



Indicative Rolling Country Operations Business Plan

May 2007

Tajikistan
2007–2009

Asian Development Bank

CURRENCY EQUIVALENTS

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Currency Unit	–	somoni (TJS)
TJS1.00	=	\$0.2907
\$1.00	=	TJS3.4388

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
PPTA	–	project preparatory technical assistance
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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CONTENTS

	Page
I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY	1
II. INDICATIVE LENDING AND NONLENDING PROGRAM	1
III. SUMMARY OF CHANGES TO THE LENDING AND NONLENDING PROGRAM	1
IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS	2

APPENDIXES

1. Indicative Assistance Pipeline	3
2. Summary Information on Proposed Indicative Lending and Nonlending Products for the First Year` of the Business Plan	9
3. Updated Country Sector and Thematic Strategies and Plans	10

I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. The priorities of the country strategy and program for 2004–2008 remain relevant. The projects included under the country assistance program continue to emphasize rural development and regional cooperation. The program also emphasizes policy reforms in the agriculture, energy, transport, and social sectors. The forward program includes significant technical assistance (TA) to support implementation of the Government's private sector development strategy, which is currently being developed as a key component of Tajikistan's medium-term poverty reduction strategy.

II. INDICATIVE LENDING AND NONLENDING PROGRAM

2. The proposed 2007–2009 lending and grant program includes 10 projects for a total of \$192.1 million. The nonlending program for 2007–2008 includes 9 TA projects for a total of \$6.36 million. Appendix 1 provides details of the lending and nonlending program. Appendix 2 presents summary information on the proposed lending and nonlending products and services for 2007. Updated country sector and thematic strategies and plans can be seen in Appendix 3.

III. SUMMARY OF CHANGES TO THE LENDING AND NONLENDING PROGRAM

3. Changes in the lending and nonlending program have been proposed to accommodate the Government's priorities. In the energy sector, the Regional Gas Transmission Improvement Project was dropped and the Power Rehabilitation Phase II Project, now renamed as the Reconstruction of Nurek Switchgear Project, has been included as a firm project for 2008.

4. The proposed Tax Administration Modernization and Governance Enhancement Project originally listed as firm loan for 2007 has been dropped from the ADB's assistance program. The project was not considered suitable for ADB financing, principally because Tajikistan's tax administration does not currently have basic foundation for a reform and modernization project. The proposed Micro Finance Phase II Project and the Regional Customs Modernization Phase II Project have been shifted to 2009 as a standby and a firm project, respectively. Both projects were originally firm projects for 2008. The processing schedules for these projects have been delayed, as requested by the Government, because of the slow implementation of the corresponding phase I projects.

5. In the transport sector, Phase III of the Dushanbe-Kyrgyz Border Road Rehabilitation Project for \$ 25.0 million listed as firm regional loan in 2007 is now renamed as the PRC–Kyrgyz Republic–Tajikistan Regional Road Corridor Project. Based on the assessment of the project processing team that identified a need for additional financing, the size of the proposed ADB loan is increased to \$35.0 million. In addition, at the Government's strong request, a railway improvement project has been included as a standby project for 2009 and a regional road project has been included as a firm project for 2009.

6. In the social sector, the Second Education Sector Reform Project originally due for processing in 2007 has been re-scheduled to 2008 with a \$ 10.0 million grant from ADB, because of the slow implementation of the phase I project.

7. In the non-lending program, originally ADB envisaged two advisory TAs in 2007 and 2008 for a \$500,000 each for supporting the implementation of the government's private sector

development strategy. It is proposed now to merge the two TAs and process the joint project in 2007. DfID is considering co-financing of \$ 1.0 million for the TA.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

8. The country-specific allocations have been derived on the basis of the results of the 2006 country performance assessment exercise, after applying the performance-based allocation formula. The Asian Development Fund (ADF) allocation for Tajikistan for 2007–2008 has been set at \$70.27 million. The ADF assistance program for 2009 is tentative, with actual ADF assistance levels subject to the results of the 2007 country performance assessment exercise and the outcome of the discussions on the next ADF replenishment. Under the current ADF grant framework, up to 40% of ADF assistance from the country indicative planning figure can be provided in the form of grants.

9. Resources for the 2007–2009 lending and grant program have been mobilized as follows: (i) \$70.0 million from the 2007–2009 country indicative planning figure; (ii) \$100 million from the subregional window of ADF IX; and (iii) \$22 million recycled from a canceled project. The allocation of funds from the subregional window of ADF IX is subject to consideration of the eligibility of projects and the availability of funds.

