programming in Tajikistan will concentrate on two areas: i) sustainable water resources management, to ensure a reliable and predictable supply of water for irrigation and human consumption; ii) rural development and agriculture, where CIDA will support diversification and increased productivity. The emphasis will be on the rural poor. Support will also be provided for community-driven development initiatives and capacity-building for local governance.

European Union (EU)

The EU has been active since 1991 providing a total of EUR 328 million by end-2001, of which EUR 8 million is for TACIS, EUR 186 million for European Commission's Humanitarian Aid Office (ECHO) and food aid, and EUR 129 million for Economic and Financial Affairs (ECFIN) and regional programmes of EUR 1.5 million. The cooperation was originally humanitarian assistance through ECHO, but expanded to technical assistance through TACIS, the Food Security Programme, and exceptional macro financial assistance.

ECHO's 2002-2003 Global Plan for Tajikistan, with a budget of EUR 10 million, addresses three main sectors: food (46 per cent of the budget), health (34 per cent) and drinking water

(20 per cent). Tajikistan is also benefiting from EUR 5.5 million of rehabilitation assistance, following the implementation of the peace agreement. TACIS activities have been limited in Tajikistan (EUR 8 million so far) mainly due to the limited number of years TACIS has been operational in Tajikistan which was suspended indefinitely for security reasons since 1997 (now it is operational again). The European Commission has also provided macro-financial assistance in the form of a loan of EUR 60 million (disbursed in March 2001) and a total available grant amount of up to EUR 35 million which is disbursed in annual tranches. Three grant tranches, totalling EUR 21 million, have already been released while Tajikistan has reduced the outstanding debt to the community by EUR 16 million to the present EUR 44 million. The remaining two grant tranches are scheduled to be released in 2003-2004. The EU has adopted a new five-year strategy for the period 2002 to 2006 with the key objective of promoting stability and security in the region and assisting with economic development and poverty reduction. An increase in the allocation to Central Asia is foreseen in the new strategy.

France

Bilateral assistance from France for Tajikistan was EUR 0,0138 million (technical cooperation) in 2001. Figures for 2002 are not available.

Germany

The GTZ, German technical assistance agency is a long time partner of Tajikistan, having started operations in 1992. All operations are focused on providing humanitarian assistance: provision of medical equipment and drugs, SME promotion through technical assistance, rehabilitation of primary education.

Japan

Japan commenced bilateral assistance to Tajikistan in 1991. This pre-dated the latter's placement in January 1993 on Part One of the list of Official Development Assistance (ODA) recipients prepared by the OECD's Development Assistance Committee (DAC). As a part of emergency humanitarian assistance to former Soviet Union countries totalling US\$ 200 million, Japan extended aid worth US\$ 3.46 million to Tajikistan from 1993. Total disbursements of Japanese assistance reached US\$ 5.23 million at the end of 2000. This consisted of US\$ 1.27 million (24 per cent) of grant aid and US\$ 3.96 million (74 per cent) of technical assistance. Japan ranked fourth among bilateral donors in 1999. The main forms of assistance have been emergency disaster relief assistance, grass-roots grant assistance and traineeships held in Japan.

In May 2001, Japan pledged JPY 2.5 billion for post-conflict reconstruction in Tajikistan at the donors' meeting chaired by the World Bank in Tokyo. Following this pledge, in August 2001 it implemented JPY 2.0 billion of non-project type grant aid. In addition, as part of assistance to neighbouring states of Afghanistan, Japan pledged JPY 240 million in emergency assistance in October 2001 and JPY 1.0 billion of grant aid in January 2002 to Tajikistan.

Spain

Spain has financed, through its TA Fund in ADB, the project "Strengthening Corporate and Financial Governance in Tajikistan", for an amount of US\$ 480,000.

Switzerland

Co-operation between Tajikistan and Switzerland has been ongoing since the early 1990s'. It was formalised by a bilateral agreement on technical, financial and humanitarian assistance, which was concluded between the Tajik and Swiss Governments in 1999. Since then, the annual assistance provided by the State Secretariat for Economic Affairs (SECO) and Swiss Agency for Development and Co-operation (SDC) has ranged between US\$ 5 million and US\$ 13.3 million per annum (grant basis). In future, US\$ 10 million is likely to be disbursed per annum for programmes and projects in Tajikistan.

The Swiss programme, which is in many cases part of multilateral initiatives, aims at supporting Tajikistan's transition to pluralism and a market economy. The programme's emphasis is in the following domains:

- Promotion of good governance based on the rule of law;
- Improvement of the macro-economic frame-conditions as a basis for sustainable economic development;
- Development of the private sector and promotion of trade;
- Efficient and sustainable use of natural resources; provision of reliable and adequate infrastructure;
- Promotion of good quality and adequate public health care.

On the project level, projects focus on development and improvement of local governance and judicial/prison reform. Infrastructure projects target mainly the water, energy and telecom sectors. With regard to health issues, the programmes support the development of a strategy for financing health care, and locally, health sector reform and family medicine.

Macroeconomic support is granted in the form of co-financing of World Bank Structural Adjustment programmes, accompanied by Technical Assistance to improve the public debt management. Furthermore, technical assistance and know-how transfer is provided to accompany Tajikistan's accession to WTO and programmes are supported for the facilitation and promotion of regional and global trade as well as for the strengthening of the private sector.

