

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

**STRATEGY FOR TAJIKISTAN**

As approved by the Board of Directors 26 January 2009

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## EXECUTIVE SUMMARY

Tajikistan is making gradual progress towards implementation of the principles of Article 1 of the Agreement Establishing the Bank. Transition to a multi-party democracy and political pluralism has been slow, with the last presidential election of November 2006 failing to meet international standards despite improvements from past elections. The country's advancement towards market orientation of its economy has been uneven, with little progress in key areas of structural and institutional reforms, and is affected by many remaining internal and external challenges, including fragility of the macroeconomic environment.

Progress towards building the institutions of representative democracy has been inconsistent, and the most recent national elections were criticised by international observers for lacking political competition and failing to offer voters a genuine choice. The election marked some improvement compared with the 1999 presidential election as Tajikistan now has many political parties, including opposition parties, and a network of NGOs. However, what remains a challenge is the development of genuine political pluralism with the ruling pro-presidential party continuing to dominate the political scene.

Tajikistan has enjoyed strong real GDP growth of 7.2 per cent per year on average since the previous Strategy in 2005. Nevertheless, the macroeconomic environment remains fragile. Whilst recent growth has been spurred by the service and construction sectors, the economy is still heavily reliant on agriculture, aluminium and hydropower, and it is vulnerable to unexpected disturbances as highlighted by the negative impact of unusually cold weather in early 2008.

The discovery of undisclosed public external debt (US\$ 321 million) predominantly pledged against the central bank's international reserves for the financing of the cotton sector in late 2007 raised very serious concerns over the country's international liquidity situation and eroded confidence in its overall macroeconomic policy management. Confidence can only be rebuilt by the successful implementation of the IMF programme and by ceasing to use the central bank as a conduit of policy lending by increasing its independence and preventing future conflicts of interests. To date, good performance has been achieved under the IMF programme including progress on conducting a special audit of the central bank.

Nonetheless, due to the deterioration in the external environment, there are increased risks to macroeconomic stability in the forthcoming strategy period. The maintenance of fiscal and monetary prudence and the successful completion of the current IMF programme particularly necessary to mitigate the risks.

Tajikistan remains the poorest country of operations of the EBRD, with a per capita income of US\$ 580 in 2007. Diversification of the economy based on private sector development is crucial both to alleviate poverty and to stimulate long-term economic growth. However, progress in reform has been modest and Tajikistan continues to be one of the least advanced in undertaking market reform among the transition countries. Challenges in the forthcoming strategy period are:

- to *reform the agricultural sector*, including full implementation of the “freedom to farm”, establish secondary legislation so that transferability of land including the ability of the farmers to pledge land as collateral would become effective, and resolve the existing debt burdens of the cotton farmers;
- to *enhance corporate governance and transparency of large state-owned enterprises* in industry;
- to *strengthen the supervisory capacity and independence of the financial sector regulator* and limit state interference so that financial institutions can operate on a fully commercial basis;
- to further *improve governance and regulatory framework across the infrastructure sectors* to attract private sector participation, and strengthen the overall management of the electricity sector through enhancing corporate governance and transparency of the state-owned vertically integrated electricity company, and
- to *advance the investment climate to foster small and medium-sized enterprises* by reducing excessive bureaucracy, which will also reduce the level of corruption.

### **Fostering the private sector**

The Bank will continue to focus on the private sector, the development of micro, small and medium-sized enterprises (MSMEs) in particular, as its first priority. This will include continuation of microfinance instruments, the development of small and medium-sized enterprises credit lines, and continuation of the Trade Facilitation Programme. In order to cover a wider variety of sectors and financial needs, the Bank will fully utilise the financial tools developed under the Early Transition Countries Initiative (ETCI).

The Bank will accelerate its efforts to support primary agricultural sector reforms by further utilising the recently introduced Tajik Agricultural Financing Facility, agricultural credit lines through local commercial banks, and by introducing agricultural commodity based finance. The Bank will also continue in its efforts to provide finance to agro-processing industries in order to increase value-added more broadly.

For the further growth and development of MSMEs, provision of financing itself is not sufficient. To this end, the Bank will provide knowledge and transfer skills to the MSMEs by utilising technical cooperation funding available under the ETCI in association with the funding programmes or independently under the Business Advisory Service and Turn-Around Management programmes.

### **Strengthening the financial sector**

The banking sector has grown sharply in recent years (albeit from a low base) but further growth is constrained by the small capital base and limited product availability. The Bank’s second priority therefore, is to strengthen the financial sector by increasing the sector’s capitalisation and further enhance its capacity for reputable financial intermediation. The Bank will also broaden its lending products and will explore the possibility of extending a Medium-Sized Co-financing Facility to suitable local banks.

The Bank will consider the introduction of local currency funding instruments and foreign exchange insurance mechanisms to mitigate risks of the lenders and borrowers. Opportunities in the leasing sector will be explored to meet the demand particularly in the agricultural sector, arising from the creation of smaller and more efficient farms.

These activities will be implemented with extensive technical cooperation (TC) funding to partner banks and financial institutions. The Bank will also provide TC towards the strengthening of the financial sector as a whole and its supervision, including support to the Credit Bureau, promotion of savings products, and improvement of the anti-money laundering legislation.

### **Support for critical infrastructure**

The investment needs in infrastructure are significant, and their improvement should enhance the living standards of the population and facilitate a smooth conduct of business activities. The Bank's third priority therefore is to facilitate commercialisation in infrastructure, while concentrating on the basic needs of the population and affordability. The Bank has decided, at this stage, not to exercise its right (i.e., non-disbursement or call for early repayment) against the breach of negative pledge clause on the existing sovereign projects, considering the country's situation of external balance and strong needs for infrastructure development. The Bank will closely monitor the Government's commitment to the formulation and implementation of the IMF programme and will also gather periodic reports from the Government to assess the situation.

Based on the successful implementation of the Water Supply and the Road Maintenance Facility projects and considering the concentration of other key donors' activities in areas of large infrastructure projects, the Bank will focus its efforts on specific niches. These niches include municipal infrastructure as well as small maintenance facilities of transport and energy infrastructure. These projects will be in the form of small loans with a high proportion of co-financing grants with an institutional arrangement, such as a transparent tariff policy, efficient corporate management structure and accurate financial reporting and accounting. The Bank will need to mobilise grant co-financing from bilateral donors in order to meet IMF concessionality requirements and to increase affordability of the projects.

### **Policy Dialogue**

The Bank will pay particular attention to its dialogue with the authorities to improve the investment climate as well as specific targeted sector reforms in the country. The Bank will continue to support the regular consultative process with the participation of the private sector, the authorities and the donor community through the Investors' Council.

The Bank also supports the efforts of the IMF in making the central bank more transparent and independent so that its focus should be on price stability and financial sector regulation and not on financing particular sectors of the economy. The Bank will also promote policy dialogue and technical assistance, which contributes to the

improvement of corporate governance, including the introduction of International Financial Reporting Standards at a country level, training and modernisation of regulatory agencies, anti-monopoly and anti-corruption bodies.

The Bank will coordinate closely with other IFIs and the business community and participate in the development of a Joint Country Support Strategy, which will serve as a roadmap for further reform in the country.

The Bank will continue to ensure that all EBRD operations in Tajikistan are consistent with the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans.

## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
AKDN	Aga Khan Development Network
AM	Annual Meeting
AML	Anti-money laundering
ATC	Assessment of Transition Challenges
BAS	Business Advisory Service
BEEPS	Business Environment and Enterprise Performance Survey
BCI	Better Cotton Initiative
BOMCA	Border Management Programme for Central Asia
CACO	Central Asian Cooperation Organisation
CAD	Civil Aviation Department
CADAP	Drug Action Programme in Central Asia
CAREC	Central Asia Regional Economic Cooperation
CARSSF	Central Asia Risk Sharing Special Fund
CDM	Clean Development Mechanism
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CL	Credit Line
CPAP	Country Programme Action Plan
CPI	Consumer Price Index
CPS	Country Partnership Strategy
DCI	Development Cooperation Instrument
DIF	Direct Investment Facility
DLF	Direct Lending Facility
EAEC	Euro-Asian Economic Community
EAP	Environmental Action Plans
ECO	Economic Cooperation Organisation
EIA	Environmental Impact Assessment
EIB	Export Import Bank
ETCI	Early Transition Countries Initiative
EU	European Union
EUR	Euro
EURASEC	Eurasian Economic Community
FAO	Food & Agriculture Organisation
FDI	Foreign Direct Investment
FI	Financial Institutions
GEF	Global Environment Facility
GDP	Gross Domestic Product
GoT	Government of Tajikistan
GSM	Global System for Mobile Communications
ha.	Hectare
HPP	Hydropower plants
IAS	International Accounting Standard
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Financing Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
IOSCO	Internal Organisation of Securities Commissions
IPO	Initial Public Offering
IRP	Islamic Renaissance Party
IsDB	Islamic Development Bank
JCSS	Joint Country Support Strategy
KfW	Kreditanstalt für Wiederaufbau

LIS	Legal Indicator Survey
LTT	Legal Transition Team
MCFE	Medium Size Co-Financing Facility
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MF	Micro finance
MSE	Micro and Small Enterprises
MSME	Medium sized micro enterprise
NBMFI	Non-bank micro finance institutions
NBT	National Bank of Tajikistan
NDS	National Development Strategy
NEAP	The National Environmental Action Plan
NGO	Non-Governmental Organisation
ODIHR	Office for Democratic Institutions and Human Rights
OSCE	Organisation for Security and Cooperation in Europe
OTC	Over the Counter
PB	Participating bank
PCA	Partnership & Cooperation Agreement
PDP	People's Democratic Party
PCF	Prototype Carbon Fund
PEP	Private Enterprise Partnership
PIP	Public Investment Programme
PIU	Project Implementation Unit
PPP	Purchasing power parity
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
RR	Resident Representative
SCO	Shanghai Cooperation Organization
SIDA	Swedish International Cooperation Agency
SME	Small and Medium Enterprise
SMP	Staff Monitored Programme
SSSRICI	State Service on Supervision and Regulation in Communication & Information
TACIS	Technical Assistance for Commonwealth of Independent States
TAFF	Tajik Agricultural Financing Facility
TAM	Turn Around Management
TC	Technical Cooperation
TCSE	Tajik Central Stock Exchange
TFP	Trade Facilitation Programme
TFSE	Tajik Financial Sector Framework
TLSS	Tajikistan Living Standards Survey
TMAC	Tajik Mine Action Centre
TMSEF	Tajik Micro and Small Enterprise Finance
TRACECA	Transport Corridor of Europe-Caucasus-Asia
TSA	Tajik State Air Company
TSOB	Tajik Sodiro Bank
UNCITRAL	UN Commission on International Trade Law
UNDAF	United Nations Development Framework
UNEP	United Nations Environment Programme
UNESCO	UN Educational, Scientific and Cultural Organisation
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund
US\$	US Dollar
USAID	United States Agency for International Development
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation



# COUNTRY STRATEGY

## 1. The Bank's Portfolio

### 1.1 Overview of the Bank's activities to date

Tajikistan became a member of the EBRD in 1992. Until 1996, the Bank's operations were limited to TCs. Since then, the Bank has approved 43 investment projects involving loans, equity and guarantees. The signed commitments currently stand at EUR 88 million, including EUR 8.4 million of Trade Facilitation Programmes (TFP) guarantees. Approximately EUR 50 million has been disbursed.

During the previous strategy period, the Bank significantly increased its activities signing 23 projects (see Table 1). The majority of the projects were in the financial sector - loans to private banks and non-banking micro finance institutions (NBMFI), TFPs as well as equity investment. The Bank also signed four infrastructure projects in the transport and municipal sectors, one direct investment facility (equity) and six direct lending facilities to private small, medium-sized enterprises (SMEs) in the agribusiness, retail and telecom sectors. This was supplemented with the implementation of previously signed projects in the financial, transport and telecommunications sectors.

The Resident Office has been strengthened over the strategy period and has been a key element to generate new projects, maintain a high quality dialogue with the authorities and monitor closely the increasing number of projects.

**Table 1. Tajikistan: Overview of the Bank's Activities to Date<sup>1</sup>**

By Sector						NET PORTFOLIO			
Sector Name	COMMITMENTS					NET PORTFOLIO			
	No of project	Total project cost	EBRD Funding	% of total EBRD	Disbursed	Portfolio	% of Portfolio	Undrawn commitment	Operating assets
<b>Financial Institutions</b>	26	61	54	59%	27	49	65%	28	21
<b>Infrastructure Total</b>	7	30	15	17%	7	11	15%	8	3
<i>MEI</i>	3	14	6	7%	1	6	8%	5	1
<i>Transport</i>	4	16	9	10%	6	5	7%	3	2
<b>Corporate Total</b>	9	45	22	24%	19	15	20%	5	11
<i>Agribusiness</i>	7	33	13	14%	11	6	8%	2	4
<i>Telecoms Informatics &amp; Media</i>	2	12	9	10%	8	9	12%	3	7
<b>COUNTRY TOTAL</b>	42	136	91	100%	53	75	100%	41	35

<sup>1</sup> As at end December 2008

## 1.2 Implementation of the previous Country Strategy

The Bank's previous strategy for Tajikistan included the following strategic priorities:

- financing the private sector, focusing on SMEs and micro businesses;
- strengthening the financial sector, through credit lines to local banks and NBMFIs, technical assistance and where possible, additional capital injection;
- supporting critical infrastructure projects with a clear focus on municipal infrastructure and commercially oriented projects, in close collaboration with other donors and IFIs;
- maintaining policy dialogue, to improve private sector development, governance and the investment climate.

The strong increase of activity in the country has allowed the Bank to make good progress in implementing its Strategy, in particular in private and financial sectors.

### *Private Sector Development*

During the strategy period, the Bank has signed six Direct Lending Facility (DLF) projects and one Direct Investment Facility (DIF) project, mostly in the agribusiness. The majority of these projects represent landmark transactions and fit well with the Tajik business environment where the local banks are unable to meet financial needs of the SMEs (long tenors, reasonable collateral).

The Bank has also been able to reach smaller clients by using two types of financial intermediaries: loans to local banks under the Tajik Micro and Small Enterprise Finance Facility (TMSEF), and loans to non-bank micro finance institutions (NBMFIs) under the ETC NBMFI Framework. Through TMSEF, approximately 35,000 clients have had access to financing of more than US\$ 136 million in Dushanbe and in more than 20 other towns and have subsequently been able to expand their businesses. Loans to NBMFIs, which focus on the smallest and poorest of borrowers in the country have enabled the Bank to have a positive impact on poverty alleviation and job creation, financing thousands of traders and farmers, more than half of which are women. Through the Bank's TFP programme, 514 individual transactions for a total amount of US\$ 70 million have facilitated cross-border and international trade.

In addition, the Bank has introduced the Tajik Agriculture Financing Framework (TAFF), a framework dedicated to agricultural financing with a view to supporting the agricultural sector reforms, as outlined in the Presidential Decree 1.1.1 (see Box 1). TAFF comprises two main components, finance and technical assistance. The finance is in the form of revolving credit lines, extended to three local banks for on-lending to small, private farmers. The credit lines were leveraged through syndications and also include a non-recourse portion, whereby the underlying risk on the sub-borrower is shared with the EBRD. The significant technical cooperation funds provide on-going assistance to local banks to train loan officers in the specificities of lending to the agricultural sector and particularly, to groups of farmers. Agronomists also receive training and provide advice to farmers, as well as assisting in monitoring loans by checking on the quality of the crops. Additional TC was also provided to educate

trainers, who would then be responsible for providing basic financial education to farmers. Many of the farmers had never borrowed before and this additional assistance will help them in developing business plans and understanding essential principles of better crop production, with a view to improving social and environmental standards.

The private sector has been supported by technical cooperation through the Bank's TurnAround Management (TAM) and Business Advisory Services (BAS) Programmes. TAM has been operating in Tajikistan since 2005 and has provided 12 projects, utilizing EUR 1 million in funding from the EBRD Early Transition Country Fund, Japan, Canada, EU and Luxembourg. TAM has served the private sector to strengthen viable small and medium enterprises with critical restructuring, management "know-how" and to assist them in accessing finance. Since its opening in April 2007, the BAS Programme has undertaken over 30 projects, including accounting improvements, branding and market studies. BAS aims to assist MSMEs and to build a sustainable local consultancy sector to serve and strengthen the MSME community.

### ***Strengthening the Financial Sector***

The TMSEF, TAFF and TFP facilities have become important sources of finance for the banking system and the three programmes include strong capacity-building technical cooperation, with a significant component for the training of local bankers, thus ensuring long-term sustainability and high standard operations. The TMSEF Programme has been completed successfully and the four participating banks (PBs) have graduated, which means that the Bank and the consultant consider that they are capable of continuing the Programme independently. It is too early to assess the TAFF but it is already considered as a model for agriculture financing in the country. TAFF not only addresses the acute problem of agriculture financing, following the bankruptcy of the former non-transparent cotton pre-financing system but it also supports diversification and increases farmers' skills by providing intensive technical co-operation and transfer of expertise. The banks are also able to build a sustainable agriculture portfolio. TFP has greatly increased the ability of Tajik banks to assess trade financing risks, and has supported the import of new technology and raw materials as well as export of processed agricultural products, which is a driver for hard currency earnings.

The Bank has continued to improve the levels of corporate governance and business standards in the participating banks through technical assistance as well as through direct equity participation. The Bank has strengthened the capital base of Eshkata Bank by participating in the capital increase in 2005 and has also succeeded in attracting a foreign investor, Shore Capital Bank, a US-based bank, specialising in the SME segment.

Over the last 2 years, the Bank has worked closely with the PBs to develop SME credit lines, which should be introduced by 2009. These PBs require significant training of the loan officers in order to build up a sound portfolio. The Bank's efforts to promote a more favourable environment to leasing and insurance businesses have led to the introduction of a new regulatory framework in 2008. The Medium Size Co-Financing Facility (MCFE) has not been implemented as yet, as the potential PBs

have not been able to present a credible portfolio of sub-projects.

### ***Support for Critical Infrastructure***

In the municipal infrastructure sector, the Khujand Water Supply Improvement Project (Phase I) has been implemented, which corresponds to the main priorities of the Poverty Reduction Strategy Paper, by providing access to safe drinking water in the Khujand region. The project also introduced tariff increases and provided community trainings for consumers on the benefits of rational use of water resources. The second phase of the project has been signed, expanding the project's coverage to the rest of the city. A significant grant from the Swiss Government was critical to meet the affordability and IMF concessionality requirements.

A third municipal project, Dushanbe Solid Waste was signed in July 2008, with the support of the Netherlands via the ETC Fund, which provided a capital grant to the project. This project aims at creating a new commercially operated municipal entity, which will address the serious issue of waste management in the city of Dushanbe.

In order to strengthen road maintenance, the Bank has signed a Road Maintenance Rehabilitation project in 2007 with a US\$ 4 million capital grant, from the Netherlands via the ETC Fund and the project is under implementation. This project will enable the Ministry of Transport to create a dedicated entity, responsible for road maintenance acting on quasi-commercial grounds.

### ***Policy Dialogue***

On the regulatory and supervisory side, the Bank has provided active policy support to the central bank, including technical cooperation in the areas of micro finance supervision, anti-money laundering, deposit insurance, deposit market review and Credit Bureau activities.

The Bank has also been instrumental in the drafting and adoption of banking laws introducing tax incentives, improving the treatment of subordinated debt and provisioning by the authorities. The Bank has been a strong advocate for the development of a comprehensive regulatory framework for microfinance.

The Bank has supported the development of two donor coordination bodies, the Principal Donors (heads of IFIs and Ambassadors) and the Donor Co-ordination Council (development agencies). Through these bodies, the Bank has been a strong promoter of private sector development and good governance. The Bank is also taking an active role in the development of a Joint Country Strategy with other donors, by leading the discussions on investment climate issues.

The Bank has facilitated the creation of an Investors' Council, aimed at establishing a platform for direct dialogue between the decision-makers (President, Prime Minister and key Ministers), local and foreign business communities and donors. The first meeting was held in July 2008, chaired by President.

## **1.3 Transition Impact & Lessons Learned**

### **1.3.1 Influence on the Transition Process**

#### ***Private Sector Development***

The Bank's influence on private sector development has dramatically increased since the introduction of micro-finance schemes in 2003. The TMSEF has supported the growth of MSMEs by easing access to financing and therefore, increasing competition in all the respective sectors. The number of borrowers has grown rapidly, as more branches of financial intermediaries have been opened in secondary towns in the country, providing access, at a close range, to the rural communities. Informal lenders, who were applying extremely high interest rates, have been forced out of the market and MSMEs now have access to transparently and competitively priced loans.

Projects under the ETCI, particularly under the DLF, have had a significant impact on the transparency of companies by the introduction of regular financial reporting and audits. They have also improved business standards in the areas of environment and health and safety. The Bank has also supported competition through quality improvement, especially in agribusiness projects. Tajik companies have shown willingness to comply with the EBRD's high standards of integrity, transparency and reporting mechanisms.

The Bank has also supported facilitating entrepreneurship, expertise and skill transfer to local businesses through the BAS and TAM Programmes. In particular, BAS has enabled local companies to address specific issues such as financial reporting, accounting, branding and marketing. The TAM projects have primarily supported companies to improve energy efficiency.

#### ***Strengthening the Financial Sector***

The Bank has had a significant transition impact on the Tajik financial sector during the previous strategy period. The TMSEF, TFP and TAFF facilities have been supported by TCs to assist banks in developing key skills required for programme specific areas. The development of the TFP has increased the correspondent banking relations in the international banking community and foreign banks have now introduced direct correspondence with Tajik commercial banks. It is also important to note that TFP has facilitated the widespread adoption of documentary letter of credits by the commercial banks, as opposed to cash transactions for trade.

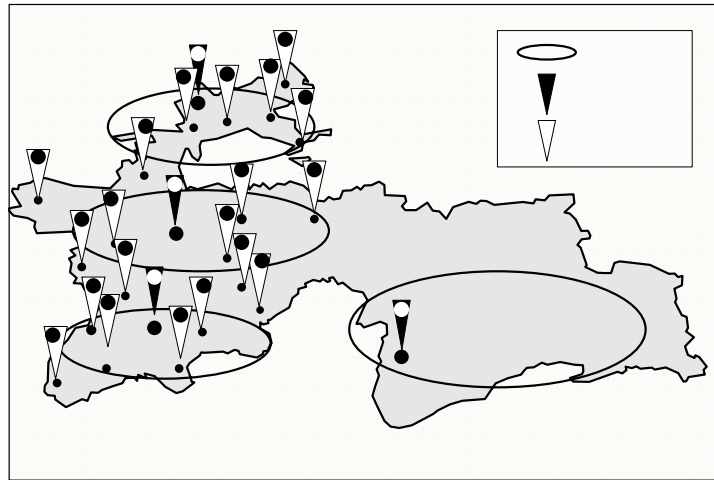
The transition impact of the TMSEF facilities has been significant by building up skills at branch levels, which have enabled the banks to successfully compete on a commercial basis with NBMFIs, some of which are still heavily supported by grants. After almost five years under the programme, four local banks graduated in April 2008 from technical assistance for training loan officers in high quality credit analysis, based on cash flow projections which accompanied TMSEF. Local banks continue to lend using the TMSEF technology making the programme a reference point of standard for the sector. A similar impact of the TAFF is expected i.e. that local banks will acquire necessary skills for sustainable agricultural lending.