INDICATIVE ASSISTANCE PIPELINE FOR 2007–2009

Table A1.1: Indicative Assistance Pipeline for Lending Products

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Project Preparatory Assistance	Year of Total	Cost (\$ million)					Gov't.	Co- financing
						ADB						
						OCR	ADF		Total	Total		
							Loans	Grants				
2007 Firm Loans												
Agriculture and Natural Resources												
Rural Development ¹												
	GI	ECG/GAD	CWAE	2005	23.40	0.00	8.80	8.30	17.10	1.70	4.60	
Khatlon Province Flood Management and Rehabilitation Project												
	GI	ECG/ENV	CWAE	2006	22.00	0.00	22.00	0.00	22.00	0.00	0.00	
Subtotal					45.40	0.00	30.80	8.30	39.10	1.70	4.60	
Total					45.40	0.00	30.80	8.30	39.10	1.70	4.60	

¹ Carried over from 2006. The project was approved in 2007 from the ADF allocation for Tajikistan for 2005-2006.

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Project Preparatory Assistance	Year of Total	Cost (\$ million)					
						ADB			Total	Gov't.	Co- financing
						OCR	ADF Loans	Grants			
2008 Firm Loans											
Agriculture and Natural Resources											
Rural Enterprise Development	GI	ECG/GAD	CWAE	2007	19.00	0.00	19.00	0.00	19.00	0.00	0.00
Subtotal					19.00	0.00	19.00	0.00	19.00	0.00	0.00
Education, Health, Nutrition, and Social Protection											
Education Sector Reform Project II	TI	ISD	CWSS	2006	10.00	0.00	0.00	10.00	10.00	0.00	0.00
Health Sector Reform Project II	TI	ISD/GAD	CWSS	2007	9.00	0.00	0.00	9.00	9.00	0.00	0.00
Subtotal					19.00	0.00	00.00	19.00	19.00	0.00	0.00
Total					38.00	0.00	19.00	19.00	38.00	0.00	0.00
2009 Firm Loans											
Agriculture and Natural Resources											
Rural Development II	GI	ECG/GAD	CWAE		20.00	0.00	8.00	12.00	20.00	0.00	0.00
Subtotal					20.00	0.00	8.00	12.00	20.00	0.00	0.00
Total					20.00	0.00	8.00	12.00	20.00	0.00	0.00
2009 Standby Loans											
Finance											
Microfinance II					9.00	0.00	9.00	0.00	9.00	00.00	0.00
Total					9.00	0.00	9.00	0.00	9.00	00.00	0.00
Regional Loans											
2007 Firm Loan											
Transport and											

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Project Preparatory Assistance	Year of	Total	Cost (\$ million)					
							ADB			Total	Gov't.	Co- financing
							OCR	ADF Loans	Grants			
Communication												
PRC–Kyrgyz Republic–Tajikistan Regional Road Corridor Project	GI	ECG	CWID	2006		35.00	0.00	35.00	0.00	35.00	00.00	0.00
Total						35.00	0.00	35.00	0.00	35.00	00.00	0.00
2008 Firm Loan												
Energy												
Reconstruction of Nurek Switchgear	GI	ECG	CWID	TBD		51.00	0.00	25.00	0.00	25.00	00.00	26.00
Total						51.00	0.00	25.00	0.00	25.00	00.00	26.00
2008 Standby												
Loans												
Law, Economic												
Management, and												
Public Policy												
Regional Customs Modernization and Infrastructure Development II	GI	GOV	CWGF	2008		10.00	0.00	10.00	0.00	10.00	00.00	0.00
Total						10.00	0.00	10.00	0.00	10.00	00.00	0.00
2009 Firm Loan												
Law, Economic												
Management, and												
Public Policy												
Regional Customs Modernization and Infrastructure Development II	GI	GOV	CWGF	2008		10.00	0.00	10.00	0.00	10.00	00.00	0.00
Subtotal						10.00	0.00	10.00	0.00	10.00	00.00	0.00
Transport and												
Communication												