UK

Since implementation in early 2002, DFID has provided around US\$ 5 million of humanitarian aid through different organisations (UNICEF, Christian Aid, CARE, Aga Khan, IFRC, WFP). Currently DFID is in the process of developing a country strategy paper, which will identify priorities and targets for the coming years. In the mean time several projects are under consideration: technical assistance on (i) the Poverty Alleviation Project (WB), (ii) Dushanbe Water Supply Project (WB), (iii) Living Standard Survey (WB) and (iii) MSE Development Project (EBRD). There is also a commitment to support the process of land reform in Tajikistan.

USA

The U.S. Agency for International Development (USAID) has been expanding its operations in Tajikistan by focusing in the following sectors: education, economic and legal reform, health and natural resources management. There are more than 40 projects which are financed by USAID. In 2002, U.S. Government-funded humanitarian assistance programmes continued to target drought affected groups throughout the country, although improved rains allowed such programmes to be reduced. Assistance to the National Bank of Tajikistan was

also developed with a new stable and consistent legislative base for microfinance activities, improving the banking supervision and the regulatory system that protect depositors from losses arising from frauds. In 2002, U.S. assistance was US\$ 55.9 million.

In 2003, the U.S. will continue implementation of a greatly expanded assistance programme with work in communities on conflict mitigation, efforts to strengthen primary health care including HIV/AIDs, direct support for small and medium enterprises, programmes to strengthen civil society and independent media, investments to improve management of natural resources, and a new initiative to reverse the collapse of the country's education sector. Assistance in 2003 will total US\$ 83 million.

Annex 7 : TC Programme TC Assistance

Commitment Number	Fund Approved Date	Commitment Name	Sector Name	Euro Committed	Euro Disbursed
SPA-1994-05-02	17/05/94	Agribusiness investment opportunities	Agriculture, Forestry, Fishing	150,893	150,893
ITA-1995-07-06	19/07/95	Tajikbank business - credit advice	Finance, Business	202,018	202,018
HOL-95-10-12PS	01/10/95	Dushanbe Runway emergency repairs Phase I	Transport, Storage	3,041,636	3,041,636
UKB-1995-11-15	01/11/95	Legal audit	Community/Social Services	22,653	22,653
UKB-1995-11-16	08/11/95	Dushanbe Runway emergency repairs (Phase I)	Transport, Storage	47,590	47,590
HOL-1995-12-14	21/12/95	Tajikbankbusiness - accounting and due diligence component	Finance, Business	163,361	163,361
FIN-1995-12-08	21/12/95	Overlay network	Telecommunications	47,597	47,597
JAP-1996-02-05	20/02/96	Overlay network	Telecommunications	99,151	99,151
POR-1996-02-01	20/02/96	Overlay network	Telecommunications	19,040	19,040
DEN-1996-03-01	05/03/96	Overlay network	Telecommunications	15,849	15,849
IRL-1996-03-01	11/03/96	Overlay network	Telecommunications	9,448	9,448
TAI-1996-05-05	03/05/96	Business Advisory Services	Manufacturing	60,532	60,532
JAP-1996-05-14	04/06/96	Overlay network - Phase II	Telecommunications	265,934	265,934
ECT96-96-11-11	07/11/96	Orienbank	Finance, Business	365,000	365,000
UKB-1996-11-14	12/11/96	Assistance in developing a secured transactions law	Community/Social Services	28,037	28,037
ECT97-97-05-10	27/11/96	Business Advisory Services - national association of small and medium businesses - phase II	Community/Social Services	383,875	383,875
ITA-1997-10-06	22/10/97	F. I. Initiatives Project Implementation TC Orienbank	Finance, Business	347,678	347,678
UKD-1999-04-09	30/04/99	Khujand Packaging financial diagnosis	Manufacturing	20,000	20,000
JAP-1999-11-18	11/11/99	Tajikistan: Financial Institutions Development Programme (Vnesheconombank)	Finance, Business	485,241	485,241
JAP-2000-02-02	08/02/00	Khoujand Airport Emergency Rehabilitation Restructuring	Transport, Storage	224,659	221,679
JAP-2000-02-03	08/02/00	TajikTelecom Diagnostic & Feasibility Study	Telecommunications	230,280	230,280
AUS-2000-02-02	17/02/00	Aviation Sector Restructuring Study	Transport, Storage	64,971	64,971
JAP-2000-03-06	22/03/00	Tajiktelecom: Regulatory Development Programme	Telecommunications	269,759	269,759
AUS-2000-12-03	07/12/00	Tajikistan State Air (TSA) Air Navigation Systems	Transport, Storage	66,000	66,000
JAP-2001-09-17	19/09/01	TajikTelecom Institutional Development Programme (IDP) PIU Component A	Telecommunications	410,000	204,613
JAP-2001-09-18	19/09/01	Tajik Telecom: Corporate Strategy Development Component B	Telecommunications	400,000	260,000
JAP-2001-10-22	02/10/01	Tajikistan Air Navigation System Modernisation	Transport, Storage	348,795	240,057
JAP-2002-07-05	03/07/02	TajikTelecom: Regulatory Frame Work Development Programme II	Telecommunications	300,000	57,000
ECT99-2002-10-03	29/10/02	Restructuring and Implementation of IAS Accounting	Transport, Storage	500,000	50,000
SWI-2003-02-01PS	19/02/03	Tajikistan Telecommunications Project: Procurement Advisory	Telecommunications	42,219	16,288
SWI-2003-04-02	16/04/03	Financial Audit of Eshkata Bank for Tajikistan MSEFF	Finance, Business	41,375	0
Report Total Euro Amount:				8,673,591	7,456,181
No of Commitments:				31	