In parallel, direct support to NBMFIs has introduced competition in the microfinance sector, dramatically improving productivity per loan officer, introducing new group lending methods and new collateral assessments. It has also enabled thousands of people to regain trust in the financial sector and has helped them to formalise their financials through business planning, cash flow management and maintenance of financial records.

The participation of the Bank in Eshkhat Bank's equity has proved to be a key element in transforming this relatively small bank into a major player in the market, introducing new financing and marketing techniques and improving corporate governance through the establishment of a well-functioning Board of Directors.

The Bank has worked closely with other IFIs and the National Bank of Tajikistan (NBT) to develop more favourable regulatory framework for the development of leasing and insurance businesses. The changes introduced by the Government in mid-2008 have created a basis for the development of this business, demand of which has dramatically increased the last two years.

**Tajikistan Micro and Small Enterprise Finance Facility  
Location of 60 Active MSE Branches as at September 2008**



***Support for Critical Infrastructure***

The Bank has increased its impact on infrastructure sector dramatically during the strategy period mainly due to its implementation of innovative small infrastructure projects. The Khujand Water Management project, the first municipal infrastructure project the country, was designed to implement: (i) tariff reform by rationalising the system of subsidies to various groups of customers and reaching cost-recovery; (ii) commercialisation by splitting roles and functions of the utility company and the city through the signing of a service contract; (iii) organisation of payments by public entities; (iv) transfer of skills; and (v) basic improvements in the management capacity of the utility. The physical implementation of the project is on schedule, and the project is progressively achieving these transition impact objectives. Collection rates have substantially increased and the company is gradually implementing the IFRS accounting system.

Although it is too early to assess, the transition impact objectives of the Road Maintenance Rehabilitation and the Dushanbe Solid Waste projects are to facilitate commercialisation of the operations of state and municipal services by creating dedicated entities with a clear and transparent budget structure, which could lead to private sector participation.

Since the end of the 1990s, the Bank has supported the three main sub-sectors in aviation, namely air navigation, airports and the air carriers. The objective was to rehabilitate and modernise the sector, establish its financial viability, and initiate financial independence of each sub-sector. The Bank has been partially successful, by contributing to the commercial viability of Khujand airport, by modernising civil navigation system and by creating more transparent relationships between air navigation and air carriers, thus contributing to the basis for the unbundling of Tajik State Air (TSA). By supporting air navigation and a fair billing system, the Bank has helped to increase competition between airlines in Tajikistan.

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Shaartuz

## *Policy Dialogue*

The Bank has actively pursued ways in which to improve the investment climate and to develop the private sector through policy dialogue with the Tajik Government in the context of achieving transition impact objectives of the Bank's projects. The Bank has facilitated the implementation of laws and regulations in agriculture, microfinance and licensing and has improved procurement practices by raising specific issues related to the Bank's projects. The Bank has also raised concerns on behalf of a nascent private sector on issues relating to government interference and corruption.

In addition to its participation in various donor coordination bodies, the Bank has supported the establishment of the Investors' Council, which facilitates a trilateral dialogue among key government decision makers, businesses and donor communities. It is anticipated that the establishment of the Investors' Council will directly improve the investment climate by setting concrete targets for each line ministry, introducing necessary regulatory changes and most importantly, their implementation. The first meeting, which was held in July 2008, has generated great interest and raised general awareness in the country on investment climate issues.

### **1.3.2 Financial Performance of Existing Portfolio**

The Bank portfolio is robust and has reached EUR 60 million at the end of the strategy period. Currently, out of 36 active projects, 15 are at the disbursement stage, 14 are repaying, and two are in corporate recovery (Khujand Packaging, and M&P). The majority of the projects signed during the strategy period have started disbursing or have been fully disbursed. A small equity investment in Obi Zulol, a well-known brand name in the country, has been successfully sold in May 2007 to a local company despite difficulties in yielding the expected financial returns.

In the micro/SME facilities, market demand is such that all available funding is disbursed quickly to the final borrowers with an extremely low rate of non-recovery. TFP has also proven to be very profitable, as Tajik banks have demonstrated a strong demand and intensive utilisation of limits, which has made Tajikistan rank third in the number of TFP transactions within the Bank, after Russia and Kazakhstan.

### **1.3.3 Mobilisation of Co-Financing**

The capacity of the Bank to mobilise donor grant co-financing in order to meet IMF requirements and ease affordability constraints is vital for the selection of small public sector projects with a high potential of transition impact. This is the case for municipal and road infrastructure projects, supported by grants from Switzerland (Khujand Water Supply I – EUR 2.6 million, Khujand Water Supply II – EUR 4.8 million), the Netherlands (Dushanbe Solid Waste – EUR 3.7 million, Road Maintenance project – EUR 3.0 million) and Sweden (Southern Cities Water Supply – EUR 0.8 million).

Commercial co-financing has remained weak, reflecting the low levels of FDIs and the sharp decline of global commercial co-financing markets since the summer of 2007, but has made good progress recently, in particular in the banking sector. The



Bank has attracted a US bank in providing a capital increase of US\$ 0.5 million to a Tajik bank, which should encourage further involvement of foreign banks. TAFF achieved the first commercial syndication in the country and has proved to be attractive, with two out of three sub-projects being syndicated (for a total amount of US\$ 5.5 million).

### **1.3.4 Lessons Learned**

#### ***Private Sector***

In general, the Bank's private sector projects during the strategy period performed well, with some exceptions as detailed below, which provide the Bank with important lessons.

The DLF project M & P (then the biggest supermarket chain in the country), signed in 2006, was considered to be an excellent project to create new standards for the retail market in the country. The company has suffered a dramatic decrease in its business activities following the arrest of the CEO (as well as the main shareholder) in August 2007, on allegations of bribery and tax evasion. Following an investigation by law-enforcement agencies, the case was brought to court. The CEO was found guilty and sentenced in April 2008 to 8.5 years' imprisonment and most of his private assets were ordered to be confiscated. This was an unexpected sentence, given that the Prosecutor General requested only 1-4 years imprisonment.

This well publicized case illustrates some of the difficulties in the country's business environment. This project also provides the Bank with key lessons learned including that: (i) the Bank should conduct frequent and active policy dialogue with the relevant authorities to improve the investment climate and to try and avoid similar incidents; and (ii) the Bank also should quickly mobilise all the relevant teams and resources, including legal, credit and corporate recovery, to comprehensively address these types of events in the country.

Geha food, a green field tomato processing plant, with high quality equipment and foreign investment, was due to become a model for the food processing and marketing sector. The project was supported by the IFC and several key donors. However, the project had to be cancelled as conditions for disbursement were not met. The lessons learned from this project are that: (i) the Bank should assess the risks associated with innovative green field projects in agribusiness sector in very broader context, including the speed of agricultural sector reform, behaviour of farmers in the transition period, and corporate strategy and ability to address multi-faceted problem solving; and (ii) the Bank should support companies' efforts to mitigate high risks associated with green field agribusiness projects in Tajikistan by, for instance, securing long-term supply contracts with farmers.

Based on the difficulties experienced in the two agribusiness projects, which were approved at the end of the 1990s (mineral water and juice factories), the Bank's subsequent ETC products combine in-depth due diligence, market assessment, TCs, and integrity. Post-signing technical support should nevertheless be considered more systematically to improve accounting, reporting and marketing capabilities of the client. To that end, ways to improve synergy between banking and the BAS

Programme must be further explored and established.

### ***Financial Sector***

To address the issue of a lack of or difficulties in accessing financing by a large part of the population and specific sectors, the Bank introduced innovative schemes for the financial sector. TMSEF aims at scaling down loans and reaching out to clients who are new to the banking sector. Lessons learned in relation to TMSEF are multiple. First, the Bank should involve sector specialists in parallel with trainers of credit officers. They could be experts in small trade finance, agronomists, or bakery business specialists. BAS could be utilised to provide such local expertise to the partner banks. Secondly, it is crucial to establish certain mechanism of information exchange on their borrowers among local banks, to avoid multiple-indebtedness by their sub-borrowers and to maintain the soundness of micro financing.

It has been very useful to introduce concrete, detailed and rather conservative disbursement criteria to strengthen financial discipline of partner banks and sub-borrowers. For TMSEF and TAFF, specific sector covenants have been introduced while designing the project with partner banks (PBs). Covenants, such as maximum cotton exposure, maximum sector exposure or related parties' exposure have already been instrumental in maintaining best practices in banking, while protecting PBs from non-commercially driven interference. Nevertheless, in order to avoid any misunderstanding as to the pace of disbursements, terms of covenants must be discussed prior to signing. An indicative disbursement timetable and target schedule could also be attached to the loan agreement.

The Bank and PBs have faced serious delays of disbursement mainly due to the lack of or delays in PBs' audit reports. This was caused by the absence of large international audit companies in the country and by the concentration of their activities in the other markets in the former Soviet Union, such as Russia, Kazakhstan and even Kyrgyzstan. To address this issue, the Bank needs to be innovative and flexible on audit issues, and has accepted on an exceptional basis second-tier audit companies who are familiar with the local market. This will introduce competition and increase the quality of the audit, which is a key supporting material for the Bank's due diligence.

### ***Infrastructure***

The Bank's first municipal infrastructure, Khujand Water Supply project, provides us with precious lesson learned as follows: (1) any tariff increase in the water sector must be accompanied with community based discussions, and the Bank must support the consultant in its dialogue with the end-customers by participating in seminars about the cost and the rational use of water, the description of the project, and the results to be expected; (2) twining arrangements involving more advanced and experienced water supply companies (from Lithuania for the Khujand water supply) proved critical for the successful implementation of key covenants of the projects and knowledge sharing, and (3) commercially viable operation of municipal companies can be achieved even in a difficult environment as long as the Bank works with proper counterparts who are willing to change its operational and managerial manners, and meet the Bank's corporate governance requirements.

The Tajik State Air (TSA) Fleet Modernisation Project, signed in July 2005, in order to assist TSA in its preparatory works for the leasing of western-built, fuel efficient aircrafts, has been cancelled in October 2007. Despite a strong initial commitment from the Government and TSA, the high turnover of the TSA management, a dramatic change in the aircraft leasing market and the prospect of unbundling of TSA made this project less attractive for the client. Although cancelled, the TSA Air Fleet Modernisation project has provided the Bank with precious lessons learned: (i) non-sovereign projects involving state-owned companies need strong support from the authorities and management; (ii) the management of such companies should be independent, professional and commercially-oriented; (iii) appropriate market analysis needs to be undertaken, and; (iv) it is necessary to have strong coordination and cooperation with other IFIs in the related areas of restructuring or privatisation. The Bank has maintained policy dialogue with the authorities and the TSA to support the on-going unbundling process.

## **1.4 Portfolio Ratio**

Private sector projects clearly dominated the Bank's portfolio during the previous strategy period. Out of 36 active projects, 29 have been in the private sector, mainly in the financial sector. Out of a commitment of EUR 75.1 million, only EUR 20.7 million was sovereign guaranteed. The portfolio ratio progressed to 76:24 in favour of the private sector, exceeding the 60 per cent target. This trend corresponds to the priorities of the Bank's Strategy and the framework of the ETC Initiative. This is also a favourable trend considering the growing public sector debt of the country.

## **2. Operational Environment**

### **2.1 General Reform Environment**

#### **2.1.1 Political Developments**

Tajikistan is a presidential republic with a strong executive branch of power, not sufficiently balanced by legislature or judiciary. On 6 November 2006, President Imomali Rahmon won another seven years in office, gaining 79 per cent of the vote. The amended Constitution allows President Rahmon to contest another election at the end of his current term in 2013. Although the last presidential election lacked genuine choice, the election was conducted in a calm and peaceful atmosphere, without incidents of violence, which is particularly welcome considering the country's history of civil war and post-conflict rehabilitation. The media remains mostly controlled by the authorities but there are some independent media outlets.

Externally, Tajikistan pursues a "multi-vectoral" policy striving to maintain a balance in relations with all its neighbours. The proximity to Afghanistan proves to be challenging due to the significant drug transit issues. Traditionally, strong relations with Russia have continued over the last few years. A new factor is an increased presence of China in a number of infrastructure projects in Tajikistan. A member of the CIS, Tajikistan is keen to maintain its participation in regional organisations,

including the Shanghai Cooperation Organisation, comprising China, Russia, Kazakhstan, Uzbekistan, Tajikistan and the Kyrgyz Republic.

### **2.1.2 Economic Environment**

Tajikistan has enjoyed strong real GDP growth of 7.2 per cent per annum on average since the previous strategy in 2005. Nevertheless, the macroeconomic environment remains fragile. Whilst recent growth has been spurred by the service and construction sectors, the economy is still heavily reliant on agriculture, aluminium and hydropower, and it is vulnerable to unexpected disturbances, as highlighted by the negative impact of the unusually cold weather experienced in early 2008. Inflation which peaked at 27 per cent year-on-year in August has since eased on account of softening of international commodity prices.

The discovery in late 2007 of undisclosed public external debt predominantly pledged against the central bank's international reserves for the financing of the cotton sector has raised concerns over the country's international liquidity situation and has undermined confidence in its overall macroeconomic policy management.

*Real economy:* Growth has accelerated from 6.7 per cent in 2005 to 7.0 and 7.8 per cent in 2006 and 2007, respectively driven by consumption demand, supported by continuing strong remittance flows as well as a surge in construction activities, mainly related to large infrastructure projects in road and electricity sectors. The economy was severely affected by the unusually cold winter in early 2008, which has led to severe power shortages and disruption of food supplies. The estimated damage to the economy is around 7 per cent of the GDP although the economy remained robust through the rest of the year underpinned by strong services and construction activities, and real growth is likely to have marginally slowed down to 7.0 per cent in 2008. CPI-inflation reached 27 per cent year-on-year in August 2008, primarily due to an increase in imported food prices but has since eased to 14 per cent in November as international commodity prices weakened.

*Economic policies:* Confidence in macroeconomic policy management has been severely undermined when the authorities have admitted, in late 2007, to the existence of the undisclosed public external debt, which was predominantly pledged against international reserves of the central bank associated with cotton sector pre-financing. The authorities have recognised that they have misreported a number of quantitative macroeconomic benchmarks pertaining to central bank operations when they were under the programme of the IMF between January 2004 and February 2006 and based on these numbers, benefited from debt relief by the IMF. In accordance with the IMF's rules, the country was mandated to repay around US\$ 47 million loan outstanding in six monthly instalments, starting no later than September 2008. In an attempt to rebuild credibility, the authorities have entered a new non-funded programme (staff monitored programme - (SMP)) with the IMF in June 2008 for a six-month period. The key reform milestones are: (i) implementation of a special audit of the central bank (the NBT); (ii) amendment to the laws related to the central bank to increase independence and prevent future conflict of interests between the central bank (the regulator) and the financial sector (regulated); (iii) financial audit of Talco and Barki Tojik; and (iv) achievement of several quantitative macroeconomic benchmarks that will facilitate the build-up of international reserves. According to the first assessment by the IMF of Tajikistan's performance under the SMP as of end-

September, the country has made a good progress in meeting the key milestones including the completion of an on-site field work related to the special audit of NBT.<sup>2</sup> Quantitative end-September targets were broadly achieved with the accumulation of international reserves and fiscal surplus (excluding the externally financed public investment programmes (PIPs)) exceeding the respective target levels.

Monetary policy was relatively slack in recent years, partly reflecting NBT's provision of directed lending to the agricultural sector but also due to the reduction of NBT issuance of short-term securities. Broad money increased by 63 per cent and 79 per cent in nominal terms in 2006 and 2007, respectively against the background of accelerating inflation although the strong money supply growth also reflected an increasing demand for money. The exchange rate remained relatively stable against the US Dollar as large trade imbalance has been off-set by remittances inflows.

Fiscal balance, excluding the externally financed PIPs and debt forgiveness provided by the IMF in 2006, has been in surplus since 2005. Including PIPs and debt forgiveness, general government balance has improved from a deficit of 2.9 per cent of GDP in 2005 to 1.7 per cent surplus in 2006 and then has deteriorated to a 6.2 per cent deficit in 2007. In 2008, fiscal deficit is likely to have widened further to 7.6 per cent of GDP, reflecting the on-going externally financed PIPs in the road and electricity sectors, as well as increased expenditure on wages and salaries of civil servants, and social expenditures such as pensions and targeted subsidies for poor households.

*External sector:* The current account deficit widened sharply to 11.2 per cent of GDP in 2007 from 2.8 per cent in 2006, primarily reflecting increased imports of goods and services associated with PIPs funded by the Export-Import Bank of China. The development in trade balance was similar with trade deficit widening to 45 per cent in 2007 from 35 per cent in 2006. A large trade deficit was partly off-set by remittances inflows (net) that reached 38 per cent of GDP in 2007. Despite buoyant international aluminium prices - one of the country's key exports in recent years and firming up of cotton prices, the country's terms of trade continued to decline as the country only receives processing fees, which are fixed, irrespective of prices, whereas the prices of the country's key import items such as gas and wheat have increased sharply. In 2008, trade deficit is expected to have widened further to 53 per cent of GDP exacerbated by the harsh winter in the first quarter. Nonetheless, current account deficit is expected to have narrowed to 9.7 per cent of GDP reflecting strong remittances inflows (net) that reached US\$ 2.3 billion (48 per cent of GDP).

After debt restructuring and forgiveness granted by Russia and by other bilateral creditors and the IMF, the country's total external debt has declined from 84 per cent of GDP in 2003 to 42 per cent of GDP in 2006.<sup>3</sup> The debt ratio continued to decline to 41 per cent of GDP in 2007 despite the partial disbursement of US\$ 604 million loans from China to finance projects in the infrastructure and energy sectors. Taking

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<sup>2</sup> International Monetary Fund, *First Assessment Under the 2008 Staff-Monitored Programme*, December 2008.

<sup>3</sup> Russia has provided debt-for-equity swap of around US\$ 270 million in 2004, Pakistan has cancelled US\$ 13 million debt in 2004, the IMF has provided debt relief of US\$ 99 million in 2006, Iran postponed debt service payment of its US\$ 25 million loan by 2 years in 2006 and Uzbekistan postponed US\$ 8 million debt service payment in 2006 and 2007 to 2008.

into account of an additional US\$200 million loan from China signed in September 2008 for infrastructure and under the assumption that other externally funded infrastructure projects are undertaken at a measured pace in the medium-term, external debt to GDP ratio is likely to remain around 40 per cent. However, the ratio is vulnerable to sharp currency devaluation in real terms caused by external shocks.

*Outlook and risks:* In the short-term, the deteriorating external environment is likely to dent GDP growth to around 5 per cent on account of stagnating remittances inflows and sluggish exports. In the medium-term, growth prospects hinge on the reform progress in the agricultural sector which account for 23 per cent of GDP as well as reforms of state-owned companies such as Talco (aluminium smelter company) and Barki Tojik (integrated power company), which continue to dominate the industrial sector.<sup>4</sup>

The greatest macroeconomic risk in the short to medium-term is its precarious external liquidity position. International reserves of the central bank of US\$ 297 million at end-2007 were exhausted by pledges and guarantees made (US\$ 241 million and US\$ 77 million, respectively) by the NBT against loans provided by foreign commercial banks for cotton pre-financing. In 2008, despite surge in trade deficits, international reserves (excluding those pledged against loans) have increased from US\$ 56 million (7.1 per cent of broad money) at end-2007 to US\$ 167 million (20.9 per cent of broad money) by the end-September 2008 supported by robust remittances inflows. Nonetheless these inflows may decline as Russian construction sector where these migrants work are slowing down sharply. The softening of international prices of the country's key exports – cotton and aluminium could also negatively affect both terms of trade and export volumes.

The country is highly vulnerable to a sudden increased demand for foreign currency due to macroeconomic shocks. Against the worsening external environment the IMF has recommended the authorities to focus its monetary policy on restricting monetary growth and the exchange rate policy on accommodating market movements to facilitate external adjustments.<sup>5</sup> In 2009, fiscal policy will be expansionary with increased capital spending and expenditures on civil service wages but the IMF has advised on maintaining an element of flexibility on expenditures to accommodate potential revenue shortfalls and social needs. Risks to macroeconomic stability could be mitigated by entering a new funded programme with the IMF in 2009 upon the successful completion of the SMP which will strengthen the external liquidity of the country and facilitate access to funding from other international organisations.

### **2.1.3 Environmental Situation**

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 is subject to a number of environmental stresses, including desertification, and is implementing a National Environmental Action Plan (NEAP) with the support of World Bank (WB) and United Nations Development Programme (UNDP). As the

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<sup>4</sup> Output by Talco and Barki Tojik accounted for around 13 per cent and 2 per cent of GDP in 2007, respectively.

<sup>5</sup> International Monetary Fund, *First Assessment Under the 2008 Staff-Monitored Programme*, December 2008.

poorest country of the CIS, Tajikistan needs to address environmental and related health issues in the context of economic improvement of the people. Tajikistan has signed a number of international environmental conventions and treaties and has developed action plans for implementation. 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. The number of environmental non-government organisations (NGOs) appears to be reducing in number over the past few years. For more detailed information, please see Annex 3.

#### **2.1.4 Labour Issues**

Tajikistan has been a member of the International Labour Organisation (ILO) since 1993. To date, 46 ILO conventions have been ratified including the eight core conventions out of a total 188 ILO conventions. The country has not provided updated reports to the ILO on application of ratified conventions.

The Labour Code of 15 May 1997, last amended in April 2006, provides for the basic rights and obligations of employees and employer, including the rights of the employees to join labour unions. It also prohibits discrimination in labour relations and forced labour. Worker protection however, is very limited in financial terms. Severance pay equals a quarter of the monthly wage multiplied by the number of years of service. The use of a fixed-term contract is allowed and notice period required for contract termination is relatively short - 1 to 2 months. Unemployment benefits only extend to 3 months and this may explain the relatively low level of the registered unemployment rate in the country.<sup>6</sup> The level of minimum monthly wages has been increased from 20 somonis (US\$ 5.7) to 60 somonis (US\$ 17) in July 2008 but this is still less than US\$ 1 per day.

One of the key challenges for a country with a non-negligible percentage of economically active population being migrant workers is to ensure that they are not at risk of abusive and exploitative situations in violation of labour and human rights. In this regard, Tajikistan has ratified the ILO's Migrant Workers Conventions and has signed bilateral agreements with Russia and Kazakhstan on labour migration in 2007.

Child labour, as defined in the ILO conventions number 138 (on Minimum Age) and number 182 (on Worst Forms of Child Labour) remains problematic. The minimum working age set forth under the Labour Code is 15 years, which is lower than 16 years as specified under the ILO convention. Notwithstanding a presidential decree issued in 2006 prohibiting farms from employing child labour in cotton fields, children continue to be mobilised for cotton harvesting. According to ILO, the number of children working in non-cotton sectors such as markets, airports, factories and in the streets has increased in recent years, primarily as a result of poverty.<sup>7</sup>

According to a 2007 US State Department report, Tajikistan is a source for men and women, who are trafficked for the purposes of forced labour and sexual exploitation.

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<sup>6</sup> There is no survey-based unemployment data available for the country. The officially registered unemployment rate was 2.1 per cent in 2007, broadly unchanged from 2.2 per cent in 2006.

<sup>7</sup> International Labour Office, *Decent Work Country Programme Tajikistan*, 2007.

The report qualifies the country as a Tier 2 country, i.e. a country which does not fully comply with minimum standards for the elimination of trafficking but which is making significant efforts to comply.<sup>8</sup>

### **2.1.5 Social Conditions**

Tajikistan remains one of the EBRD's poorest countries of operations, with a per capita income of US\$ 580 in 2007. Robust economic growth in recent years combined with strong remittances flows from migrants abroad has reduced poverty. According to the 2007 survey, poverty and extreme poverty rates in 2007 were 53 and 17 per cent, respectively.<sup>9</sup> Targets set under the Poverty Reduction Strategy of the Republic of Tajikistan (PRS) for 2007-2009 to reduce poverty and extreme poverty rates to 52 and 10 per cent, respectively by 2009 are on track. Remittances that reached around 38 per cent of GDP in 2007 are considered particularly important in lifting families out of extreme poverty, providing them with income to purchase food and other basic necessities as well as paying for education and healthcare. There remain however, significant regional differences in poverty (Table 2).

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<sup>8</sup> US State Department, *Trafficking in Persons Report June 2007..*

<sup>9</sup> State Committee on Statistics of the Republic of Tajikistan, *Tajikistan Living Standards Survey (TLSS) 2007*. The poverty rates in 2007 survey were calculated based on the percentage of population living below 4.56 somoni per day (poverty line) and 2.92 somoni per day (extreme poverty line). In the 2003 survey, poverty rates were calculated based on the percentage of population living below US\$ 2.15 per day in terms of purchasing power parity (PPP) (poverty line) and US\$ 1.08 PPP (extreme poverty line). In PPP terms, poverty and extreme poverty lines used in the 2007 survey are approximately US\$ 4.22 per day and US\$ 2.70 per day.



**Table 2: Tajikistan poverty indicators 2007, in per cent**

Tajikistan	Poverty headcount			Poverty concentration		
	Total	Urban	Rural	Total	Urban	Rural
Poverty	53.1	49.3	54.4	100	24.4	75.6
Extreme poverty	17.4	18.9	16.9	100	28.6	71.4
<b>Dushanbe</b>						
Poverty	42.7	42.7	na	8	31	na
Extreme poverty	16.1	16.1	na	9	30	na
<b>Gorno-Badakhstan Autonomous Oblast</b>						
Poverty	42.9	19.3	46.5	3	1	3
Extreme poverty	10.3	2.2	11.5	2	0	2
<b>Khalton</b>						
Poverty	47.0	52.5	45.8	32	25	34
Extreme poverty	8.7	15.1	7.4	18	19	18
<b>Rayon Respublikanskoy potchinyenyi (Dushanbe Region excluding Dushanbe)</b>						
Poverty	47.4	56.8	46.1	20	12	22
Extreme poverty	13.6	23.8	12.1	17	13	19
<b>Sogd</b>						
Poverty	69.4	53.6	74.3	39	31	41
Extreme poverty	31.8	24.5	34.3	54	38	61

Source: State Committee on Statistics of the Republic of Tajikistan, *Tajikistan Living Standards Survey (TLSS) 2007*.

Life expectancy at birth and infant mortality per 1000 births improved between 2000 and 2005 (the latest year where data is available) from 63.4 to 64.0 years and 75.2 to 59.1, respectively. Population in general lacks access to basic utilities such as tap water and sewage drainage undermining public health and necessitating further investments. Again, access to basic services differs between rural and urban areas and across regions.

Tajikistan shares common features of gender differences with other transition countries: women have less access to economic opportunities, health and education, and are less politically empowered. Furthermore, in Tajikistan, gender issues are closely associated with poverty. While there has been no significant difference between the headcount poverty ratio of households, headed by females compared to that of males, when differences in allocation of resources between men and women within the households were taken into account, poverty headcount of women was found to be much higher than that of men.<sup>10</sup>

### 2.1.6 Legal Reforms

The legal environment in Tajikistan remains one of the least developed of the EBRD region of operations. Commercial laws, taken as a whole, show low levels of compliance with international standards and reforms are required in several areas, particularly securities markets and insolvency laws. In addition, the poor functioning of the judiciary is an area of concern to investors.

<sup>10</sup> Asian Development Bank, *Mainstreaming Gender in Poverty Reduction Strategies, Tajikistan, Country Gender Assessment*, 2006.

However, some progress has been made since 2005. A new law on joint stock companies was adopted in 2007, which is broadly in line with international standards as far as shareholders rights are concerned, although still inadequate with respect to the role of stakeholders, disclosure and transparency, and mechanisms to ensure an effective corporate governance framework. A new law on foreign investments was adopted in 2007, which affords foreign investors a number of rights, including the right to repatriate investment profits. A new law on trade- and service-marks was also adopted in 2007.

Substantial progress was also made in the area of secured transactions and registration of immovable property. The law on pledge of movable assets entered into force in March 2005 (except for Chapter 2, which entered into force in 2006) and, most recently, in April 2008, a new mortgage law was passed, facilitating mortgage lending.

A new law on state registration of immovable properties was also enacted in March 2008 and forms part of an overall attempt to reform and supplement legislation regarding immovables, their registration and security interests relating to the same. The effect of the new laws are yet to be experienced and their consistency with the existing legislative framework (mainly the civil code and the land code) remains to be tested.

Another area of progress was the enactment, on 5 January 2008, of the long-awaited Arbitration Law, which fills in the gaps in the regulation of arbitration in the Republic of Tajikistan and provides for a regime for enforcement and execution of domestic arbitration decisions. However, Tajikistan has yet to ratify the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and is one of only two of the EBRD's countries of operations which have not as yet done so.

### **2.1.7 Regional Cooperation**

As a land-locked country, Tajikistan is actively pursuing regional cooperation. Russia remains the most important partner in terms of trade, foreign direct investment (FDI) and as a major destination of labour migrants. Russia accounted for 22 per cent of total trade in 2007 and 60 per cent of gross inflows of FDI in 2006 primarily relating to the construction of Sangtuda I hydropower station sponsored by the Government of Tajikistan and Russia's Inter RAO. Russia is also the main origination of Tajikistan's remittances inflows.

In recent years, China has become an important source of bilateral financial support for a large-scale infrastructure development in road and power sectors. In June 2006, the authorities signed credit agreements totalling US\$ 604 million with the Export-Import Bank of China for construction of two high-voltage electricity lines to connect the north and the south of the country and the areas within the south as well as for the rehabilitation of a road linking Tajikistan and Uzbekistan. In September 2008, an additional US\$ 200 million was signed for a construction of a new hydro power plant. Kazakhstan is an increasingly important partner in terms of origins of imports and foreign direct investment. There are sporadic border disputes with the Kyrgyz Republic but generally the relationship remains good. Relations with Turkmenistan

have significantly improved in the post-Niyazov period. In recent years, Tajikistan has enhanced ties with Afghanistan in the area of electricity trade. The two countries have signed a protocol agreement in August 2007 under which Tajikistan has committed to export electricity to Afghanistan during the summer months and the transmission line is currently under construction connecting the two countries.

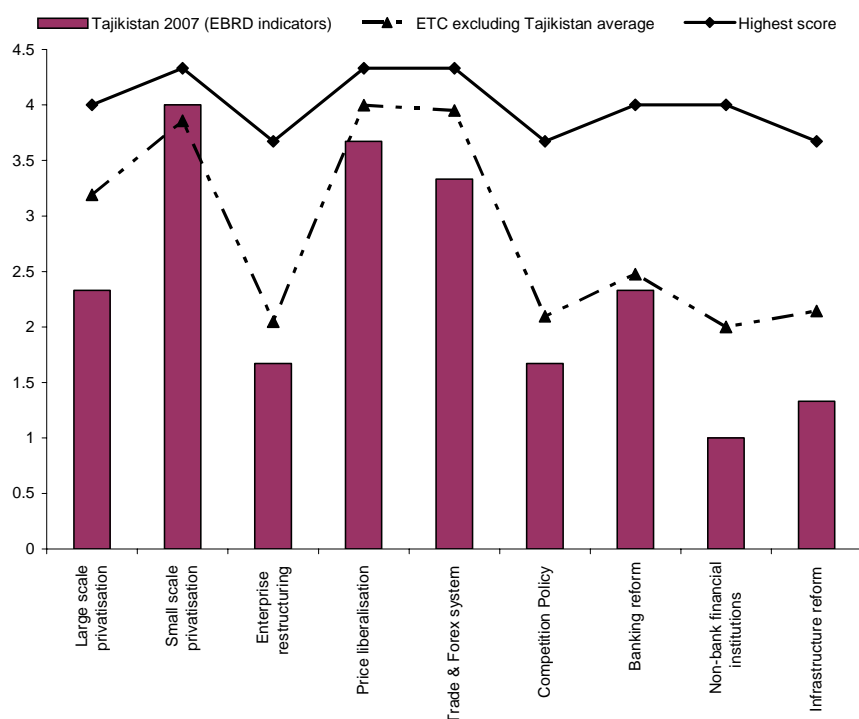
The relationship with Uzbekistan, traditionally an important neighbour remains difficult primarily due to the use of water and energy resources. Tajikistan's transportation links between the north and the south of the country, and with Afghanistan and the Kyrgyz Republic, have improved in recent years through rehabilitation projects, but Uzbekistan still plays a critical role for Tajikistan in terms of a railway connection with the rest of the world. Uzbekistan is also a key provider of energy to Tajikistan to ensure that they supplement the country's winter deficit requirement. It also remains the sole supplier of electric power to the north of Tajikistan. The relationship between the two countries is strained by Tajikistan's aspiration to complete the construction of the Rogun hydropower station, in order to meet its energy security and exploit its export potential of electricity to Afghanistan and Pakistan. Uzbekistan, as a downstream country, is concerned that the completion of Rogun hydropower station might have an adverse impact on the availability of water especially for the country's agricultural sector. The WB is undertaking a feasibility study of Rogun, which includes a thorough analysis of economic, social and environmental impact of the project on the downstream countries.

## **2.2 Economic Developments and Progress in Transition**

### **2.2.1 Progress in Transition**

Tajikistan has achieved limited progress in reaching the standards of a market economy and remains highly vulnerable to external shocks due to concentration of activities in cotton, hydroelectric power generation and aluminium smelter, a legacy from the Soviet times. The progress is most advanced in small-scale privatisation; price, trade and foreign exchange liberalisation implemented during the early years of transition, but remaining barriers such as limited transferability of land user rights and pervasive state controls over the cotton sector have prevented the country from reaching the levels of advanced industrial economies (although, recently some progress has been achieved in these areas – see below). Less progress was made in the implementation of more difficult reform areas such as large-scale privatisation, governance and enterprise restructuring, competition policy, banking reform, non-bank financial sector reform and infrastructure reforms (Chart 1).

**Chart 1. Transition indicators of Tajikistan, 2008**



Source: EBRD Transition Report 2008

Note: The index ranges from 1, indicating little or no progress, to 4+ pointing to standards similar to advanced economies.

*Small-scale privatisation; price, trade and foreign exchange liberalisation:* The country has achieved substantial progress in small scale privatisation, price, trade and foreign exchange liberalisation by the late 1990s. Privatisation of small enterprises gathered pace in 1998/1999 and is now completed. Prices are mostly liberalised except for utilities that are regulated by respective regulatory authorities. The country applied for World Trade Organisation (WTO) membership in 2001 and bilateral market access negotiations are on-going. The country has accepted obligations under the IMF's article VIII in December 2004, and to date there have been no restrictions on foreign exchange convertibility for current international transactions.

The progress in reforms in the agricultural sector including land reforms and liberalising planting, processing and manufacturing of the cotton sector has been slow and uneven resulting in decline of yield and accumulation of debt in the cotton sector (see Box 1 below). In response, a presidential decree ("Decree 111") was signed in 2007 that envisaged full transferability of land-user rights and freedom to farm. In January 2008, a legislative framework for full transferability of land-user rights was established under a newly amended land code. However, for the law to be effective in practice, it requires secondary legislation that establishes clear procedures. The new code also leaves considerable latitude for local authorities to interfere in how the land is used. For the 2008 planting season, the authorities have banned non-cash pre-harvest funding to farmers by cotton financiers - criticised as one of the main reasons why farmers have become highly indebted. They have provided US\$ 40 million budgetary financing to banks for on-lending to farmers in most parts of the country. Cotton processing and marketing have been liberalised with the implementation of more transparent mechanisms in the cotton ginning process. This will be further supported by the removal of licensing requirements for cotton trade, enabling further

competition in the sector. Notwithstanding these progresses, without the resolution of existing indebtedness of cotton farmers, access to financing of these farmers will remain limited and given the increasing repayment difficulties faced by cotton farmers that received budgetary financing through banks in 2008 on account of the fall in the international cotton, enabling farms to choose crops of their choice has become increasingly important.

### Box 1: Agricultural sector in Tajikistan

The agricultural sector plays an important role for the Tajik economy accounting for 23 per cent of GDP and 66 per cent of employment. Agriculture also accounts for 20-30 per cent of exports (primarily cotton but also fruit and vegetables) and over one-third of tax revenues. Tajikistan is mostly mountainous and its climate is arid therefore, 900,000 hectares of arable land is confined to major river valleys and agriculture relies heavily on irrigation that accounts for 67 per cent of total arable land. Cotton accounts for 29 per cent of the planted area mainly in irrigated lands (Table 1.1).

Reforms in agriculture began in 1996 with the transformation of *kolkhozes* and *sovkhoses* into private, so-called *dekhan* farms as well as the distribution of land to small-scale personal plots. However, the process fell short of providing equitable and secure land-use rights to farmers undermining their incentives to improve land productivity. Until recently, the authorities retained control over the sector in order to ensure that cotton was planted on a minimum of 70 per cent of irrigated land given the sub-sector's importance to the economy in terms of output, foreign exchange and tax revenues. These inadequate reform measures had negatively affected land productivity especially in cotton (Table 1.2). Whereas yields of non-cotton crops have recovered or surpassed the levels in Soviet times, average yield per hectare of land for cotton remained around 60 per cent of the level in the Soviet times in 2006. With an estimated cost recovery level of cotton yield to be 2,200 kilograms per hectare of land, and with generally overpriced inputs cotton farmers have been loss making for a number of years.

Table 1.1: Allocation of agricultural land by types of farms and selected crops, 2006

	Total in hectares, brackets in per cent of total land	Share of state-owned farms, in per cent 1/	Share of private ( <i>dekhan</i> ) farms, in per cent	Share of household plots, in per cent 2/
Total	900,160 (100)	29	50	21
Irrigated land	599,808 (66.6)	33	51	17
Cotton	262,893 (29.2)	42	58	0
Winter wheat	199,290 (22.1)	21	47	32
Spring wheat	121,404 (13.5)	22	50	28
Potatoes	27,935 (3.1)	6	28	66
Vegetables	35,768 (4.0)	13	23	65
Fodder	131,368 (14.6)	41	51	8

Source: State Committee of Statistics

1/ Includes collective farms (*kolkhozes*), state farms (*sovkhoses*), and other state-owned farms.

2/ Personal plots, including 75,000 hectares of land distributed by presidential decree in 1997.

In the past five years, the loss-making activities of the cotton sector were financially supported through a complex web of financing involving cotton inputs supply, processing and marketing monopolies (the so-called "investors"), Kredit Invest, a non-bank financial institution spun off from Agroinvestbank during 2001-2003 and foreign financiers (initially cotton traders but increasingly foreign commercial banks) with an estimated accumulation of debt of US\$ 400 million by the end of 2007.

Table 1.2: Land productivity 1991-2006, selected years and crops, in kilograms per hectare

	1991	1996	2001	2006
Raw cotton	2,760	1,390	1,790	1,700
Grain	1,310	1,410	1,430	2,060
Potatoes	14,100	10,200	12,550	19,850
Vegetables	19,300	16,100	11,710	18,690
Fruits	3,210	1,950	2,490	3,310

Source: State Committee of Statistics

In acknowledgement of the debt issue and with the support of the international donor community, the

President signed a decree in March 2007 (“Decree 111”) providing for full reform of the sector. Actions outlined in the degree include: termination of government interference in the planting, processing and sale of cotton; cotton pricing reforms including the introduction of universal cotton grading system; increased transparency of pricing for ginning services; liberalisation of cotton exports by removing cotton sale licensing function by the Tajikistan Universal Goods Exchange; tax reforms in the cotton sector to reduce the tax burden of the sector and reduce local government interference in agricultural sector; and legislative changes to establish full transferability of land-user rights.

*Large-scale privatisation, enterprise restructuring and competition policy:* Progress in enterprise sector reforms has been modest. The privatisation of medium and large enterprises began in 1998 and by the end of 2007, 90 per cent had been privatised. Nonetheless, the state still controls a number of large enterprises in manufacturing (e.g. aluminium smelter, cement and agro-processing) that are classified as strategically important enterprises. Large state-owned industrial enterprises not only account for a large share of GDP but in some cases also has a monopoly limiting competitive pressures. Lack of transparency of these companies is a serious hindrance to attracting new investments and leaves much room for corruption. In order to address these concerns, under the SMP of the IMF, the authorities have pledged to issue tenders for a financial audit of Talco and the state-owned electricity company Barki Tajik (the two largest state-owned companies) by an internationally recognised auditing company. For the former, tender for an audit by internationally reputable audit firm was issued in September 2008 and for the latter, audit for the 2007 financial year has been concluded, but the auditor was not able to give opinion because of missing information and other concerns. They have also promised to issue a government decree to establish a unit in the Ministry of Finance for regulator monitoring of financial operations of the 10 largest state-owned companies by turnover to improve their oversight and governance. The decree will also require the state-owned companies to provide their annual financial plans, quarterly financial statements and external audit reports to the Ministry of Finance and the Ministry of Economic Development and Trade. The decree was issued in September 2008 and the authorities have asked for support from the IMF to make the unit operational.

*Financial sector reforms:* The banking sector has grown sharply in recent years with total loans and deposits outstanding growing from 18 per cent of GDP in 2005 to 31 per cent in 2007 and 7.5 per cent to 19 per cent, respectively. Nonetheless, excluding loans to the cotton sector, total loans remained around 22 per cent of GDP. As of mid-2008, there were 12 commercial banks, 7 credit unions and 1 non-bank financial institutions operating in the country. There were also 75 micro-finance organisations and funds. Of the 12 commercial banks, 3 banks are subsidiaries of foreign banks and 1 is state-owned. The sector is relatively concentrated. Excluding cotton sector related loans by Kredit Invest, a non-bank financial institution, the top two banks (Oriensbank and Agroinvestbank) account for over 50 per cent of total loans outstanding at end 2007. In the deposit market, Oriensbank, which primarily attracts deposits from enterprises accounted for 60 per cent of the total market.

The general regulatory requirements for banks, such as capital adequacy and single exposure limits, are satisfactory but there are questions over whether these requirements are enforced in practice and whether the regulator can *de facto* take actions against those banks that do not meet all requirements. There are also

weaknesses in the legislative framework which does not provide full autonomy of the regulator and does not have provisions for conflict of interest. Moreover, enforcement of related party and single exposure limits is difficult as there is no requirement for banks and enterprises to disclose their beneficial ownership. The authorities have committed to amend the NBT law and other related legislation to address these weaknesses by the end of December 2008, as part of the SMP.

*Infrastructure reforms:* Tajikistan's infrastructure was damaged by the civil war and dilapidated by years of neglect on basic maintenance due to budgetary constraints. It also inherited a system where there were no transport and electricity connections between the north and south of the country and the country's main access to the rest of the world was through Uzbekistan. Therefore, a priority during the transition period has been to rehabilitate the basic infrastructure as well as to improve internal connections and access to the rest of the world. The country is also seeking to explore the electricity export potential especially to Afghanistan and Pakistan by building new hydropower plants. In terms of access to utilities by households, Tajikistan remains one of the least developed in transition countries (Table 3).

**Table 3: Access to utilities, percentage of household**

Access to:	Tajikistan	Other ETC countries
Electricity from the public grid	99	99
Public (pipeline) central heating	2	13
Pipeline gas	15	43
Pipeline tap water	30	56
Public sewage system	13	37
Fixed telephone line	17	45

*Source: EBRD/World Bank Life in Transition Survey 2006*

Progress in infrastructure reforms has been modest, especially in terms of establishing a regulatory framework and restructuring network monopolies that could lead to attracting private sector participation. An anti-monopoly committee was established with a mandate to have an oversight on tariffs however tariff approvals are *de facto* decided by respective ministries in charge. There is no clear tariff methodology that guides tariff decisions. Nonetheless, there has been good progress in tariff reforms across the utilities sector. Tariffs have increased sharply in the electricity and municipal water sectors and the collection ratio has improved. However, tariffs generally remain below cost-recovery levels and payment exemptions remain for public entities and privileged households. Little progress has been made in the restructuring of network monopolies that remain state-owned. Barki Tojik continues to be an integrated electricity monopoly company in electricity generation, transmission and distribution. Its operations remain non-transparent especially concerning the arrangements it has with Talco, which receives around 40 per cent of Barki Tojik's total electricity supply. Tajik State Air Company (TSA) still controls airports, air traffic control and air carrier services, although the authorities have committed to unbundle TSA into these three functions in 2008/2009.

Given limited progress, investment requirements in infrastructure were primarily met through budgetary funding financed by bilateral and multilateral loans under the public investment programmes (PIPs). Most notably, in 2006, the authorities have embarked on large-scale infrastructure investment projects in road and electricity

transmission, financed by the Chinese Export Import Bank. Nonetheless, the country was also able to attract a major FDI from Russia's Inter RAO to build the Sangtuda I hydropower plant.

The harsh winter of 2008 has exposed major weaknesses in the current electricity supply, transmission and distribution structure. It has underscored the importance of further diversifying the generation capacity away from hydropower, which is vulnerable to cyclical climate changes, improving energy efficiency by providing adequate incentives and enhancing regional cooperation in water and electricity trade.

*Investment climate:* The business environment continues to suffer from corruption and excessive bureaucratic red tape related to licensing and taxes. According to the World Bank's "Doing Business 2009" report, the overall ranking of the country deteriorated from 133<sup>rd</sup> place among 175 economies in 2006 to 159<sup>th</sup> among 181 economies in the 2009 report, although there were some improvements in the procedures related to the start-up of businesses as well as improvements in the legislative framework for minority rights protection. Notwithstanding these progresses, the country continued to score poorly on business start-up and licensing procedures, tax payments, investor protection and access to credit. In terms of corruption, according to the corruption perception index, published by Transparency International where the score ranges from 10 (highly clean) to 0 (highly corrupt), the country's score deteriorated from 2.2 in 2006 to 2.0 in 2008 and ranked 151<sup>st</sup> among 180 economies.

In order to promote SME development, several measures were adopted in 2008. An amended tax code, which became effective on 1 July 2008, introduced a new tax system for individual entrepreneurs as well as small enterprises primarily engaged in services. The new system combines income; social and sales taxes and entrepreneurs will no longer have to make separate payments for each category. It is expected that this will reduce the number of tax inspections and payments, cutting the bureaucratic burden on businesses and lowering the scope for corruption. In addition, a two-year moratorium on inspections of SMEs by all regulatory bodies took effect from 1 August 2008.

### **2.2.2 Transition Challenges**

In consideration of the reform progress to date and given that the country has a number of challenges for the sustainable development of the private sector, which is necessary to achieve further economic diversification and improve the living standards of the population as underlined by the Second Poverty Reduction Strategy for 2007-2009, reform priorities in the forthcoming strategy period are as follows:

- fully implement farmers' freedom to plant crops of their own choice, establish secondary legislations so that transferability of land including the ability of the farmers to pledge land as collateral would become effective, and resolve existing debt burden by the cotton farmers;
- enhance corporate governance and transparency of large state-owned enterprises in industry as a first step towards commercialisation and productivity improvements;
- strengthen the supervisory capacity and independence of the financial sector regulator and limit state interference so that financial institutions can operate



- on a fully commercial basis while at the same time, confidence in the system will be improved;
- further improve governance and regulatory framework across the infrastructure sector to attract private sector participation, and strengthen the overall management of the electricity sector through enhancing corporate governance and transparency of the state-owned vertically integrated electricity company, Barki Tojik, in particular; and
  - advance the investment climate to foster small and medium-sized enterprises by reducing excessive bureaucracy, which will also reduce the level of corruption.

### **2.2.3 Access to Capital**

Tajikistan potentially has significant investment requirements but the level of investment has been modest even compared with other ETCs especially by the private sector reflecting limited FDI inflows and financing by foreign banks (Table 4). The country (both public and private sectors) has not been able to access international capital markets to date. Access to the syndicated loans market is extremely limited and foreign bank lending has been primarily from Kazakh and German banks for international trade (including cotton).

The banking sector has grown sharply in recent years, however, excluding loans related to the cotton sector, the level of financial intermediation remains modest. Large inflows of remittances are primarily used for consumption, and deposits by individuals with banks remain minimal. Bank loans are still predominantly short-term (an average term of loan is less than 12 months, but with frequent roll over) and primarily consist of working capital loans for both domestic and international trade. Access to finance by micro, small and medium companies remain limited and funding is only available from commercial banks and microfinance institutions, supported by donors and NGOs. Nominal interest rates for loans remain high at around 24 per cent for both domestic and foreign currency and given easing of inflation, the real interest rates have turned positive and they are now around 9 per cent.

The country has attracted FDI primarily in energy and to a lesser extent, in mining and textiles. The largest FDI in the country to date is Sangtuda 1 hydropower plant with an estimated total investment of US\$ 250 million by Russia's Inter RAO which is expected to be completed by early 2009. In 2007, the country also received a commitment from the Iranian government for a joint venture to construct the Sangtuda 2 hydropower plant worth US\$ 180 million.

Tajikistan was also able to undertake public infrastructure investments through donor funding on concessional terms (meeting at least 35 per cent grant element). In recent years, China (through the Export Import Bank) has been the largest provider of finance. A number of bilateral and multilateral donors have also provided project finance on a smaller-scale on grant-only basis.

**Table 4: Indicators of investment and access to capital, in percentage of GDP**

	2000-2004 average	2005	2006	2007	Other ETC countries 2005-2007 average*
Gross fixed capital formation	14.9	16.1	13.4	21.6	28.0
public	6.3	7.8	6.6	16.0	5.6
private	8.6	8.3	6.8	5.6	24.0
Capital flows					
FDI (gross)	4.3	2.4	2.3	1.9	6.0
Official creditors	0.5	2.1	1.2	6.8	na
Foreign banks	1.6	0.8	0.0	1.2	na
Private current transfers**	4.2	24.1	32.1	38.2	9.8
Total deposits in the banking system (end of period)		7.5	11.9	18.8	na
of which: deposit by individuals (end of period)		2.2	3.0	4.5	
Total loans to the economy (end of period)		17.9	25.1	31.1	na

Sources: IMF and National Bank of Tajikistan

\* Data for public and private gross fixed capital formation exclude Armenia, Georgia and the Kyrgyz Republic.

\*\* Primarily remittances from migrant workers

The role of the non-bank financial sector in raising finance is minimal. The Tajik Central Stock Exchange (TCSE), established in 1994, has not played any major role in developing the securities market. Privatisation has not led to the development of a securities market, as most transactions have been conducted through auctions or sale outside of an organized stock exchange.

### 3. Strategic Orientations

#### 3.1 The Bank's Priorities for the Strategy Period

Expanding the financing of trade and primary agriculture via local financial institutions, financing directly the agro-processing industries using the ETC tools, participating in the equity of local commercial banks, and rehabilitating infrastructure, in particular municipal, with small high impact projects will be the key priorities for the Bank over the strategy period. These projects will enable poverty alleviation, avoid costly disruptions, and increase the productivity of the private sector as a whole. These priorities are in line with the National Development Strategy approved by the Government in 2007.

An intensified policy dialogue with the authorities will focus on the necessary improvement of the investment climate. This combined with a constructive and successful dialogue between the Government and the IMF, the Bank could increase its number of projects by one third and its annual business volume by fifty percent during the strategy period.

#### Fostering the private sector

The Bank will continue to focus on the private sector, the development of micro, small and medium-sized enterprises in particular, as its first priority and will mobilise various instruments to access different layers and sectors of the economy. This will include continuation of microfinance instruments, the development of small and

medium-sized enterprises credit lines, and continuation of the Trade Facilitation Programme. In order to cover a wider variety of sectors and financial needs, the Bank will fully utilise the financial tools developed under the Early Transition Countries Initiative.

The Bank will accelerate its efforts to support primary agricultural sector reforms by further utilising the recently introduced Tajik Agricultural Financing Facility, agricultural credit lines through local commercial banks, and by introducing agricultural commodity based finance. The Bank will also continue in its efforts to provide finance to agro-processing industries in order to increase value-added more broadly in the agricultural sector.

For the further growth and development of MSMEs, especially in the context of an early transition country, provision of financing itself is not sufficient. To this end, the Bank will provide knowledge and transfer skills to the MSMEs by utilising technical cooperation funding available under the ETCI, in association with the funding programmes, or independently, under the Business Advisory Service and Turn-Around Management programmes.

Should the privatisation agenda be moved forward by the authorities, the Bank will also seek to support reputable investors who would acquire former state-owned assets privatised in a transparent manner.

### **Strengthening the financial sector**

The banking sector has grown sharply in recent years (albeit from a small base) but further growth is constrained by the small capital base and limited product availability. The Bank's second priority therefore, is to strengthen the financial sector by increasing the sector's capitalisation and further enhance its capacity for financial intermediation. The Bank will participate in equity investments in reputable local, regional and international banks. The Bank will also broaden its lending products and will explore the possibility to extend SME credit lines as well as MCFF to suitable local banks.

The Bank will consider the introduction of local currency funding instruments and foreign exchange insurance mechanisms to mitigate foreign exchange risks of the lenders and borrowers. Opportunities in the leasing sector will be explored to meet the demand, particularly in agricultural sector, arising from the creation of smaller and more efficient farms. In order to maximise its exposure to local banks, the Bank will continue to seek and utilise risk sharing arrangements as well as insurance instruments.

These activities will be implemented with extensive TC funding to PBs and financial institutions. The Bank will also provide TC towards strengthening of the financial sector as a whole and its supervision, including support for the Credit Bureau, promotion of saving products, and improvement of the anti-money laundering legislation.

## **Support for critical infrastructure**

The investment needs in infrastructure are significant, and improvement in critical infrastructure should enhance the living standards of the population and facilitate a smooth conduct of business activities. The country may increasingly seek private sources of funds given the need to manage official external debt at sustainable levels. The Bank's third area of priority therefore is to facilitate commercialisation in infrastructure, while paying close attention to the basic needs of the population and affordability. The Bank has decided, at this stage, not to exercise its right (i.e., non-disbursement or call for early repayment) against the breach of negative pledge clause on the existing sovereign projects, considering the country's situation of external balance and strong needs for infrastructure development. The Bank will closely monitor the Government's commitment to the formulation and implementation of the IMF programme and will also gather periodic reports from the Government to assess the situation.

Based on its expertise, following the successful implementation of Khujand Water project and the Tajik Road Maintenance Facility project, and considering the concentration of other key donors' activities in areas of large infrastructure projects, the Bank will focus its efforts on specific niches. These niches include municipal infrastructure such as water supply, waste management and urban transport, as well as small maintenance facilities of transport and energy infrastructure.

The Bank will also seek opportunities in financing infrastructure without sovereign guarantees, in commercially viable projects such as in the aviation sector or the hydropower sector, which has potential for considerable development in the coming years.

## **Policy Dialogue**

The Bank will pay particular attention to its dialogue with the authorities to improve the investment climate as well as specific sector reforms in the country. In particular, the Bank will continue to support the Investment Council, an effort to establish a venue of regular consultative process with the participation of the private sector, the authorities and the donor community. With an independent Secretariat, a limited number of seats based on a rotation system, a focused agenda and established procedures to monitor progress, the Investment Council could become the main interactive platform for discussion between the Government, the business community and key donors.

The Bank will make a particular effort of engaging in policy dialogue with the authorities on the improvement of banking sector and banking supervision. The Bank also supports the efforts of the IMF in making the central bank more transparent and independent so that its focus should be on price stability and financial sector regulation and not on financing particular sectors of the economy. The Bank will also promote policy dialogue and technical assistance, which contribute to the improvement of corporate governance, including the introduction of IFRS at a country level, training and modernisation of regulatory agencies, anti-monopoly and anti-corruption bodies. The annex 8 details the needs for technical co-operation projects.

The Bank will coordinate closely with other IFIs within the existing fora such as the Donor Co-ordination Council and the Principals' Group, and participate in the development of a Joint Country Support Strategy (JCSS), which will serve as a roadmap for a better co-ordinated and efficient Donors' support. The Bank will co-operate closely with other Donors (ie. EC, USAID...) to accelerate needed public sector reforms, such as tax reform, anti-corruption, and reform of the State Owned Companies.

## **3.2 Sectoral Challenges and Bank Objectives**

### **3.2.1 Enterprise Sector**

#### *General Industry*

The key challenge in the sector is to diversify the current economic structure, where large state-owned companies dominate production and investment, through the growth of private MSMEs. The recent decisions taken by the Government to improve the investment climate should benefit MSMEs and could attract foreign investments. Nonetheless, access to financing by MSMEs is still problematic and is one of the constraints for further growth. The Bank's main transition goal therefore is to improve access to financing to companies with strong management. The Bank will also aim to transfer know-how and skills and improve corporate governance including transparency and business standards.

The ETC Initiative (ETCI) has helped the Bank to work directly and more easily with SMEs. Therefore, the Bank will continue to utilise products under this Initiative, including Direct Lending Facility (DLF), Direct Investment Facility (DIF), and activate the usage of Medium Sized Co-Financing Facility (MCFF). Through these projects, the Bank will stimulate industries aiming at both domestic and export markets. The target sectors for such projects include textiles, construction materials, and electrical equipment.

The Bank will try to help materialise the interest in green field operations by reputable foreign investors, which has dramatically increased since steps have been made recently to improve the climate for foreign investments (tax breaks, moratorium on inspections and one-stop-shop for delivery of licences). As medium- and large-scale privatisation and restructuring gather pace, additional investment opportunities may become available. The Bank is ready to support reputable investors who would acquire state-owned assets in a transparent and competitive privatisation process.

The Bank will also utilise available TCs as well as BAS and TAM Programmes to improve know-how and skills including energy efficiency, corporate governance and business standards including environment and health and safety. The Banking teams will work closely with the BAS office to: (i) create a good client base with potential projects, which have benefited from the BAS expertise: and (ii) refer to BAS clients, whose specific needs have been identified during the project preparation process. TAM/BAS in Tajikistan will specifically aim to reach out to MSMEs in rural areas and to work directly with companies causing severe environmental degradation and with high energy consumption. BAS will also work to improve the skills of local consultants with the objective of developing a thriving consultancy market which will

enhance business development. Synergies will be sought with joint marketing trips, regular formal and informal meetings between the Resident Office and the BAS office, and regular reviews of BAS and Banking portfolios.

### *Agribusiness*

Agriculture remains an important segment of the economy and still faces a number of reform challenges, including the implementation of the Decree 1.1.1 (See Box 1). The Bank will support the agricultural sector reform and its development, by providing finance directly to primary agriculture (cotton and non-cotton) or through local banks under the TAFF Programme. The Bank will work with the Better Cotton Initiative (BCI), supported by international buyers (Ikea, Gap, H&M), NGOs (Oxfam) and IFIs (the IFC). The Initiative aims at enhancing social and environmental standards of cotton production, which will become more sustainable and will improve access to international markets.

Accelerating disbursements under the TAFF Programme will be a priority, with a view to providing funds of US\$ 30 million to the sector. The Bank will make efforts to extend the TAFF to new PBs, and possibly to NBMFIs. This would enable the Programme to reach a wider regional spectrum (southern part of the country and Pamir), as well as financing smaller farms. The food processing industry has the potential to become the main source of foreign exchange earning, particularly, with the well-established and growing, but increasingly demanding, markets in Kazakhstan and Russia.

Maintaining this position will require significant investments in processing factories to offer diversified products and packaging and meeting internationally accepted standards. In addition to the financing for capital expenditures for the refurbishment of existing facilities, the Bank could also provide flexible working capital financing to facilitate purchasing primary products from farmers on time. The Bank will also promote transparent contractual arrangements between processing industries and farmers to mitigate price fluctuation risks and facilitate access to financing by farmers based on those contracts.

Access to finance by farmers will be significantly eased by the introduction of a Warehouse Receipts Programme, a collateralised working capital financing of agricultural commodities, which was successfully implemented by the Bank in countries such as Kazakhstan, Ukraine and Moldova. The Bank will hire consultants through TC funds to work with the authorities to implement necessary changes in the legislation and to work with the ADB and other IFIs to establish certified warehouses and indemnity funds so that the Warehouse Receipts Programme can become functional during the strategy period.

As agribusiness is strongly dependent on transportation and water management systems, the Bank's activities in infrastructure will also contribute to the development needs of agribusiness.

### ***Property and Tourism***

The property and tourism sector entered its first significant growth phase in 2004/2005. However, to date most development has been of a residential nature, with very few new modern offices in the capital. The challenge in the sector therefore, is to support the development of buildings with international quality and ensure that best practices are adopted in the process.

The Bank has not financed any property and tourism projects in Tajikistan so far, but has built a modest pipeline of projects, mainly in the hotel and retail sub-sectors. Most projects are likely to be small and will be channelled through DIF and DLF. The Bank will predominantly provide debt financing at longer tenors, geared to the financing needs of specific projects. In assessing financing opportunities, the Bank will pay particular attention to the integrity of the developer, sponsors, borrower and other parties related to the project, especially in the areas of the land acquisition, zoning and building permits. It will seek to work with clients who are committed to adopt best practices in respect of corporate governance. The Bank will also focus on the transfer of skills in the areas of management and marketing.

The Bank will pay particular attention to policy dialogue with the authorities aimed at improving the investment climate as well as specific sector reforms, such as the introduction of private land ownership and land registries. The first reading of a new mortgage law was passed at the beginning of 2008. Further amendments in 2009 will help develop mortgage lending.

### ***Telecommunications***

The development of the telecommunications sector is at an early stage although new players have emerged, especially in the mobile and internet service provision markets. The fixed-line penetration rate is still low at around 8 per cent, while mobile telephony has reached 44 per cent in 2008. The key challenge in the sector is to improve the regulatory structure, especially concerning tariff rebalancing; interconnection charges and licensing in order to further enhance competition and facilitate sector development.

The Bank will pursue its efforts to enhance competition in the mobile telephone market and possibly participate in acquisitions, led by regional private operators.

The Bank will also support the liberalisation of the market by providing TC to the Government in two main areas: improvement of the current Law on Electric Communication to reflect prevailing market conditions; and further develop the regulatory framework in the sector, with a view to facilitating the creation of a fully independent regulator.

## **3.2.2 Financial Sector**

### ***Financial Institutions***

As discussed in previous sections, the transition challenges in the financial sector are; to improve the regulatory framework through increasing the independence of the regulator; deepen the capital base of the banking sector so that it can support further

private sector growth, and expand the range products available to fully satisfy needs in the market. Improvements in these areas will enhance competition and increase confidence in the financial sector.

In order to meet these challenges, the Bank will work selectively with local financial institutions to improve their performance and continue to offer the Bank's full range of finance facilities. The EBRD will be able to provide medium- to long-term funding, as well as equity investments through the Tajik Financial Sector Framework (TFSF), and will continue to expand its successful TFP facility, thereby ensuring that sufficient finance is available to support the growth of the private sector. Accompanying TC components will contribute to improving the operational efficiency of banks.

The Bank invested in Eshkhat Bank, a small well-managed bank, at the end of 2005 and over the coming year, the Bank will screen further opportunities to participate in the equity of existing or newly created banks (local, regional or international) in order to strengthen their capital bases and thereby facilitate an increase in the level of financial intermediation in the Tajik banking sector. By requiring high standards of corporate governance and financial transparency, the Bank expects to strengthen competition in the sector and achieve demonstration effects, as other financial institutions attempt to emulate the success of the EBRD's PBs.

Whilst continuing to focus on MSE lending, through the provision of additional credit lines, the Bank will respond to demand in the market by also providing SME credit lines, accompanied by TC to ensure the development of stringent lending policies and procedures for larger and longer tenor sub-loans in the PBs. MCFE will also be provided to suitable local banks to enable them to finance larger projects. The mortgage market is also expected to develop over the coming years and subject to an acceptable legal framework, the Bank will offer mortgage lines. Demand for leasing has increased dramatically, in particular in the agricultural sector, and a new law has created the basis for bankable leasing programmes. Through broadening its range of lending products, EBRD will also have a positive impact on the level of financial intermediation of the country's banking sector.

To leverage the fairly low capital base in the sector, the Bank will, wherever possible, extend credit lines in the form of the Bank's A/B loan structure, thereby attracting much needed additional financial resources to the system. Local currency funding will be sought to address the growing demand for somoni lending, in particular in microfinance.

Donor support has enabled the Bank to mobilise a number of consultants, which has helped partner institutions in such crucial areas as anti-money laundering, corporate governance, trade finance, credit procedures and lending techniques. The Bank has also strived to support the strengthening and development of the entire sector by initiating stand alone TC projects, such as Feasibility Study for Establishment of Credit Information Bureau and Deposit Market Review. The Bank will strengthen policy dialogue with regard to the issues related to corporate governance, banking regulations and supervision as well as to support sector-wide initiatives such as the creation of a credit bureau and ways of increasing the level of deposits in the system.



### ***Micro and Small Enterprises Financing***

Tajik microfinance, as a whole, has benefited from a favourable regulatory environment and high demand, with a yearly growth rate exceeding 100 per cent in 2007. As at end March 2008, the consolidated microfinance loan portfolio reached US\$ 114 million. More than 50 per cent was financed by five PBs, participating in TMSEF. The non-bank microfinance sector financed 41 per cent of this portfolio, and was represented by 70 microfinance institutions at various scales. The Bank has been very active using dedicated instruments via the local commercial banks (TMSEF, TAFF), or by directly financing NBMFIs, in the form of loans. The Bank's strategy is to deepen its presence in the market i.e. (i) to continue dedicated downscaling programmes, through local commercial banks, (ii) to diversify its support to existing NBMFIs, and (iii) to support microfinance banks.

Following the success of TMSEF, which was completed in April 2008, the Bank has designed, in 2007, the Tajik Agriculture Financing Framework (TAFF), aimed at financing small agriculture loans via local commercial banks. Albeit too recent to assess, the TAFF has been instrumental in proposing realistic financing to farmers in the new regulatory framework, adopted by the Government (See Box 1). The Bank will extend the TAFF to PBs and possibly to NBMFIs, with a particular emphasis on diversification of the production.

The Bank's objectives are also to continue assisting NBMFIs to mature from originally NGO-driven associations into profit-making commercial institutions. NBMFIs are facing a significant lack of financial resources. Alongside continuing extending loans to well-managed institutions, the Bank will consider equity participation in some NBMFIs where the Bank has an established long-term relationship. The Bank will aim at increasing its outreach in regions, in particular in the South, working with dedicated regional institutions.

The Bank will support the development of microfinance banks by considering equity participation, alongside other IFIs in newly created microfinance banks with foreign investors, or newly graduated NBFMIs (becoming banks). This will help to stimulate competition and productivity, ultimately reducing the cost of funding to customers.

### **3.2.3 Infrastructure and Energy Sector**

#### ***Transport Infrastructure***

The state of Tajikistan's transport infrastructure deteriorated sharply during the last decade, largely due to poor maintenance and the lack of new investment. The Bank will aim at strengthening the country's ability to manage its infrastructure effectively and to create the basis for sustainable future operations of infrastructure enterprises, wherever possible, through the attraction of private investment.

The country is losing around US\$ 50 million road assets per year because of poor maintenance and weather conditions (roads which have been washed away and freezing temperatures which have damaged bad quality laid asphalt). The two key road sector issues today are, firstly, the establishment of an effective road maintenance programme and, secondly, financing methods and implementation of the

rehabilitation of those sections of the road network which have fallen into disrepair. Key transition goals, which the Bank will seek to promote, include the allocation of adequate budgetary resources for road maintenance and an increase in the effectiveness with which available funds are allocated.

The Government's mid-term plan for the restructuring of large-scale state owned enterprises, including those in the transport sector, such as Tajik Air and Tajik Railways, are expected to open new opportunities for the Bank to be involved in a number of rehabilitation and modernization projects. The Bank has a long-term relationship in the aviation sector, which has gained importance over the years due to its role for seasonal travel to Russia and Kazakhstan, and the entrance of new airlines in the market. Nevertheless, aviation safety remains a concern. The Bank could finance commercially viable projects such as the Dushanbe Airport or new commercial airlines, should transparent cash flows and contractual arrangements be in place at the time of EBRD investment. The Bank will aim at introducing international safety standards into its aviation projects. The Bank's involvement would also emphasize the strengthening of the institutional capacity of these entities, leading to the improvement of their financial and operational performance. These projects would therefore need to be accompanied by substantial TC assistance.

### ***Municipal and Environmental Infrastructure***

The municipal and environmental infrastructure needs to be rehabilitated as a result of the damage sustained during the war and years of underinvestment. The population suffers from the low quality of water, almost non-existent waste management, unreliable urban transport and inefficient district heating systems.

Following success in this sector during the previous strategy period with the implementation of the Khujand Water Supply project, the Bank will continue to support, within the existing tight affordability constraints, a commercial approach by municipal entities to improve service delivery and cost control, while gradually introducing cost recovery tariffs and improved collection practices, to enable these utilities and service companies 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. The Bank will target second-tier northern and southern cities, where improvement needs are the most critical.

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 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, as agreed between the Government of Tajikistan and the IMF. The Bank needs to approach the donor community for potential grant co-financing and TC to leverage the loan financed capital investments with grants. Capital grants from the EBRD Special Fund will also be sought as co-financing source.

The implementation of the Dushanbe Solid Waste project will be a key project to demonstrate the benefits of a dedicated commercially driven municipal company in Dushanbe thus enabling the Bank to replicate such an approach in other cities of the country. The Bank will work with the municipal transport company to rehabilitate trolleybus lines, making this mode of transportation more energy efficient and reliable.

District heating network rehabilitation will be another key area for the Bank, as the use of electricity for heating purposes in winter is the main reason for electricity outages. Loss reduction in the network will enable gas and coal savings and will provide better tariffs on heating for the population.

### ***Power and Energy***

Despite the substantial potential in the hydro power sector, among the highest in the world, Tajikistan experiences recurring deficits of electricity, badly damaging the economy. In addition to the ageing production and distribution network, the country lacks a thermal base load production of around 500MW, which could spare the existing hydro power plant (HPP) Nurek reservoir and avoid winter outages. The situation is due to improve in the years to come although tariffs will only reach cost recovery by 2010; and the recent completion of Sangtuda-1 by Russia (660MW to be fully operational in March 2009) and the future completion of Sangtuda-2 by Iran (220MW) in 2010, will enable the country to meet a rising demand and in addition will generate additional export capacity in the summer.

In the long-term, electricity could arguably become the country's main export item, in particular, if large HPP projects, such as the Rogun HPP, are realised. Two transmission lines, financed by the government of China and the ADB will link the north to the south, which will then be integrated. These lines will also facilitate the electricity trade between Tajikistan and its neighbours, also facing seasonal deficits of electricity.

The Bank's strategy in Tajikistan's power sector will focus mainly on supporting the development of small hydro plants. The Bank will support the Ministry of Energy and Industry to develop a new regulatory framework, which will facilitate the untapped small hydro potential, thus attracting private investment into the sector. Considering the limitations on public finance, the Bank will favour Public-Private-Partnership structures and cooperation with private utilities companies. A strong consideration will be given to projects with regional dimensions. The Bank will seek opportunities to work with Pamir Energy, a Public Private Partnership project in the Pamir supported by the IFC and the Aga Khan Development Network (AKDN). Renewable energy projects like wind or solar, albeit expensive today, could be considered on a stand-alone basis, should a strong local off-taker company be ready to pay for the increased available capacity.

The Bank will support the Ministry of Energy and Industry to develop a new regulatory framework, which will facilitate the untapped small hydro potential, thus attracting private investment into the sector.

The Bank will work with IMF and other IFIs to help Barki Tojik, the vertically integrated state-owned holding and its 28 subsidiaries in generation, distribution and transmission, and a *de facto* regulator, to become more transparent and accountable in its operations, with a view to restructuring and commercialising its operations in mid-term. The full audit of the company, to be completed in 2008, is a first step towards this goal.

### ***Energy Efficiency***

Given the recurring energy deficits, the lack of indigenous resources in the country, and despite a relatively low amount of big industries, the energy efficiency potential is significant in Tajikistan. The Bank will promote projects in three areas: industrial energy efficiency, cleaner fossil power production, and heating.

The first priority is to support energy efficiency project in small and medium sized energy intensive companies. Gas prices for Tajikistan have increased threefold over the previous strategy period and this trend is likely to continue in the foreseeable future. Energy efficiency measures can be quickly implemented, with a quick pay-back (usually less than 2 years).

A second source of energy efficiency potential will be the mitigation of carbon emissions in relation to coal-fired power production, which the country aims to develop to address the base load gap as well as to increase energy security. The Bank will work with the investors at an early stage of those projects to reduce carbon emissions and ensure that the best techniques are introduced.

A third source of energy efficiency that the Bank would like to explore is the heating market (i.e. hot water and heating supplies), centralised and individual. The introduction of solar heating systems could be profitable, as there are an estimated 250 days of sunshine per year. The Bank will try to develop, on a commercial private basis, projects based on existing pilot projects.

Developing carbon-saving projects will enable the Bank to promote the carbon market, which will ultimately be developed, as soon as the Kyoto Protocol is ratified by the country.

### ***Natural Resources***

Tajikistan has considerable mineral resources that have yet to see significant commercial operations. Licensing procedures are still complex and a greater clarity is needed for the policy and regulatory frameworks under which the sector operates. Recent improvements in the law on a profit-sharing agreement with the Government, as well as strong political support for investments in the mining sector are expected to lead to greater interest from overseas companies, mostly from Kazakhstan, Russia, India, United Kingdom and North America.

Mountains in Tajikistan are rich in gold, silver and copper, and projects are developing at a rapid pace. The coal mining sector is due to develop rapidly in parallel with thermal electricity generation. The high quality coal from central Tajikistan could easily be exported at higher price for processing to more

sophisticated markets. The Bank will consider financing such projects, potentially with other IFIs and will ensure that environmental as well as social standards are respected by strategic investors.

The Bank will aim at setting high standards for: (1) business conduct; (2) transparency; and (3) environmental protection. Only reputable investors with strong corporate governance records will be considered as potential partners. Transparency in license allocation will be thoroughly investigated. Environmental issues and mitigation measures will be dealt with at a very early stage (business plan, financing plan and Environmental Impact Assessment).

### **3.2.4 Environmental Impact of Bank Strategy**

With a particular emphasis on MSME development through local FIs, the Bank plans to provide further support to strengthen environmental and social risk management capacities of local FIs by organising an in-country environmental and social due diligence training workshop for partner FIs under the funding of the ETC Initiative. The training will ensure that partner FIs are capable of implementing environmental due diligence procedures, which are incorporated into the FIs' credit/investment appraisal process. The training module will include such issues as compliance of partner FI clients with national environmental, health and safety standards and requirements, public disclosure and consultation requirements, and employment laws and standards related to the employment of children and young people, discrimination at work, and forced labour. This training will also involve industrial and agricultural clients with whom the Bank has direct relations through DLF or DIF.

The support to critical municipal infrastructure will have a positive impact on the environment by reducing losses in pumping stations, decreasing the use of old inefficient equipment and transportations means, and raising environmental standards in municipal companies.

Any involvement in the power or mining sectors will require a careful review and assessment of the environmental and social impacts of the proposed projects. This is particularly important in the hydro power sector, given the issues associated with surface water usage in the Central Asian Republics, and the implications for agribusiness and desertification. There are likely to be significant opportunities in carbon credits, which should be explored, as soon as the country ratifies the Kyoto Protocol.

## **4. IFIs and Multilateral Donors**

### **4.1 International Monetary Fund**

The International Monetary Fund (IMF) has supported Tajikistan's economic reforms and stability since 1996. After 1998, the Government of Tajikistan implemented economic reform programmes with the support of the Poverty Reduction and Growth Facility (PRGF). The first PRGF, which disbursed a total of SDR 78.3 million, went off track in December 2001, due to delays in structural reforms. Subsequently, a Staff Monitored Programme (SMP) was successfully completed during 2002. The second three-year PRGF, approved in December 2002 (SDR 65 million), was fully disbursed, and expired in February 2006.

With effect from December 2004, Tajikistan accepted the obligations of Article VIII (Sections 2, 3, and 4) of the IMF Articles of Agreement, and as a result, maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, with the exception of exchange restrictions maintained for security reasons that have been notified to the Fund, pursuant to Executive Board decision No. 144-(52/51). The IMF's Executive Board approved debt relief for Tajikistan under the Multilateral Debt Relief Initiative (MDRI) in January 2006, on all debt incurred before 1 January 2005 (SDR 69 million), after which currently outstanding debt of Tajikistan to the IMF is SDR 29.40 million.

Due to the recently discovered misreporting by the Tajik authorities to the IMF, on 5 March 2008, its Executive Board decided that this amount of non-compliant PRGF disbursements would have to be repaid within a year (from September to December 2008 amounting to around US\$ 40 million in total). The Board expressed its regret on the nature and extent of misreporting, and emphasized the seriousness it attaches to the fact that MDRI resources extended to Tajikistan cannot be made subject to repayment. In taking its decision, the Executive Board carefully weighed Tajikistan's very difficult economic circumstances against serious instances of misreporting by the Tajik authorities. Accordingly, the Executive Board decided to exercise its discretion to extend the repayment period beyond the normal 30-day repayment expectation period called for under the misreporting framework. IMF staff have negotiated in June 2008 a new SMP, in order to provide the Tajik authorities with the possibility to rebuild a record of accomplishment of proper macroeconomic policy implementation, before a new PRGF could be negotiated. This SMP includes a special audit of the NBT and audits of Barki Tojik and Talco. These audits should be completed by the first quarter of 2009 and should create a basis for improving transparency and corporate governance in these companies and give a clearer picture of the country's financial position.

### **4.2 World Bank**

Tajikistan became a member of International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) in 1993. To date, World Bank Group assistance has consisted of poverty reduction measures, agriculture sector reforms, private sector development, health, education and social sector reform, institutional building and governance. To benefit the most vulnerable groups in rural areas, the emphasis is on creating ways of transferring agricultural

assets from public to private hands, enhancing incentives, and investing in rural infrastructure. This is complemented by investment in health, education, and social funds.

As at January 2008, IDA has approved loans for 29 lending and grant-funded projects (plus four supplemental credits) for a total commitment of approximately US\$ 450 million. Grants account for more than US\$ 96 million of this amount. The largest share of the portfolio is in the infrastructure/energy (water and energy) sector (44 per cent), followed by rural development sector (29 per cent). Human development (education and health) accounts for about 23 per cent of the portfolio. The economic management sector and public sector reform have the smallest share of 4 per cent of the total portfolio each.

The active portfolio of the WB as of January 2008 consists of 13 projects, with net commitments of US\$ 159 million, of which about 66 per cent of the total commitment remains undisbursed.

### **4.3 International Finance Corporation**

Since the country became a member in 1994, the International Finance Corporation (IFC) has committed investments of more than US\$ 36 million in 12 projects in Tajikistan ranging across many sectors: mining, utilities, textiles, agriculture, information technology, financial sector, and Small and Medium Enterprises (SMEs). Through its Private Enterprise Partnership for Eastern Europe and Central Asia (PEP), IFC has committed more than US\$ 10 million in 8 advisory services programmes.

The World Bank's Board of Executive Directors has approved the current Country Partnership Strategy covering the four-year period of fiscal years 2006-2009 on 27 July 2005. The strategy seeks to achieve concrete results in assisting the Government to reduce poverty by supporting growth through improving economic opportunities and building stronger human capital. Specifically, it focuses on:

- ***Improving business opportunities in rural and urban areas*** through strengthening of the financial sector, reducing the cost of doing business, supporting the measures to improve the access to agricultural land and reducing rent seeking in the cotton sector.
- ***Enhancing and preserving the quality of human capital.*** The World Bank will help improve the system of resource allocation to education and health, create conditions for better teaching and primary school attendance, increase utilization of primary healthcare, and increase the supply of safe water in selected areas.
- ***Exploiting the country's hydropower potential.*** The World Bank intends to support efforts to increase efficiency of the domestic energy sector through improved cost recovery, and to assist the Government in attracting foreign investment in the hydropower sector.

In support of the above strategic objectives, the Bank works with the Government to improve its capacity and efficiency, and reduce corruption by giving special emphasis to measures that increase transparency of resource use, reduce excessive controls and encourage the participation of users in the provision of services.

The indicative level of the funding for 4 years is about US\$ 148 million. Funding for projects approved in fiscal year 2006 was allocated on a 100 per cent grant basis. The term of the current Country Partnership Strategy will end on 30 June 2009 (when the WB fiscal year comes to a close).



#### **4.4 Asian Development Bank**

Tajikistan became a member of the Asian Development Bank (ADB) in April 1998. For the period 1998-2007, the ADB's programme for Tajikistan comprises of 22 loans in the transport, energy, education, healthcare, agriculture and financial sectors, totalling US\$ 353 million equivalent. In addition, about US\$ 33 million has been provided as grant technical assistance for 43 technical assistance projects, and approximately US\$ 39.5 million has been given as grant projects financed by the Japan Fund for Poverty Reduction. The ADB aims to focus on three key areas: i) agriculture, ii) infrastructure (especially energy and transport sectors), and iii) social sector. Tajikistan is fully accessible to concessional resources (i.e. Asian Development Fund (ADF)).

In the agriculture sector, there are two projects including the agriculture rehabilitation project loan (US\$ 35 million in 2002) and irrigation rehabilitation project loan (US\$ 22.7 million in 2004).

In the transport sector, the ADB approved two projects; the Road Rehabilitation project (US\$ 20 million in 2000), which aims to rehabilitate the Dushanbe-Kurgantobe-Dangara-Kulyab road, and the Dushanbe-Kyrgyz border road rehabilitation project (Phase I) (US\$ 15 million in 2003), which improves the transportation link north and east through the Kyrgyz Republic. The second phase of the Dushanbe-Kyrgyz border road rehabilitation project was signed in November 2007 during the CAREC meeting in Dushanbe, thus completing rehabilitation of the regional transport corridor towards the border with the Kyrgyz Republic. Approval of the Road Rehabilitation project, from Dushanbe to Tursun-Zade reaching the border with Uzbekistan in the west of the country, covering, in total, approximately 70 km, is planned for the year 2009.

In the power sector, the ADB has approved two projects; a power rehabilitation project (US\$ 34 million in 2000), and a regional power transmission modernization project loan (US\$ 20 million in 2002). In 2008, the ADB is planning to approve the Nurek HPP 220kV and 500kV switchyards rehabilitation project jointly with the KfW (the total project cost is about US\$ 80 million).

The proposed 2007–2010 lending and grant programme includes three programmes and six projects totalling US\$ 277.5 million. Three regional projects are tentative, pending confirmation of ADF allocation from the sub-regional window. The non-lending programme for 2008–2009 comprises eight TA projects for a total of US\$ 4.7 million. ADB's current portfolio consists of 12 ongoing loans for a net amount of about US\$ 220 million; all loans under implementation are rated as satisfactory.

The next Country Partnership Strategy (CPS) for Tajikistan is due in 2009, developed alongside a joint country strategy with other development partners. The CPS is expected to be managed through a results-based framework, drawing from an ongoing ADB advisory TA on Strengthening Result Management in Support of Poverty Reduction and anchored in Tajikistan's national development strategies. It will remain strongly embedded in the country's development agenda, keeping its focus on (i) the transport, trade facilitation, and energy priorities of the Central Asia Regional Economic Cooperation (CAREC) Programme; (ii) agricultural development through

support to the implementation of the roadmap for agriculture reforms, essentially in relation to the cotton sector development and the crop diversification strategy; and (iii) investments in the social sector, with an expected shift from project-based interventions to more programmatic and sector-wide approaches.

The majority of the ADB's assistance to Tajikistan, both lending and non-lending, has been channelled through the republican budget and is integrated into development priorities of the country, as set out in the national development strategies. While country systems for financial management and procurement have to be strengthened to be widely adopted, ADB encourages the use of the National Procurement Law under its national competitive bidding procedures.

#### **4.5 United Nations Development Programme**

The United Nations Development Programme (UNDP) has been on the ground in Tajikistan since 1994. Nowadays, Tajikistan is a peaceful and stable country, with a rapidly developing economy, but it is still simultaneously facing challenges of transition, a post-conflict state and of "ordinary" poverty reduction. UNDP's programme in the country consequently represents a broad spectrum of activities, within all five practice areas: poverty reduction, democratic governance, crisis prevention, energy and environment, and HIV/AIDS.

Each year, the Government of Tajikistan and UNDP sign an Annual Work Plan, specifying the planned activities for the year, award by award. There are four UNDP thematic areas: transforming livelihoods, redistributing responsibilities, overcoming mountains, and reversing declines.

Most of UNDP's projects in Tajikistan belong both to a global UNDP practice area and to a national UNDAF award.

The current direction for the UNDP country programme will focus sharply on certain of the priorities in the National Development Strategy. The UNDP Country Programme will contribute directly to meeting the outcomes set forth in the United Nations Development Framework (UNDAF) and Country Programme Action Plan (CPAP), focusing on four interlinked thematic areas: (1) Transforming livelihoods - increased agricultural productivity, food security and economic opportunities, especially for women and vulnerable groups; (2) Redistributing responsibilities - increased responsiveness and accountability of decision-making structures, including the justice system; and (3) Reversing declines - strengthened capacity to prevent and reduce infectious diseases, especially HIV/AIDS, malaria and tuberculosis as well as building capacities for mine action and (4) Overcoming mountains - natural resources sustainably managed and fewer persons killed or affected by disasters. It will focus on supporting the Government in its progress towards achieving the MDGs, by advancing economic and democratic reforms, improving environment and fostering the participation of civil society in development processes at national and local levels.

#### **4.6 Islamic Development Bank**

Tajikistan became a member of the Islamic Development Bank (IsDB) in November 1996 with a capital subscription of Islamic Dinars 2.5 million (US\$ 3 million). The

first IsDB operation in Tajikistan was approved on 29 October 1991 (SA operation) before its formal membership and the most recent project was approved on 18 February 2008 - Dangara Valley Irrigation Project, Phase II with financing from the IsDB of US\$ 13.17 million). As at June 2008, there were a total of 32 IsDB operations in Tajikistan, amounting to US\$ 142.52 million, of which 17 loans (all concessional financing), 10 Technical Assistance Grants, 4 Special Assistance (grant) projects, and 1 Trade Financing operation. Of the 32 overall projects, 15 are already completed, and 17 are under implementation. Sectoral distribution of IsDB financing in Tajikistan is given in a table below:

SECTOR DISTRIBUTION		
SECTOR	NO.	AMOUNT (US\$)
Agriculture, Fishing & Forestry	3	22.05
NDFI & Others	5	2.14
Transport & Communication	5	35.12
Social Services	7	37.32
Public Utilities	7	45.89
Total	27	142.52

The largest completed projects, financed by IsDB include: i) Republican Center for Cardio-Vascular & Thoracic Surgery, ii) Reconstruction and Completion of Secondary Schools, iii) Construction of Murgab - Kulma Pass Highway, iv) Dangara Valley Irrigation Project, phase I. Large projects under implementation include: i) Dangara Valley Irrigation Project, phase II (co-financed by the Kuwait Fund for Economic Development), ii) Construction and Equipping of Dangara General Hospital, iii) Reconstruction of Secondary Schools, phase II.

IsDB actively cooperates with other donor, bilateral and multilateral organizations in the region. Among projects co-financed by the IsDB in Tajikistan are Shagon-Zigar road (Phase I and II) together with the Arab Coordination Group, Dushanbe Water Supply with the World Bank, and Power Rehabilitation with the ADB.

#### **4.7 Aga Khan Development Network**

The Aga Khan Development Network (AKDN) is a group of private, international, non-denominational agencies working to improve living conditions and opportunities for people in some of the poorest parts of the developing world. AKDN brings together a number of agencies, institutions and programmes that have been built up over the past forty years. AKDN's organizations have individual mandates that range from the fields of health and education to architecture, rural development and the promotion of private sector enterprise. Together they collaborate in working towards a common goal to build institutions and programmes that can respond to the challenges of social, economic and cultural change on an ongoing basis.

AKDN started working in Tajikistan at the invitation of the Government of Tajikistan and in May 1995, entered into an Agreement of Cooperation with the Government. Initially the efforts of AKDN were focused on mobilizing and providing humanitarian assistance. As Tajikistan has made the transition from humanitarian to development issues, AKDN launched a number of innovative social programmes in the areas of health, education, rural development and micro-credit. To help create employment and develop a stable economic climate, AKDN has launched projects in four sectors

that the Government of Tajikistan has identified as being of strategic importance: Banking, Telecommunications, Energy and Property Tourism. To date, with the support of many governments and international donor agencies, AKDN has mobilized over US\$ 300 million for projects and programmes in Tajikistan.

## 4.8 European Union

Once ratified, the Partnership and Cooperation Agreement (PCA), which was signed on 11 October 2004, will provide the legal framework for EU-Tajikistan bilateral relations. Pending ratification in the 25 member states and Tajikistan, an Interim Agreement on trade and trade-related matters (signed in October 2004) will provide the basis for the implementation of the trade related provisions of the Agreement. The Interim Agreement also updates some of the provisions of the Trade and Cooperation Agreement, signed in 1989, with the then Soviet Union and subsequently, endorsed by Tajikistan.

Tajikistan is by far the most significant per capita beneficiary of EU assistance in Central Asia. From 1992 to 2006, the Community budget has provided to Tajikistan more than EUR 500 million, most of it in the form of grant financing. The assistance was delivered mainly through the TACIS Programme. The former TACIS assistance, which is still being implemented, is delivered through a three-track approach, which consists of: i) regional cooperation programmes designed to promote good neighbourly relations and concerted work between the Central Asian countries using a pragmatic, 'variable geometry' format in areas where the EU has a strategic interest. These include transport and energy networks, sustainable use of natural resources and implementation of international environmental conventions, justice and home affairs and border management; ii) regional support programme, implemented at national level designed to address the main common challenges to sustainable economic development. It focuses on PCA/TCA implementation, socio-economic reforms, Poverty Reduction Strategy implementation as well as reform of the education sector; iii) poverty reduction scheme piloted in 2-3 target regions, focusing on poverty alleviation, community and rural development and centred on the most vulnerable groups. The poverty alleviation schemes are implemented in the district of Khatlon (southern Tajikistan) and in the Ferghana valley in the north of the country.

Tajikistan has also received 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, disbursed in successive annual tranches.

In June 2007, the EU endorsed the EU Strategy for Central Asia. The National Indicative Programme for Tajikistan provides for EUR 66 million from 2007-2010 in bilateral assistance. It is mainly delivered through the new DCI (Development Cooperation Instrument). This is to be added to EU member countries own bilateral assistance. The EU as a whole and the EC in particular is present in Tajikistan in social sectors (social protection, education and health), as well as private sector development with a focus on poverty alleviation. Tajikistan is also a beneficiary of Central Asian regional programmes, such as Central Asia Invest, migration and environment programmes. Border management remains a very important issue and continues to be supported through the regional BOMCA and CADAP programmes.

EU-EBRD cooperation includes support to the TAM/BAS Programme, microfinancing and the transport sector (aviation). The Action Programmes for 2009-2010 are not yet finalised, but a focus on social sectors and Private sector development is to be expected.

## **Annex 1 – Political Assessment**

Tajikistan is making progress towards implementation of the principles of Article 1 of the Agreement Establishing the Bank. The country's advancement towards market orientation of its economy has been gradual and is affected by many remaining internal and external challenges, including fragility of the macroeconomic environment.

Transition to a multi-party democracy and political pluralism has been slow, with the last presidential election of November 2006 failing to meet international standards for free and fair elections. At the same time, the election marked some improvement compared with the 1999 presidential election.

Tajikistan has many political parties, including opposition parties, and a network of NGOs. However, what remains a challenge is the development of genuine political pluralism with the ruling pro-presidential party continuing to dominate the political scene of the republic.

More than ten years have passed since the signing of the Peace Agreement in June 1997. This accord ended years of devastating civil war. The situation in the country has stabilised and immediate post-conflict rehabilitation tasks have been replaced by the objectives of ensuring social and economic development of the country, which remains among the most impoverished countries in the post-Soviet area. Poverty and unemployment, combined with weak institutions, ineffective judiciary and significant drug transit from neighbouring Afghanistan contribute to pervasive corruption and make public governance and poverty alleviation key priorities for the country.

These challenges, which the country has been traditionally faced with, are now further exacerbated by lingering social and economic consequences of the unusually harsh winter conditions of the last year, related to water and electricity shortages and rising food and fuel prices.

### **Political Environment**

The Constitution establishes a system of separation of legislative, executive and judicial branches of power but in practice the system of checks and balances is not effective and a strong executive dominates both legislature and judiciary. In 1999, the Constitution was amended to introduce a seven-year mandate for the President and a bi-cameral structure of Parliament (Majlisi Oli), comprising the National Assembly or upper chamber (Majlisi Milli) and the Assembly of Representatives or lower chamber (Majlisi Namoyandagon). The latter has 63 members directly elected for five years, while the upper chamber is indirectly elected.

The last presidential election took place on 6 November 2006 and brought another seven-year term in office to President Imomali Rahmon. The Constitution allows the President to contest another election at the end of his current term in office in 2013. The presidential election was monitored by the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR), which concluded that it did not fully test democratic practices in the country due to a lack of genuine choice and meaningful pluralism. The monitors revealed substantial shortcomings in the electoral process. Despite the presence of five candidates the presidential election was characterised by a marked absence of competition. At the same time the election saw some improvement over previous polls.

The elections to the lower chamber of parliament took place in 2005 and were the first parliamentary elections in the post-civil-war years. Similar to the latest presidential polls, the parliamentary elections failed to meet many of the key commitments for democratic elections but showed, nevertheless, some improvement over previous polls. The pro-presidential

People's Democratic Party (PDP) kept its overwhelming majority in the new parliament with two other political parties - the Communists and the Islamic Renaissance Party (IRP) - crossing the five per cent threshold, required to gain seats in parliament.

The parliamentary and presidential elections have reflected the process of continued consolidation of power in the presidency which has been taking place over the last few years. The President remains in control despite heightened potential for social discontent over significant food and fuel price increases, unprecedented harsh winter conditions and related electricity cuts. The President's supporters continue to hold key positions in state and local government, effectively marginalising political opponents.

Strictly-controlled media environment is adding to the process of sidelining opposition. The media environment in Tajikistan remains largely state controlled and the freedom of the media is limited. In its 2008 report on Freedom of the Press, Freedom House has rated the Tajik press as "not free". Pressure exerted on private media outlets and journalists results in widespread self-censorship.

### **Rule of Law and Human Rights**

Tajikistan ratified all major international human rights conventions and the Optional Protocol to the International Covenant on Civil and Political Rights. However, according to specialised international observers, the overall situation with the rule of law and human rights remains poor.

The judiciary is not independent and corruption is continuing to hamper democratic and social reform. Notwithstanding improvements in the legislative framework, implementation of the adopted laws is weak. Judicial reform should be given a high priority as only effective system of rule of law could contribute to sustainable economic growth, alleviation of widespread poverty and protection of civil and political rights of the citizens.

In the context of suggested improvement of the EU Central Asia Strategy, Human Rights Watch focused on three areas of concern as part of the engagement with Tajikistan in the field of human rights: i) the conduct of trials, including investigation of all allegations of torture; ii) harassment of civil society groups and independent journalists, iii) an early inclusion of civil society groups and NGOs in the drafting of the new legislation.

The latest U.S. State Department Country Report on Human Rights Practices, covering events of 2007, identified, *inter alia*, such problems as restricted freedom of speech, the press and media; restricted freedom of association; restricted freedom of religion, including freedom of worship; the cases of imprisonment of political opposition, including journalists and harassment of NGOs.

With regard to human trafficking, Tajikistan is qualified as being a Tier 2 country by the June 2007 State Department Report. This means that the Government of Tajikistan does not fully comply with minimum standards for the elimination of trafficking but it is making significant efforts to bring itself into compliance with those standards. The report indicated that the Government of Tajikistan failed to amend its current trafficking legislation to define trafficking and failed to demonstrate vigorous efforts to combat government complicity in trafficking.

In the area of labour rights, there is a basic legal framework in place for the freedom of association, elimination of forced and compulsory labour and non-discrimination in respect of employment and occupation. Difficulties are encountered in the implementation of the adopted reform policies. Child labour remains a problem as the Government did not enforce

regulations on acceptable working conditions for children. The practice of employing students to work in the cotton fields has continued.

Women in Tajikistan disproportionately suffer from poverty and unemployment being negatively affected by consequences of the significant, and mostly male, labour migration. In May 2008 the UN Special Rapporteur on “Violence against Women” visited Tajikistan at the invitation of the Government. The rapporteur identified a weak protective infrastructure in the country, which results in the increased vulnerability of women to violence and discrimination both inside and outside of their home environment.

### **External Relations**

In relations with the outside world, Tajikistan continues to pursue a “multi-vectoral” policy geared towards maintaining a balance in relations with all its neighbours. The proximity of Afghanistan remains a problem from a stability point of view due to the significant drug transit issues.

Traditionally, strong military and economic relations with Russia have continued over the last few years. A relatively new factor is an increased economic presence of China in a number of infrastructure projects in Tajikistan.

A member of the CIS, Tajikistan is an active participant in regional organisations, including the Eurasian Economic Community (Eurasec), Economic Cooperation Organisation (ECO) and Shanghai Cooperation Organisation (SCO), the latter including China, Russia, Kazakhstan, Uzbekistan, Tajikistan and the Kyrgyz Republic. The country hosted the August 2008 Summit of the Heads of State of SCO.

Tajikistan has a Partnership and Cooperation Agreement with the EU. Within the parameters of the Strategy for Central Asia, EU is developing closer ties with Tajikistan.



## Annex 2 – Selected Economic Indicators

	2002	2003	2004	2005	2006	2007 <i>Estimate</i>	2008 <i>Projection</i>
<b>Output and expenditure</b>							
	<i>(Percentage change in real terms)</i>						
GDP	9.1	10.2	10.6	6.7	7.0	7.8	7.0
Industrial gross output	6.3	9.9	13.8	8.5	6.7	9.9	na
Agricultural gross output	14.0	9.1	11.3	3.1	4.8	6.5	na
<b>Employment</b>							
	<i>(Percentage change)</i>						
Labour force (annual average)	1.7	1.5	10.4	1.0	1.4	-0.1	na
Employment (annual average)	1.5	1.5	10.8	1.1	1.2	0.0	na
	<i>(In per cent of labour force)</i>						
Unemployment (annual average) <sup>1</sup>	2.5	2.4	2.0	1.9	2.2	2.2	na
<b>Prices and wages</b>							
	<i>(Percentage change)</i>						
Consumer prices (annual average)	12.2	16.4	7.2	7.3	10.0	13.2	20.8
Consumer prices (end-year)	14.5	13.7	5.7	7.1	12.5	19.8	15.0
Producer prices (annual average)	10.1	15.0	17.1	10.7	42.7	21.8	na
Producer prices (end-year)	19.0	14.1	15.1	5.6	54.3	17.6	na
Gross average monthly earnings in economy (annual average)	38.0	37.6	36.3	41.1	36.7	36.4	na
<b>Government sector<sup>2</sup></b>							
	<i>(In per cent of GDP)</i>						
General government balance	-2.4	-1.8	-2.4	-2.9	1.7	-6.2	-7.6
General government expenditure	19.2	19.1	20.3	23.0	21.9	27.8	na
General government debt	89.4	64.8	43.1	42.3	35.5	34.8	na
<b>Monetary sector</b>							
	<i>(Percentage change)</i>						
Broad money (M2, end-year)	55.3	42.0	51.6	30.2	63.4	78.8	na
Domestic credit (end-year)	14.0	-6.5	52.7	32.7	27.2	71.0	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	10.0	10.0	11.7	13.0	16.5	21.4	na
<b>Interest and exchange rates</b>							
	<i>(In per cent per annum, end-year)</i>						
Monetary policy rate	24.8	15.0	10.0	9.0	12.0	15.0	na
Deposit rate (up to 3 months)	11.6	14.6	8.6	8.6	8.2	5.5	na
Lending rate (up to 3 months)	13.4	15.6	21.3	25.6	26.7	22.5	na
	<i>(Tajik somoni per US dollar)</i>						
Exchange rate (end-year)	3.0	2.9	3.0	3.2	3.4	3.5	na
Exchange rate (annual average)	2.8	3.1	3.0	3.1	3.3	3.4	na
<b>External sector</b>							
	<i>(In millions of US dollars)</i>						
Current account	-42.9	-19.9	-81.6	-61.9	-78.7	-414.7	-467.0
Trade balance	-93.9	-103.1	-151.2	-622.0	-986.4	-1,673.0	-2,535.0
Merchandise exports	730.4	900.0	1,087.8	345.7	349.5	385.0	424.0
Merchandise imports	824.3	1,003.2	1,239.0	967.7	1,335.9	2,058.0	2,959.0
Foreign direct investment, net	36.1	31.6	272.0	54.6	65.9	160.0	190.0
Gross reserves, excluding gold (end-year) <sup>3</sup>	96.0	135.0	-64.0	-37.0	67.0	56.0	na
External debt stock	1,272.0	1,302.6	1,156.0	1,175.7	1,186.2	1,505.6	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year) <sup>3</sup>	1.2	1.4	-0.5	-0.4	0.5	0.3	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	13.3	11.2	28.1	15.8	31.0	14.4	na
<b>Memorandum items</b>							
	<i>(Denominations as indicated)</i>						
Population (end-year, million)	6.2	6.3	6.3	6.3	6.4	6.4	na
GDP (in millions of somoni)	3,344.6	4,758.0	6,158.0	7,201.0	9,272.0	12,779.7	16,513.6
GDP per capita (in US dollars)	193.1	248.1	328.5	364.3	440.5	578.3	na
Share of industry in GDP (in per cent)	22.1	20.9	19.6	21.3	28.0	30.7	na
Share of agriculture in GDP (in per cent)	26.3	25.2	21.6	17.2	22.0	23.2	na
Current account/GDP (in per cent)	-3.6	-1.3	-3.9	-2.7	-2.8	-11.2	-9.7
External debt - reserves (in US\$ million) <sup>3</sup>	1,176.0	1,167.6	1,220.0	1,212.7	1,119.2	1,449.6	na
External debt/GDP (in per cent)	105.8	83.8	55.8	50.9	42.2	40.6	na
External debt/exports of goods and services (in per cent)	159.1	132.3	95.5	195.5	182.1	214.4	na

<sup>1</sup> Officially registered unemployed.

<sup>2</sup> Includes externally financed public investment programmes.

<sup>3</sup> From 2005 excludes pledged deposits of NBT.

## **Annex 3 – Environmental Situation**

### ***Background***

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. 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 intensive use of pesticides and fertilizers in the major cotton producing areas of the country has resulted in the 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 Programme to address the root causes of the overuse and degradation of the international waters of the Aral Sea Basin (Uzbekistan, Kazakhstan, Tajikistan, Turkmenistan, and Kyrgyz Republic).

Tajikistan's most noticeable environmental issues are soil erosion, soil damage due to irrigation, deforestation, 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 degradation and pollution have 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 2002.

### ***National Environmental Action Plan***

Tajikistan has earlier developed and is now in the process of implementing a range of state programmes and action plans, related to the use and management of natural resources, climate change, human health, ecological education, conservation and biodiversity. An overall environmental context for the above programmes and plans has been established later in the National Environmental Action Plan (NEAP), which was prepared in 2006 with the support of the World Bank and UNDP. The NEAP, approved by the Governmental Decree, dated 3 May 2006, is a strategic document which establishes a framework for optimal nature management, conservation of the most sensitive and valuable ecosystems, in order to provide balanced environmental and economic development. The NEAP identifies specific events of the State Environmental Programme for the period 2006 -2008. The NEAP also establishes priority measures and the main guidelines for actions for the rational exploitation of natural resources and improvement of the existing environment.

In accordance with decision of World Summit on Sustainable Development, there is a signed Memorandum between the federal environmental authority, the State Commission for the Environment Protection and Forestry, within the Ministry of Agriculture, and UNEP to assist Tajikistan design the National Development Strategy. In March 2007, the Government of Tajikistan adopted the National Development Strategy (NDS) for 2007-2015 which lays out a plan to achieve the Millennium Development Goals. The NDS focuses on strengthening of the institutional potential with a view to promoting environmental sustainability, solutions to problems, associated with natural disasters, promotion of conservation and proper management of biodiversity and ecosystems. The Government also approved the Poverty Reduction Strategy Paper for 2007-2009.

Since January 2004, a number of state programmes have been adopted in the area of bee-farming; the growth, picking and processing of medicinal herbs for the production of medicine for 2005-2014; a state programme on forestry development for 2006-2015; and a state programme on development of the natural areas of preferential protection for 2005-2015. The state ecological programme, for the years 1998-2008 provides the framework for sustained development of the country in economic and environment areas, conservation of nature and social balance associated with environmental concerns (shortage of land, pollution, provision of water resources, open air serenity, conservation of biodiversity, support of the normal efficiency status of forests and rangelands). The implementation of this programme is assigned for all ministries, agencies, institutions and organizations including international. Due to a lack of financing, the Government does not have any opportunities for the implementation of the entire programme. In June 2006, a Government Decree elaborated on a new state programme of environmental assistance under the Ministry of Agriculture.

### ***Protected Areas, Biodiversity, and Desertification***

The State Agency of the natural areas of preferential protection of the National Park of the Republic of Tajikistan was established by Governmental Decree in March 2004. Plans have been made for a 2.6 million ha. Pamir National Park, which was legally established in 2003 and comprises four state conservation areas with a total area of 173,000 hectares (ha), two natural parks and 13 nature reserves. The total area of Tajikistan to be provided preferential nature protection is 3.1 million ha or more than 25 per cent of the whole territory of the republic. The Zorkul conservation area is also a part of the State Agency of the natural areas of preferential protection of the National Park of the Republic of Tajikistan. The Pamir National Park project creates a special conservation area on Pamir-Alay territory for Marco Polo sheep, ibex, snow leopards and other vulnerable species. The territory will create a large reserve involving parts of Tajikistan, Afghanistan, Pakistan and China - the Pamir-Alay National Park and is supported by the European Commission and TACIS.

The Government of Tajikistan has signed and ratified a number of international conventions on environment, including the UN Convention on Biological Diversity, the Ramsar Convention on the protection of wetlands (94,600 ha of land are designated Ramsar sites), the UN Convention on Climate Change, Stockholm Convention on Persistent Organic Pollutants, 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.

Desertification is a key issue for Tajikistan, and in 2001, the Government agreed a National Action Programme for combating desertification, following three years of drought. Drought in the region has caused a shortage of food, and increase of erosion and land degradation. Power shortages have resulted in increasing deforestation, and this has accelerated the desertification process. The State Ecological programme for 1998-2008, as well as the NEAP envisage the measures on prevention of erosive processes; however serious deficiency of financing does not allow implementing specified measures to the full extent. To achieve the necessary results, attraction of target international investments and an increase in budgetary financing is required.

### ***Environmental Organisations and Public Consultation***

In 2007, Tajikistan had 38 registered environmental NGOs working at the national level, down from 50 groups, registered in 2004. A number of NGOs were directly involved in development of NEAP and implementation of the Central Asia Regional Environmental Action Plan.

Tajikistan signed and ratified the Aarhus Convention on Public Access to Environmental Information, Public Participation in Decision-Making, and Access to Environmental Justice in 2001. The 5<sup>th</sup> of June is celebrated as International Nature Protection Day, organised by the local Aarhus Centre and the State Committee for the Environment Protection and Forestry and the schools of Dushanbe. The Aarhus Centre conducts a number of events, such as meeting students in Dushanbe. Students are involved in a variety of activities in the region on nature protection.

As the poorest country of the CIS, Tajikistan needs to address environmental and related health issues in the context of economic improvement for the Tajik 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 4 – Legal Transition

### ASSESSMENT OF TAJIKISTAN’S COMMERCIAL LAWS

#### Legal Reform

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws “on the books” (also referred to as “extensiveness”) and the actual implementation of such laws (also referred to as “effectiveness”). All available results of these assessments can be found at [www.ebrd.com/law](http://www.ebrd.com/law). This annex presents a summary of the results for Tajikistan, accompanied by critical comments of the Bank’s legal experts who have conducted the assessments.

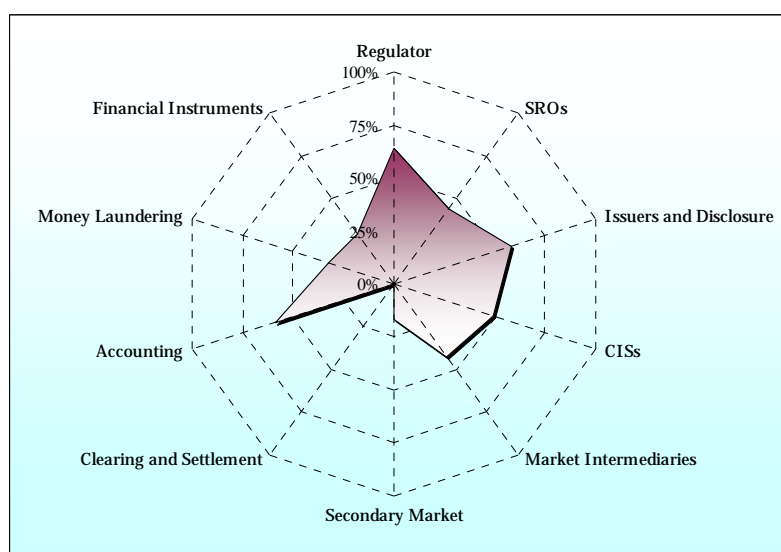
#### Capital Markets

In Tajikistan, the basic legislation on securities markets is essentially comprised by the Law on Securities and Securities Market dated 10 March 1992, as amended in March 2006. The law sets forth the requirements for the issuance of securities, regulates the activities of brokers and details investors’ protection rules.

There is currently no independent authority for securities markets supervision in Tajikistan. The Law on Securities and Securities Market grants the Agency for the Development of Securities Market of the Ministry of Finance authority over securities market supervision, while the National Bank of Tajikistan is in charge of banking supervision (including microfinance organisations). There is no active stock exchange in Tajikistan.

According to the EBRD Securities Markets Legislation Assessment conducted in 2007, the country was found to be in “very low compliance” with the Objectives and Principles of Securities Regulation published by the International Organization of Securities Commissions (IOSCO) – see chart below- showing a legal framework in critical need of reform.

#### Quality of securities market legislation – Tajikistan (2007)



*Note:* The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in IOSCO’s *Objectives and Principles for Securities Regulations*. The fuller the ‘web’, the closer the relevant securities market legislation of the country approximates these principles.

*Source:* EBRD Securities Market Legislation Assessment 2007

Shortcomings have been highlighted in all areas under

consideration: the regulator is not independent, the regulation of collective investment schemes is not yet contemplated by law and money laundering provisions are weak (although

a new law on anti money laundering and counter terrorism financing has been under discussion for some time).

In order to understand how securities market legislation works in practice, the EBRD recently concluded the 2007 Legal Indicator Survey (“the LIS”). Practitioners in the region were asked to comment on a hypothetical case study, advising an investor who lost his savings after buying shares in a national company’s Initial Public Offering (IPO), misled by erroneous information in the prospectus. In particular, the Survey concentrated on effectiveness of prospectus disclosure requirements, private and public enforcement mechanisms and authority of the market regulator.

Effectiveness of securities markets legislation is very low in Tajikistan. The country lacks a functioning stock exchange and IPOs are not a common practice of corporate financing. The degree and the quality of disclosure in the prospectus are poor and although the law requires the prospectus to be registered upon the issuance of securities, this rule is generally not implemented. Further, there are no effective sanctions for breach of the law. The law provides for some course of court action but with very limited effectiveness: procedures are complex and the foreseeable recovery rate is low. Securities markets institutions are unable to provide the necessary support to court action while the experience of courts, prosecutors and securities market regulator in complex corporate law cases needs to be enhanced. Administrative measures are not deemed effective to discourage illicit behaviour and corruption is perceived as a problem. Finally the regulator lacks the necessary independence from the political sector and it has little sanctioning, investigative and rulemaking powers.

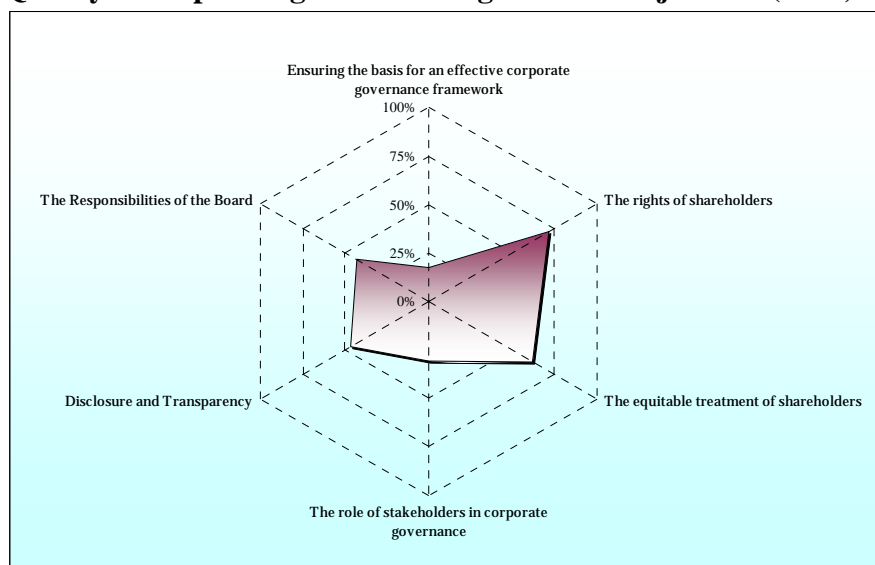
The authorities need to enhance the dialogue with the key market players (i.e. banks) for enhancement of the legal framework, concurrently addressing the problems related to law implementation and reforming the legal framework in line with international standards. The anti money laundering law also needs to be adopted in the near future. More importantly, it needs to be understood and supported with adequate training for bankers, lawyers, prosecutors and state officials.

### **Company Law and Corporate Governance**

The basic legislation on corporate governance in Tajikistan is entrusted in the new Law on Joint Stock Companies (JSC), which entered into force on 15 March 2007.

JSC, together with more than 50 shareholders (i.e. open joint-stock companies), is organised under a two-tier system, where both the supervisory board and the management board are appointed by a general meeting of shareholders.

## Quality of corporate governance legislation – Tajikistan (2008)



*Note:* The extremity of each axis represents an ideal score, i.e., corresponding to OECD Principles of Corporate Governance. The fuller the 'web', the more closely the corporate governance laws of the country approximate these principles

Source: EBRD Corporate Governance Sector Assessment, 2008 assessment

According to the preliminary results of the EBRD's 2008 Corporate Governance Sector Assessment, under which the quality of corporate governance legislation is assessed, Tajikistan showed a low level of compliance with the relevant international standards (the OECD Principles of Corporate Governance). The results show some improvements since the last EBRD assessment, but many weaknesses still remain.<sup>11</sup> Only the legislation detailing the rights of shareholders was found to be substantially in line with the relevant best practices. Instead, major shortcomings were found in the sections on the mechanisms for ensuring the basis for an effective corporate governance framework, the role of stakeholders in corporate governance, disclosure and transparency and the responsibilities of the board.

In 2005, the EBRD conducted a survey for testing the effectiveness of corporate governance (how the law works in practice). A case study dealing with related-party transactions was designed. The case study investigated i) the position of a minority shareholder seeking to access corporate information on a presumed related-party transaction entered into by the company and ii) how compensation could be obtained in case damage was suffered. Effectiveness of the system for both questions was assessed based on four principal variables: complexity, speed, enforceability and institutional environment.

The survey revealed that there are limited avenues allowing a minority shareholder to request disclosure in Tajikistan. Procedures are complex and the time needed for obtaining a court order is limited making enforceability a major problem. Judgements are, as a rule, difficult to enforce because there is no specific law on enforcement proceedings, and court executors do not have necessary enforcement machinery, especially against powerful defendants. The situation is similar when considering redress mechanisms. With regard to the institutional environment, the survey revealed that the framework on related-party transactions is weak, the competence and experience of courts, prosecutors and market regulator need to be improved, case law collections are not available and corruption and partiality of judgements are still reported as problems.

<sup>10</sup> For a complete analysis of the corporate governance framework in Tajikistan, please see: <http://www.ebrd.com/country/sector/law/corpgov/assess/tajik.pdf>

## Concessions

The Tajik Concession Law (the “Law”) was adopted in 1997. It was supplemented in 2000 by the Regulations on Concession Agreements and on Auctions and Tenders. Additionally, a Governmental Resolution lists objects that may be the subject of concessions while the Regulations on Procedure of Concession Contract Registration provide for the registration of concession contracts.

There is no written policy framework document or reference promoting public-private partnership in Tajikistan although the Concession Law provides that the Government shall draw up priority investment programmes.

Despite a seemingly extensive legislative/regulatory framework the regime is too vague in most of the core areas. Its definitions and scope of application need serious improvements (concession is defined as the "transfer of temporary exploitation of enterprises (associations) belonging to the state, land with right of extraction of minerals, construction of infrastructure, water resources and other natural resources not forbidden by the Republic of Tajikistan", which leaves the list of concerned sectors unclear.

The selection procedure requires further clarification. Even though regulations exist in this respect, they are in many respects repetitive with the Law. Amongst particular shortcomings one could mention the following: pre-selection procedure is not regulated or even mentioned, unclear grounds for direct negotiations (those are mentioned as possible in "exceptional cases", and subject to government decision), and no regulation of unsolicited proposals.

Even though the Law contains provisions on the project agreement, they lack the required flexibility for the negotiation of such agreements (e.g. the law provides for a priority of the state to purchase concession production, there are restrictions with regard to assignment of concessionaires' rights).

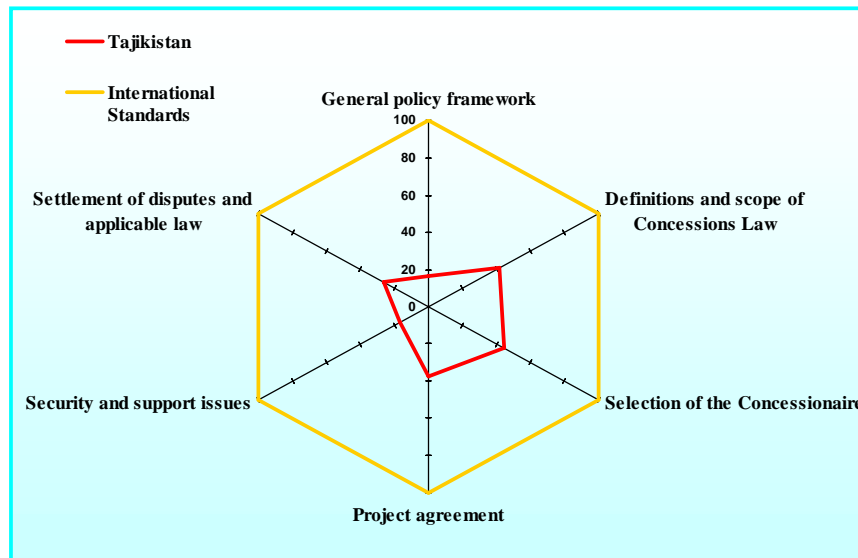
Finally, the Law is not substantially developed as far as state support and financial securities are concerned. Also, the possibilities for choosing international arbitration are limited.

There are, however, a certain number of positive elements such as the reference to the "mutual benefit", and "non-involvement in economic activity of the concessionaire". The Law also provides for notification to all participants of the tender results and for the right to challenge these. It also provides for the registration of project agreements.

The 2007/2008 EBRD evaluation of concessions laws as they appear on the books (as opposed to how they work in practice) revealed that all of the dimensions of the concession framework have much room for improvement – see chart below.



## Quality of concession legislation – Tajikistan (2007/8)



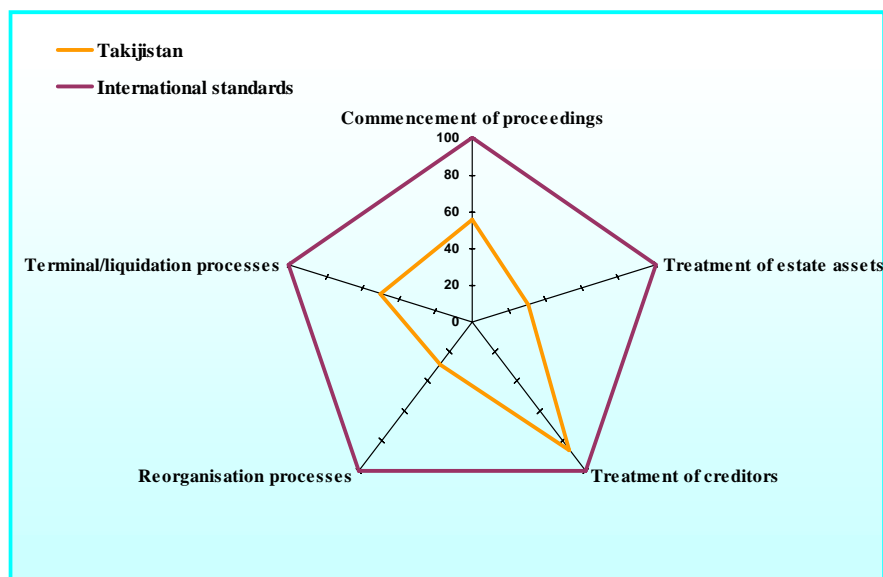
Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the 'web', the more closely concessions laws of the country approximate these standards.

Source: EBRD Concessions Sector Assessment 2007/8

## Insolvency

Insolvency in Tajikistan is governed by the Law on Bankruptcy of Enterprises, which was adopted in 2003 (the "Insolvency Law"). The Insolvency Law replaced the Law on Bankruptcy of Enterprises of 1992, and represents an improvement over the former insolvency regime. However, the Insolvency Law still lacks many basic qualities recognised as essential to an effective and efficient insolvency system under international standards. In fact, as the graph below demonstrates, the most recent update to EBRD's Sector Assessment found that the Insolvency Law is in "very low compliance" with international standards, confirming that Tajikistan's Insolvency Law is in need of significant reform.

## Quality of insolvency legislation – Tajikistan (2006)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to international standards such as the World Bank's Principles and guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on "Legislative Guidelines for Insolvency Law", and others. The fuller the 'web',

the more closely insolvency laws of the country approximate these standards.

Source: EBRD Insolvency Sector Assessment 2006

A key deficiency identified by EBRD's Sector Assessment is the uncertainty surrounding commencement of insolvency proceedings. For example, the Insolvency Law contains vague financial condition criteria and complicated hurdles that must be overcome before the court will accept application to commence proceedings, and this uncertainty and lack of transparency have been confirmed in practice.

In addition, the Insolvency Law fails to clearly describe the effects of opening a case on secured creditors. For instance, although the law provides for an automatic stay of actions against the debtor, the stay is vaguely expressed and is not clearly made applicable to secured creditors. There are no provisions for secured creditors to seek relief from the automatic stay and the law similarly fails to clearly preserve secured property rights after the case has been opened. As a result, all parties, including secured creditors, face uncertainty, delay and the likelihood of inconsistent outcomes that may persist even after the case has commenced.

The Insolvency Law also needs substantial reform to improve both liquidation and reorganisation processes. The law lacks provisions for avoiding pre-bankruptcy transactions and set-off of obligations between the debtor and its creditors. Likewise, the law does not provide for a clear discharge of debts and liabilities after proceedings have concluded. Insofar as reorganisations are concerned, the Insolvency Law also lacks provisions for ongoing financing for a reorganising business, or for independent approval or supervision of a reorganisation plan. Similarly, there is no requirement that material information in connection with a proposed plan be disclosed to creditors.

The Insolvency Law should be revised to address these problems, providing a sound basic framework for an insolvency system that promotes quick and easy access as well as clear and predictable results for all parties.

### **Secured Transactions**

Since the previous strategy, Tajikistan has entirely reformed its secured transactions legal framework through the adoption:

- 1) In 2005, of a Law on Pledge of Movable Property;
- 2) In 2008, of a Law on Mortgage.

The Civil Code (Part 1) of 30 June 1999, which entered into force on 1 January 2000 and contains provisions directly applicable to secured transactions, has remained applicable. It is unclear whether amendments have been passed in an attempt to ensure consistency between the new Laws and those provisions. Without such amendments, users are likely to be confused or uncertain about their respective rights and obligations.

The new Laws are nevertheless a considerable improvement against the former regime, which was broadly modelled against the Russian regime and comprised many deficiencies. The Law on Pledge provides a comprehensive and modern system by which movable property can serve as collateral to secure a broad range of obligations, with a priority system based on registration, and which allows a broad range of means of enforcement (including out-of-court). Moreover, considerable efforts were made to implement the Law by creating a brand-new register of pledges, which has been in operation since end of 2006. Setting up a pledge registration system fully centralised and electronic is very commendable and, despite a few reported teething problems, should be applauded. Comprehensive review of the Mortgage Law was not undertaken in the preparation of this annex because of its very recent adoption.

Experience around the Pledge Law is also still limited, yet a number of provisions seem inadequate or overly inflexible, and show that on certain aspects, the legislator failed to understand the economic rationale underpinning secured transactions. A particular shocking

example is provided in art 46 (8), according to which the secured creditor is not allowed to claim part of the outstanding debt which could not be repaid out of the collateral sale's proceeds.

Generally speaking, experience in the region has shown that, when adopting a new secured transactions law, it is important that:

- The law provides for a system by which contractual agreement is encouraged as opposed to imposing in the law a number of protective provisions which are unnecessary or may encourage parties' litigation. See for example art 6 (4), which gives the right to the pledgor to demand the pledgee "to decrease encumbrance of the subject of pledge proportionally to the performed obligation which shall be not less than fifty percent."; or art 17 which regulates to an excessive degree the ability of the pledgor to charge or lease the charged assets.
- The law leaves no room for ambiguity in reformed areas which are traditionally most severely resisted, such as the type of assets that can be used as collateral or the debt that can be secured. Whereas art 4 defines the subject of the pledge in general terms, allowing in particular pool of assets and future assets to be pledged, art 7 requires as a compulsory provision of the pledge agreement that the assessed value and location of the assets be included, which if taken literally would severely hamper such possibility. This concern is worsened by art 37, which gives an overly restrictive definition of pledge of goods in turnover.
- The law resists the temptation to "protect" the debtor in case of enforcement, especially if this entails courts discretion, because such protection creates uncertainty in lenders' mind as to the outcome of such enforcement and disturb the parties' bargaining balance. Such features are visible, for example in art 41 (3), which permits foreclosure to be denied if "the violation of the obligation covered by pledge by the debtor is minor and the amount of claims put forward by the pledgee is obviously inadequate to the value of the pledged property"; or in art 48 (1), according to which extra-judicial enforcement is barred if the pledgor is missing or can't be located.

The Pledge law should therefore be closely monitored by the Tajik Government and other stakeholders so that fine-tuning (which it is believed is needed) can be initiated.

## **Telecommunications**

The telecommunications sector (the "Sector") in Tajikistan is currently primarily governed by the Law on Electric Communications 2002 (the "2002 Law"), which provides a basic, high-level legal framework for the regulation of the Sector. The Sector is formally regulated by State Service on Supervision and Regulation in Communications and Informatisation (SSSRCI), originally established as the Communications Regulatory Agency in 2005, although renamed SSSRCI upon merger with the State Communications Inspectorate towards the end of 2006. Although the 2002 Law clearly envisages an independent regulatory authority, SSSRCI continues to lack the necessary characteristics of independence and remains subordinated to the Ministry for Transport and Communications. In addition to SSSRCI, two other agencies maintain responsibilities for Sector regulation under the 2002 Law and related legislation: the State Committee on Radio Frequencies, an inter-agency body responsible for spectrum planning, and; the Antimonopoly Agency, responsible for preventing anti-competitive activity, certain areas of tariff policy and establishing whether operators are dominant in the market.

Although the sector is one of the most dynamic in Tajikistan, it remains significantly under-developed. In the fixed sub-sector, Tajikistan has one of the lowest fixed tele-density in the region, standing at approximately 5 per cent. That market is presently dominated by the state-owned incumbent operator, Tojiktelekom (TT), which provides local, long-distance and international services throughout the country. TT was separated from the then Ministry of Communications and established as a standalone entity in 1996. It is currently majority state-owned (in excess of 90 per cent), with the remainder held by its employees. Although the Government of Tajikistan has committed to the privatisation of TT (through a 2003 decree), firm plans have yet to emerge.

In somewhat of a contrast to fixed sub-sector, the mobile sub-sector has been experiencing comparatively healthy growth. Current subscribers number approximately one million, equating to a mobile tele-density of almost 20 per cent. The market is served by a number of operators, the more significant of which are: Tajiktel (a 25/75 TT/MegaFon joint venture), Somoncon (a US-Tajik joint venture), Indigo (a US-Aga Khan joint venture) and Babilon-M (a US-Tajik joint venture).

Although several Internet Service Providers are providing service, the reported number of Internet subscribers was reportedly below 1 per cent in 2007. While limited computer availability, low computer literacy levels and a dearth of local content contribute to this low figure, poor basic communications infrastructure appears to be the largest issue in this area.

While there has been some formal progress towards sector reform in terms of new legislation and institutional changes, implementation has lagged and the challenges which the Sector faces have been growing. The Government's recent moves to amend legislation and build capacity at SSSRCI are welcomed developments. Going forward, the Government should provide full support for the development of SSSRCI as an independent, but fully accountable, regulatory institution outside the Ministry for Transport and Communications. The Government should also act to clarify policy and legal rights, and obligations of Sector stakeholders more precisely in order to eliminate uncertainty and boost investor confidence. Robust institutions and clear laws are essential to tackling some of the major underlying problems with the Sector in Tajikistan, such as the interconnection and tariff regimes.

EBRD has provided significant financing and technical assistance to the authorities and is committed to supporting further positive development of the sector by the authorities. This further support takes the form of a third phase of technical assistance with the authorities during 2008 and 2009, supporting the Government in undertaking policy revision and legislative developments, together with capacity building with SSSRCI and interconnection and tariffing implementation.

## Annex 5 –Signed Bank Operations and Pipeline – As at end December 2008

### By Sector

Sector Name	COMMITMENTS					NET PORTFOLIO			
	No of project	Total project cost	EBRD Funding	% of total EBRD	Disbursed	Portfolio	% of Portfolio	Undrawn commitment	Operating assets
<b>Financial Institutions</b>	26	61	54	59%	27	49	65%	28	21
<b>Infrastructure Total</b>	7	30	15	17%	7	11	15%	8	3
<i>MEI</i>	3	14	6	7%	1	6	8%	5	1
<i>Transport</i>	4	16	9	10%	6	5	7%	3	2
<b>Corporate Total</b>	9	45	22	24%	19	15	20%	5	11
<i>Agribusiness</i>	7	33	13	14%	11	6	8%	2	4
<i>Telecoms Informatics &amp; Media</i>	2	12	9	10%	8	9	12%	3	7
<b>COUNTRY TOTAL</b>	42	136	91	100%	53	75	100%	41	35

### By Portfolio Class and Investment Type

Sector Name	COMMITMENTS					NET PORTFOLIO			
	No of project	Total project cost	EBRD Funding	% of total EBRD	Disbursed	Portfolio	% of Portfolio	Undrawn commitment	Operating assets
Private	35	98	69	76%	38	57	76%	33	25
Public	7	38	22	24%	15	18	24%	8	10
<b>Country Total</b>	42	136	91	100%	53	<b>75</b>	<b>100%</b>	<b>41</b>	<b>35</b>
Non-Sovereign	36	96	69	76%	38	57	76%	33	25
Sovereign	6	40	22	24%	15	18	24%	8	10
<b>Country Total</b>	42	136	91	100%	53	<b>75</b>	<b>100%</b>	<b>41</b>	<b>35</b>
Debt	33	93	65	71%	48	53	71%	23	34
Equity	5	25	8	9%	5	4	5%	2	1
Guarantee	4	18	18	20%	0	18	24%	16	0
<b>Country Total</b>	42	136	91	100%	53	<b>75</b>	<b>100%</b>	<b>41</b>	<b>35</b>

## Annex 6 – Indicative Project Pipeline

The list of pipeline projects does not represent any commitment by the Bank. It does not include potential projects that might emerge later during the Strategy period.

	Number of transactions	Amount (EUR million)	% of Grand Total (No of Transactions)
<b>ENTERPRISE SECTOR</b>			
General Industries	1	1	6%
Agribusiness	3	9	17%
Property & Tourism	2	8	11%
Telecoms	1	4	6%
<b>TOTAL</b>	<b>7</b>	<b>22</b>	<b>39%</b>
<b>FINANCIAL INSTITUTIONS AND GSB</b>			
Financial institutions	4	20	22%
Group for Small Business	4	4	22%
<b>TOTAL</b>	<b>8</b>	<b>24</b>	<b>44%</b>
<b>INFRASTRUCTURE</b>			
Transport	1	10	6%
Municipal and environmental infrastructure *	2	4 **	11%
<b>TOTAL</b>	<b>3</b>	<b>14</b>	<b>17%</b>
<b>ENERGY</b>			
Power and Energy	0	0	0%
Natural Resources	0	0	0%
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0%</b>
<b>GRAND TOTAL</b>	<b>18</b>	<b>60</b>	<b>100%</b>

\* For MEI projects, an estimated EUR 10 million sovereign guarantee will be sought over the strategy period, covering around 5 projects in water supply, district heating and urban transport.

\*\* Sovereign guaranteed

## Annex 7 – Technical Cooperation

Commitment Number	Commitment Name	EUR Committed	EUR Disbursed	Fund Approved Date	Commit. Stage Name
CAT2-2006-05-05F	TAM - M & P	70,654	25,870	23/05/06	Disbursing
CHKW-2005-01-01	Khujand Water - Project Preparation and Implementation Support Services	421,763	381,288	25/01/05	Disbursing
EBSF-2008-07-08	Tajikistan: Financial Sector Framework Facility - SME Lending and MCFE Advisory Services	200,000	0	18/07/08	Committed
ECT99-2002-10-03	Restructuring and Implementation of IAS Accounting	500,000	500,000	29/10/02	Closed
EIPF01-2003-10-05	TSA Air Fleet Upgrade Project	49,700	49,700	13/10/03	Closed
EIPF01-2004-12-14	Implementation of corporate governance in Tajik commercial banks	100,000	100,000	20/12/04	Closed
EIPF03-2005-09-12	Tajik Micro and Small Enterprise Finance Facility - Credit Advisors	500,000	485,483	12/09/05	Disbursing
EIPF03-2006-06-06	Road Maintenance Development Project	23,579	23,579	15/06/06	Closed
EIPF03-2006-06-07	Road Maintenance Development Project	23,741	23,741	15/06/06	Closed
ETCF-2005-04-11F	TAM Programme - framework 2 TAM projects in Tajikistan	171,000	141,263	25/02/05	Disbursing
ETCF-2005-04-16	Tajik Micro and Small Enterprise Finance Facility (TMSEF) Credit Advisors	800,000	786,483	28/04/05	Disbursing
ETCF-2005-11-37	Eskhata Bank - Assistance with Institution Building Plan (IBP)	148,225	148,225	17/11/05	Closed
ETCF-2005-11-38	Tajikistan: Eskhata Bank - Institution Strengthening: Assessment and Development of IT	142,650	77,182	17/11/05	Disbursing
ETCF-2005-11-39	Tajikistan: TSOB - Implementation of Corporate Governance	49,494	49,494	17/11/05	Closed
ETCF-2006-12-46	Tajikistan Micro and Small Enterprise Finance Facility - Credit Advisors	410,000	400,669	07/12/06	Disbursing
ETCF-2007-02-06	Tajikistan: Establishment of a Credit Information Bureau - Phase 1 Feasibility Study	16,968	16,968	20/02/07	Closed
ETCF-2007-02-07	Review of the Deposit Market in Tajikistan	37,549	37,549	20/02/07	Disbursing
ETCF-2007-02-08	First Microfinance Bank, Tajikistan - Credit scoring	83,115	0	20/02/07	Committed
ETCF-2007-02-10F	Implementation of new BAS Programme in Tajikistan - Framework	300,000	131,613	20/02/07	Disbursing
ETCF-2007-02-11	Tajikistan: Agroinvestbank (AIB) Corporate Governance	49,500	42,971	22/02/07	Disbursing
ETCF-2007-07-34F	TAM - LAL	74,440	36,158	18/07/07	Disbursing
ETCF-2007-07-35F	TAM - Polygraph	74,440	14,505	18/07/07	Disbursing
ETCF-2007-09-41	Tajikistan Road Maintenance Development Project: Road Maintenance Business Plan	455,000	0	05/09/07	Committed
ETCF-2007-10-45F	Tajikistan - Investment Council in Selected ETCs	162,112	17,511	24/10/07	Disbursing

Commitment Number	Commitment Name	EUR Committed	EUR Disbursed	Fund Approved Date	Commit. Stage Name
ETCF-2007-12-60	Tajikistan Agricultural Finance Framework (TAFF) - Technical Assistance for the Lending Programme	500,000	0	18/12/07	Committed
ETCF-2008-01-02F	Tajikistan Road Project: Business Plan Preparation	45,000	5,768	24/01/08	Disbursing
ETCF-2008-03-13	Agricultural Finance Framework - Warehouse Receipt Programme- Module 1	50,000	0	28/03/08	Committed
ETCF-2008-03-15	Khujand Water II - Corporate Development and City Support Programme for the City of Khujand and its water company	499,930	0	28/03/08	Committed
ETCF-2008-05-19	Tajikistan Agricultural Finance Framework (TAFF) - Technical Assistance for the Lending Programme	245,000	0	21/05/08	Committed
ETCF-2008-07-27	Tajikistan: Financial Sector Framework Facility - SME Lending and MCFE Advisory Services	200,000	0	18/07/08	Committed
FIOD-2008-07-02	Khujand Water II - Preparation of Master Plan	199,950	0	03/07/08	Committed
FLN-2003-09-01	Khujand Water Supply - Stakeholder Participation Study	35,380	35,380	30/09/03	Closed
JAP-2002-07-05	TajikTelecom: Regulatory Frame Work Development Programme II	300,000	300,000	03/07/02	Closed
JAP-2008-01-01	Japan-EBRD Central Asia MSE PBs Strengthening Facility - Imon - Information Systems Consultant	41,079	7,067	10/01/08	Disbursing
JAP-2008-01-02	Tajikistan : Japan-EBRD Central Asia MSE PBs Strengthening Facility - IMON - Transformation Consultant	10,741	0	15/01/08	Committed
JAP-2008-01-03	Japan-EBRD Central Asia MSE PBs Strengthening Facility - IMON - Financial Management Consultant	7,289	0	15/01/08	Committed
KORU-2008-05-04	Tajikistan Communications Sector Technical Co-operation - Legal and Regulatory Development - Phase 1	160,000	16,000	30/05/08	Committed
LUX-2004-06-05	Community TAM Programme -Pokrovka-Kyrgyz Republic	89,566	89,566	09/06/04	Closed
LUX-2006-03-05F	TAM - Vorukh Community	22,704	22,704	28/03/06	Closed
LUX-2007-09-07	Tajikistan Agricultural Finance Framework (TAFF)	23,000	20,150	05/09/07	Disbursing
LUX-2008-02-01	BAS/FAO support to agribusiness MSMES in Tajikistan	60,274	0	19/02/08	Committed
LUX-2008-04-04F	TAM Community Project - Dunshanbe region - Tajikistan	85,270	9,813	24/04/08	Disbursing
NORG-2005-01-01	Khujand Water - Twinning Programme for the Preparation of a Regulatory Framework and Performance Improvement Programme	197,672	191,744	25/01/05	Disbursing
NORG-2008-06-01	Khujand Water - Financial and Operational Performance Improvement Programme.	65,000	0	24/06/08	Committed
SWE2-2006-05-01	Dushanbe Solid Waste Management Project	434,550	152,093	24/05/06	Disbursing
SWET-2007-09-02	Southern Tajikistan Water Rehabilitation - Feasibility Study	499,800	376,908	19/09/07	Disbursing
SWET-2007-12-03	Dushanbe Solid Waste Management Feasibility Study Extension - Environmental Field Investigations	171,700	0	12/12/07	Committed
<b>Total</b>		<b>12,607,918</b>	<b>7,589,766</b>		
<b>No of Commitments:</b>		<b>62</b>			



## Annex 8 – TC Project Pipeline

TC Title	Sector Name	Provisional Amount (K EUR)
Southern cities (Kulyab-Dangara) Water distribution project: Implementation support and Social Assessment and Stakeholder Participation Study	Municipal infrastructure	300
Dushanbe Solid Waste Management Project: Project implementation and procurement support	Municipal infrastructure	400
Khujand-Kulyab-Dangara municipalities: Municipality Management Advisory Services and Implementation support	Municipal infrastructure	200
Tajik Telecom: Institutional building, corporatisation of the SOE, preparation for privatisation, Telecom Regulatory Development	Telecom	300
Tajik mining sector: Survey of the mining legislation and facilitation of investment in the mining sector	Natural Resources	100
Small Hydro Power Development Support	Power & Energy	250
Tajik Agricultural Finance Framework (TAFF): Technical Assistance for the Lending Programme (extension)	Group Small Business, FI	400
Advisory Services and Training for TFP Factoring	FI	120
Agroinvestbank: Post investment Institution Building Programme	FI	500
Tajikistan: Establishment of a Credit Information Bureau: Phase 2	Group Small Business, FI	250
ETC projects in SMEs: Project preparation, BAS, due diligence for DLF, DIF, MCFE	Central Asia team / ETC	200
IFRS: Introduction to SME	Enterprise Sector	400
<b>Total</b>		<b>3,420</b>

## **Annex 9 -TAM/BAS in Tajikistan (2009-2011)**

### **1. Previous TAM/BAS experience in Tajikistan**

Since its inception in 1999, the TAM/BAS Programme in Tajikistan has mobilised over EUR1.6 million. Donor funding has been provided by the European Union, Japan, Canada, the Early Transition Country Multi-Donor Fund, the Food and Agriculture Organization of the United Nations (FAO) and Luxembourg. TAM/BAS Tajikistan has also benefited from EBRD funding since 2007.

**TAM** The TAM Programme began operations in Tajikistan in late 1999. Since then, TAM has undertaken a total of 6 projects in Tajikistan, all of which have been completed, utilising funding from the EU, Japan and Canada. TAM projects are complex and with interventions cover a wide range of industries and many areas of business operations. What has been identified as a key factor for TAM project success has been the degree of willingness and eagerness of the staff of assisted enterprises and communities to learn from the TAM Team.

In addition to 6 enterprise restructuring projects, a community project funded by Luxembourg has been carried out in Vorukh region in Tajikistan. The project has been successfully completed and a new community project is due to start shortly in the Dushanbe region. The rationale of the TAM community projects is to assist overall economic development, foster social stability, promote employment opportunities and improve standards of living in regions by applying the TAM methodology to the poorest and most vulnerable regions of the early transition countries empowering grassroots entrepreneurs.

**BAS** The BAS Programme in Tajikistan was established in April 2007 with funding from the Early Transition Country Multi-Donor Fund. The BAS Programme has also received funding from the EBRD, and most recently, FAO and Luxembourg. As of May 2008, BAS Tajikistan has undertaken a total of 27 projects with 25 SMEs, engaging 12 consultants. BAS assisted enterprises have much variation in industry, size, and geographic location, with the majority of projects carried out in the service sector with micro enterprises located outside the capital city. Supported projects have had a variety of objectives and have encompassed a wide range of advisory services, with the majority of projects aimed at improving market performance via market analysis and planning. The cost of services in Tajikistan BAS projects to date has varied from EUR800 to EUR11,000.

In addition to standard BAS projects, the Programme has also carried out a market development activity by way of training for local consultants.

**Linkages with banking** TAM assisted enterprises in the Tajikistan have attracted 5 investments from the EBRD or EBRD related financial intermediaries, of which EBRD financed over EUR 4.6 million, mobilising a total project value of over EUR 6.1 million. Although, no BAS- assisted enterprises in Tajikistan have attracted investments from the EBRD or EBRD related financial intermediaries, 1 BAS enterprise has received EUR 375,000 from external financing sources in Tajikistan, unrelated to EBRD.

### **2. The MSME sector and infrastructure for business advisory services**

This section lays out some of the main challenges and transition obstacles for the MSME sector in the country. It provides insights into the level of entrepreneurial activity, the business environment, challenges faced by the MSME sector and the supply of business support services.

**An underdeveloped MSME sector with huge growth potential:** The role of the MSME sector in the Tajik economy has increased in recent years. Yet, huge efforts are still needed to create a dynamic private enterprise sector and to reduce the strong labour migration. MSMEs operate mainly in trade and in agriculture. Deficits can be observed in regional and gender related entrepreneurial activity. Concerns are raised with respect to the low level of international competitiveness and the underdeveloped business skills of entrepreneurs.

**Operating in a very difficult business environment:** Tajik entrepreneurs operate under a burdensome regulatory framework with many of them using unofficial payments to solve administrative procedures. Limited access to finance is one of the major barriers to doing business in Tajikistan, as both the financial market and the microfinance sector are still underdeveloped. Due to high compliance costs, also the tax system constitutes one of the main constraints for private enterprise development, discouraging business growth and being prone to corruption. In the long-term, low investments in human capital are likely to threaten the international competitiveness of the Tajik enterprise sector.

**Showing low demand for business advisory services:** Tajik MSMEs are both largely unaware that advisory services exist, or have little knowledge of their benefits. Furthermore, financial constraints and willingness to pay on the side of MSMEs hinder the development of the market. When asked specifically which services their companies need most from a list of typical BAS-supported advisory services, SMEs most frequently mention IT systems, business planning, marketing and personnel training. Interview results confirmed these findings and also highlighted the increasing need for quality management and certification related services. Intensifying activities in Dushanbe and Khujand will have the greatest impact on market development for business advisory services. Business advice is lacking in all sectors of the economy, but the areas in which it would be most effective to provide it are agriculture and agribusiness, identified by stakeholders as the sectors of key strategic importance.

**An underdeveloped market for business advisory services:** There is no governmental infrastructure of business support in Tajikistan. On the commercial side, the Tajik market for consultancy services is still in its infancy. Besides demand-side challenges, the supply of business advisory services is low. In addition, financial constraints prevent consultants from developing skills, experience, or specialisation. The most prevalent consulting services currently offered are financial analysis and optimisation, IT systems implementation, and advertising. However, there are service gaps that will need to be addressed in order to meet the future needs of Tajik MSMEs like services for the implementation of international quality management standards, brand development and management, reorganisation and restructuring as well as HR management. In terms of geographic distribution of business advisory services, all areas of the country lack adequate supply and quality of services, but Dushanbe and Khujand have relatively the most developed service supply. Although underdeveloped and capacity constrained, there is scope for the consultancy market as a whole and many individual consulting firms to increase capacity and offer more sophisticated services if investments in skills and training are made. These investments are contingent upon increasing demand for services.

**Limited support for the private enterprise sector from the government:** The government of Tajikistan's chosen instrument for supporting the private enterprise sector is intervention in the regulatory framework. There is however scope for further improvements and efforts are needed to better communicate relevant changes in legislation to the business community.

**Strong presence of international donors:** According to the OECD, Tajikistan has received about US\$ 240 million in official development aid in 2006, of which a significant part is directed to private sector development. The majority of the programmes are concentrated on the poorer regions in the south and the east of the country.

### 3. Recommendations for future TAM/BAS interventions

This section highlights the proposed TAM/BAS interventions to address the gaps and challenges analysed in the previous section.

**Continuation of TAM:** In light of the low level of development of the local consultancy market, business advisory from international experts is highly relevant in Tajikistan. Especially with its Community Projects in agribusiness, the TAM Programme has large potential to improve the living standards in local communities and open up new business opportunities to reduce the high rates of labour migration. But as the whole economy gradually expands, demand for TAM projects in sectors other than agribusiness is bound to increase. Diagnosing enterprise challenges and helping them overcome them through structural changes and transferring of managerial know-how, is an area where TAM can play a role. Large-scale dissemination events devoted to illustrating successful cases of enterprise turnaround will also be significant for the development of the private enterprise sector.

**BAS:** Against the backdrop of the low level of sophistication of business operations and the infancy of the consultancy market, the BAS Programme has great potential to contribute to transition impact in Tajikistan. The main advantage of the programme is that it contributes to creation of a viable infrastructure of business support by operating on both on the demand and the supply side of the market. Given the city's economic significance and relatively high demand for business advisory services, a second BAS office has been established in Khujand, in order to ensure the development of a sustainable consultancy market. Providing direct assistance to small and medium sized enterprises by means of co-financing consultancy services should remain the central competence of the BAS Programme. Grant differentiation by enterprise size, industry, regional location or type of advice is not necessary at this stage due to the low development of the market. In light of the limited financial resources and willingness to pay of Tajik enterprises, it is, however, justified to increase the maximal size of the grant from 50 per cent to 75 per cent of the total project cost.

#### Targeted market development activities

In order for BAS to achieve a more systemic effect in terms of development of the private enterprise sector and the market for consultancy services, it is crucial to combine the direct assistance at the enterprise level with the following market development activities:

- Visibility and dissemination: Given the low level of awareness of the existence and benefits of business development services, BAS should increase efforts in this area.
- MSME and consultancy training: In order to build up the necessary capacity in the consultancy market, BAS should initially focus on core consultancy skills training, before moving on to more specialised trainings.
- Support to, and development of, existing relevant local institutions and cooperation with other donor initiatives: In light of the large amount of donor initiatives currently present in Tajikistan, BAS will coordinate its programme with other donor-funded projects targeted on private sector development. There is also scope for BAS to facilitate the creation of a business association for consultants in the country.

#### A strengthened focus on addressing cross-cutting issues

TAM/BAS should address the following cross-cutting issues:

- Providing advice to entrepreneurs on opportunities for increasing *energy efficiency and reducing environmental pollution, where appropriate.*
- *Promoting women entrepreneurship* particularly in the agribusiness and trade sectors where their activities concentrated, and strengthening their position in the business community.

- Contributing to the improvement of living conditions in *rural regions* through the TAM Community Project, the improvement of agricultural business advisory services in cooperation with the FAO. The establishment of a food incubator - an innovative undertaking which provides the means for local producers to meet food and health quality standards and market their products effectively - is proposed.
- In order to reduce labour migration it is essential to provide more *business opportunities for young people* within the country. TAM already contributes to this with the help of its Community Projects. A food incubator could open up new job opportunities in food-processing, as well as offering support to start-up enterprises.

#### **An input for enhancing linkages with banking**

In line with the TAM/BAS Strategic Plan 2008-2010, TAM/BAS should continue to assist the Bank to meet its objective of generating a commercially viable project pipeline for direct Bank investments with transition impact potential in three ways: *i) identifying a pipeline of suitable enterprises in which the Bank could later invest; ii) providing 'consulting and business' services to these enterprises; iii) providing candidates for non-executive board member positions in these enterprises.* In addition, the Programme should link the MSMEs in need of finance with local financial institutions supported by the EBRD. In that way, TAM/BAS will contribute to one of the Bank's priorities in the country namely the sustainable support to the local private enterprise sector, as outlined in the EBRD Country Strategy for Tajikistan.

#### **A contribution to EBRD's policy dialogue**

By thoroughly analysing the business environment and clearly identifying the challenges faced by the enterprise sector, this Strategy further strengthens the EBRD's policy dialogue toolkit. To allow the Tajik private enterprise sector to grow at its full potential, urgent reforms of the regulatory and institutional framework are necessary particularly in relation to regulations that discourage business growth. Given the prominence of the agribusiness sector, there is scope for agricultural policy reform. Moreover, higher investments in education and health are needed to build up the qualified human resource base needed for a dynamic private sector development and to reduce the high labour migration. Finally, by providing a clear picture of the support programmes available to MSMEs, EBRD endeavours to avoid the duplication of international and national efforts devoted to the development of the Tajik MSME sector and, of course to ensure that the private sector is not crowded out.

## **Annex 10 - Bilateral Assistance**

### **Canada**

Funding for Canadian cooperation efforts with Tajikistan is provided through the Canadian International Development Agency's (CIDA) Programme of Cooperation with Asia. Canada's programming in Central Asia is focused on Tajikistan and is estimated to total approximately US\$ 3.8 million by the end of FY 2008-2009. This funding has provided support for the Government of Tajikistan's National Development Strategy (NDS), which is in alignment with Millennium Development Goals. CIDA's areas of focus for Tajikistan include Governance and Private Sector Development (PSD) within the broader realm of agrarian reform in the rural areas, where the majority of the population lives. Key areas of support include promoting rural entrepreneurship and providing access to markets for rural producers. Governance is addressed through support for transparent, equitable, rules-based governance in all aspects of agrarian reform, while private sector development is addressed through improved access to financial resources, markets, technology and information for rural households seeking prosperity. Gender equality is being addressed in all the programme activities and as a key component of the strategy. Bilateral funds like the ETC Fund are supplemented by funding through CIDA's multilateral programming.

### **Germany**

After having concentrated on humanitarian and food aid in the immediate aftermath of the Tajik Civil War, bilateral German development cooperation with the Republic of Tajikistan now has its central focus on sustainable economic development, including microfinance, financial intermediaries, promotion of small and medium sized enterprises (SME) as well as vocational training. Additionally, financial cooperation has a focus on the health sector (combating tuberculosis, reproductive health, rehabilitation of the medical infrastructure). In addition, the German government supports the envisaged reforms of the basic education system in the Fast Track Initiative framework until 2010. Germany has also agreed to support the rehabilitation of 220kV switches at Nurek hydroelectric power plant, which is critical to the Tajik electricity supply.

Since the beginning of bilateral cooperation, Germany has committed around EUR 55 million, comprising financial assistance of EUR 19 million and TC to the implementation process of the Poverty Reduction Strategy in Tajikistan. Germany takes into account the foreign debt situation of Tajikistan and provides grant funding wherever possible. It cooperates closely with other donors in the upcoming JCSS process and conceptualises its engagement in the framework of the national development strategies of Tajikistan."

### **Italy**

In the framework of Italian bilateral assistance and cooperation, Tajikistan can be assisted only for humanitarian aid and for projects promoted by NGOs.

In 2002, a grant of EUR 410,000 was disbursed to the World Health Organization, for medical and sanitary assistance to mothers and children in Tajikistan, Uzbekistan and Kazakhstan. Its scope was to reduce the neonatal and maternal mortality in Asian countries of the former Soviet Union.

Following the drought which hit Tajikistan in 2003, Italy granted a provision of humanitarian aid for a total amount of around EUR 775,000.

In 2001, in addition to an emergency food aid of around EUR 800,000 in favour to the population hit by the famine, Italy supported a project promoted by the NGO COOPI for "The improvement of the water and socio-medical conditions of the Districts for Kojamastone, Gozimalik and Vose' in the region of Khatlon". This initiative, amounting to

EUR 1.6 million, includes a grant element of EUR 774,000 divided in three annual instalments. The project, still in place, provides the rehabilitation of hydro-power pumping plants, the creation of water distribution plants and the distribution of drinking water in the above-mentioned rural districts.

In 2005, Italy granted a provision for a total amount of EUR 250,000 to the United Nations Office on Drugs and Crime (UNODC) for “Precursors Control in Central Asia”. In 2006 a new contribution for a total amount of US\$ 125,000 has been disbursed for the prosecution of the above project.

## **Japan**

Japan commenced bilateral assistance to Tajikistan in 1991. In the mid 1990s, Japan concentrated on providing humanitarian aid together with the international community. Since that period, Japan has focused on supporting capacity building in Tajikistan and the challenge of consolidating peace and democracy through Technical Cooperation with JICA, in addition to B/P support and grant aid in health sector channelled through international organization. Between 1999 and 2003, Japan has provided 500 training opportunities for Tajiks.

Japan re-oriented its development assistance programmes in the year 2003 in order to reflect upon the Tajikistan Poverty Reduction Strategy Paper (2002) and the revised Public Investment Programme (2003).

Currently, the following four areas have been identified as having high priority: modernisation of health service, modernisation of education system, improving vocational training, and improving water supply in rural areas.

During the 2005 financial year (ending in March 2006), Japan's total bilateral grants committed to Tajikistan amounted to approximately US\$ 4.6 million and most of them were allocated to supporting community-based small-scale projects in line with the above priorities. Technical Cooperation totalled about US\$ 2.5 million, some of which was used on governance projects in addition to stated priority areas.

Japan’s ODA to Tajikistan (disbursement base, US\$ million)

Year	Grant financing	TC
2003	2.33	2.43
2004	1.36	5.21
2005	7.43	2.50

## **Sweden**

The Swedish International Cooperation Agency, Sida, provides Swedish funding for development cooperation with Tajikistan and has an office in Dushanbe. The Swedish government decided in August 2007 that Sweden was going to phase out its long-term development cooperation in Central Asia. The rationale behind this decision was to make more effective use of Swedish aid by focussing on fewer countries. Sida will remain active in Tajikistan during the phasing out period 2008-2010 and will honour all agreements. For the phase-out period, Sida has developed a new strategy. The goal for Sida's development cooperation is to contribute to an environment supportive of the efforts of poor people to improve their quality of life. In Tajikistan, the focus will be on democratic governance and human rights, economic development and social sector.

Swedish TC-funding is extended for the Dushanbe Solid Waste Project and the Southern Tajikistan Water Rehabilitation Project within the framework of Sida’s cooperation arrangement with EBRD in the field of municipal environment in the ETC-area.

## Switzerland

	2003	2004	2005	2006	2007
SECO	10.7	7.8	4.5	7	6.2
SDC	5.5	5.8	5.1	6	6.3
Swiss Total	16.2	13.6	9.6	13	12.5

Based on the bilateral framework agreement on technical, financial and humanitarian co-operation, which has been in force since 2000 and the Cooperation Strategy for the Central Asian Region 2007-2011, the State Secretariat for Economic Affairs (SECO) and the Swiss Development Cooperation (SDC) are both engaged in co-operation with Tajikistan. SECO funds which include regional activities covering Tajikistan amount to approximately US\$ 6 million per year and cover infrastructure, private sector development and trade. SDC makes available a similar amount for projects in their priority domains of good governance, health and disaster prevention.

A special priority is given to **infrastructure development**, the focus being on the electricity and the water sectors. US\$ 5 million have been granted to co-finance a World Bank project to finance social protection costs in the framework of a power rehabilitation project in Gorno Badakshan, carried out by Pamir Energy, a non-state owned investor/operator. In 2003, Switzerland also made available a grant of US\$ 8 million to co-finance the ADB's power rehabilitation project focusing on the area around Dushanbe. US\$ 8 million have been granted to co-finance with World Bank an additional electricity project which focus on the reduction of energy losses through installation of meters and the implementation of billings systems. Furthermore, Switzerland co-finances the EBRD's Khujand Water Supply project with US\$ 3.15 million.

With respect to **private sector development**, Switzerland focuses on strengthening SMEs through technical assistance projects and improving access to finance. These projects are implemented jointly with partners such as the EBRD, IFC and ITC. Switzerland funded a survey of the Tajik SMEs in order to determine the obstacles for further development and supported the development of the leasing industry.

With regard to **trade**, Switzerland supports Tajikistan in its efforts to join the WTO by providing training to officials involved in the negotiations and the subsequent implementation process. Furthermore, **seco** has also financed a regional technical assistance project in public debt management for Tajikistan. The project aims at assisting the Tajik Government to improve the management of external debt and to strengthen the legal and institutional framework for public debt as warranted. In addition SECO assists the Government of Tajikistan to create an external audit function to improve the monitoring of budget spending by central and regional government entities.

## United Kingdom

The Department for International Development (DFID) is the part of the United Kingdom government that manages Britain's aid to developing countries and works to eradicate extreme poverty. DFID supports long-term programmes to help tackle the underlying causes of poverty in over 150 countries worldwide. DFID also responds to humanitarian crises around the world, providing funding to relief operations, search and rescue expertise and emergency supplies to help save lives.

DFID has been present in Tajikistan since 2003 and is working with the Government and donors to support the eradication of poverty and promote sustainable development. We have provided around GBP 8 million during the period 2003 to 2007, with an allocation of GBP 5 million for 2008-2009. We intend to develop a more regional approach to our work in Central Asia, focussing on water, energy, transport and trade sectors. In Tajikistan, we will work on economic growth, governance, aid effectiveness and human capital.



DFID is promoting harmonisation and donor coordination through formation and implementation of a Joint Country Support Strategy. We also fund joint programmes with other donors.

### **United States of America**

USAID began providing assistance to Tajikistan in 1993, soon after the country became independent. Since that time, the American people, through USAID, have provided over US\$ 300 million in programmes that assist the development of the country's economic sector, education and healthcare systems, and democratic institutions. USAID programmes cooperate with ministries, governmental and non-government organizations, businesses, and communities to improve laws, create jobs, increase incomes, improve services, and better manage available resources.

During the first 5-7 years of USAID assistance in Tajikistan, about two-thirds of all funds was allocated to programmes dealing with the humanitarian crisis caused by the 1992-1997 civil war. More recently, USAID also supported economic policy reform and privatization, provided micro-credits to farmers and small businesses, and worked to improve maternal, child, and reproductive health. More recently, USAID also helped control malaria and to provide food and medical assistance for children who were malnourished. Currently, USAID assistance focuses on the country's structural reforms, improvement of the trade and investment climate, strengthening local governance, support for the National Education Strategy, and prevention of infectious diseases, such as TB and HIV/AIDS.

USA budget every year allocates more than US\$ 20 million for these programmes.

In EBRD, USAID finances in particular the "Economic Growth Programme" (FY07 US\$ 7.3 million). USAID assistance helps to reduce regulatory and administrative barriers faced by small and medium-sized enterprises (SMEs) by facilitating informative and effective public-private dialogue between the Government of Tajikistan (GOT) and the private sector and business associations (Pragma Corporation). USAID also supports accounting reform and training (Pragma Corporation), business and economics education (Junior Achievement), microfinance (ACDI/VOCA), and agricultural development in Tajikistan (Winrock International). In support of regional trade, USAID supports Tajikistan's accession to the World Trade Organization (WTO) by focusing on reduction of trade barriers and expanding access to market information (The Services Group Inc). Assistance to the Ministry of Finance and the National Bank focuses on improving the budget process and the macroeconomic policy framework in a number of areas, including tax administration, monetary policy, and banking supervision (BearingPoint). Other focus areas of USAID assistance include improving land tenure legislation to allow for secure land use rights and strengthening farmers' rights to use their land (Chemonics). USAID also supports the creation and strengthening of water users' associations to help farmers improve irrigation water systems that increase farmer production and incomes (Winrock International). USAID also supports several agricultural value chains by identifying and alleviating constraints along the full value chain from producer to consumer through the provision of training, technical assistance, and technology transfer at the farmer or processor level (Development Alternative Initiatives). USAID also facilitates the development of a regional electricity market and supports the GOT in reforming the country's electricity sector by helping to establish a transparent, competitive electricity market (US Energy Association).

USAID operates under a bilateral agreement with the Government of the Tajikistan, and is the largest single-country donor organization in the country. USAID programmes in Tajikistan are implemented through contracts and grants by more than 30 local and international organizations, including U.N. agencies, for profit companies, and non-governmental organizations.