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Project Preparatory Assistance	Year of Total	Cost (\$ million)					
						ADB			Total	Gov't.	Co- financing
						OCR	ADF Loans	Grants			
Dushanbe Tursunzade Uzbek Border Regional Road Rehabilitation Project	GI	ECG	CWID	2008	25.00	0.00	25.00	0.00	25.00	00.00	0.00
Subtotal					25.00	0.00	25.00	0.00	25.00	00.00	0.00
Total					35.00	0.00	35.00	0.00	35.00	00.00	0.00
2009 Standby Loans Transport and Communication Railways Improvement Project	GI	GOV/ECG	CWID	TBD	25.00	0.00	25.00	0.00	25.00	00.00	0.00
Total					25.00	0.00	25.00	0.00	25.00	00.00	0.00
Total Firm Projects 2007- 2008					169.40	00.00	109.80	27.30	137.10	1.70	30.60
Total Firm Projects 2009					55.00	00.00	43.00	12.00	55.00	00.00	0.00
Total Lending Program 2007- 2009					224.40	00.00	152.80	39.30	192.10	1.70	30.60

CWAE = Agriculture, Environment, and Natural Resources Division; CWGF = Governance, Finance, and Trade Division; CWID = Infrastructure Division; CWSS = Social Sectors Division; ECG = sustainable economic growth; GAD = gender and development; GI = general intervention; GOV = governance; ISD = inclusive social development; TI = targeted interventions; TBD = to be determined.

Sources: ADB estimates

INDICATIVE ASSISTANCE PIPELINE FOR 2007–2008

Table A1.2: Indicative Assistance Pipeline for Nonlending Products and Services

Sector and Assistance Name	Responsible Division	Assistance Type	Sources of Funding					Total (\$'000)
			ADB		Other			
			Source	Amount (\$'000)	Source	Amount (\$'000)	Amount (\$'000)	
2007								
Agriculture and Natural Resources								
Rural Enterprise Development	CWAE	PPTA	TASF	400.0	-	-	-	400.00
Cotton Taxation Reform and Marketing					CIDA/ FIN	660.0/ 500.0		1,160.0
Subtotal				400.0	-	1,160.0		1,560.0
Finance								
Support for Implementation of Private Sector Development Strategy	CWGF	ADTA	TASF	900.0	DfID	1,000.0	-	1,900.0
Subtotal				900.0	-	1,000.0		1,900.0
Transport and Communication								
Transport Sector Master Plan	CWID	ADTA	JSF	600.0	-	-	-	600.0
Subtotal				600.0	-	-		600.0
Total				1,900.0	-	2,160.0		4,060.0
2008								
Agriculture and Natural Resources								
Rural Development II	CWAE	PPTA	TASF	500.0	-	-	-	500.00
Subtotal				500.0	-	-		500.00
Energy								
Strengthening Capacity in Electricity Regulation		ADTA	JSF	500.0	-	-	-	500.00
Subtotal				500.0	-	-		500.00
Law, Economic Management, and Public Policy								
Regional Customs Modernization and Infrastructure Development II	CWGF	PPTA	TASF	300.0	-	-	-	300.0
Subtotal				300.0	-	-		300.0
Transport and Communication								
Dushanbe Tursunzade Uzbek Border Regional Road Rehabilitation Project	CWID	PPTA	TASF	500.0	-	-	-	500.0
Railways Improvement Project	CWID	PPTA	TASF	500.0	-	-	-	500.0
Subtotal				1,000.0	-	-		1,000.0

Sector and Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)	
			ADB		Other			
			Source	Amount (\$'000)	Source	Amount (\$'000)		
Total				2,300.0		-	-	2,300.0

— = not available; ADTA = advisory technical assistance; CWAE = Agriculture, Environment, and Natural Resources Division, CWGF = Governance, Finance, and Trade Division; CWID = Infrastructure Division; CWSS = Social Sectors Division; JSF = Japan Special Fund; PPTA = project preparatory technical assistance; TASF = Technical Assistance Special Fund; TBD = to be determined.
Source: ADB estimates.

SUMMARY INFORMATION ON PROPOSED INDICATIVE LENDING AND NONLENDING PRODUCTS FOR THE FIRST YEAR OF THE BUSINESS PLAN

1. The proposed lending program for 2007 includes two projects amounting to \$57.0 million, including the PRC–Kyrgyz Republic–Tajikistan Regional Road Corridor Project, which is being funded as a regional project. The proposed Khatlon Province Flood Management and Rehabilitation Project is funded through recycling of funds from a canceled project. The Rural Development Project for a total of \$17.1 million was approved in January 2007 as a spillover from 2006.
2. The PRC- Kyrgyz Republic – Tajikistan Road Corridor (the Corridor), which runs from Irkeshtam on the Kyrgyz – PRC border to Dushanbe via Sary-Tash in the Kyrgyz Republic, approximately 550-km in total length, is a key transport artery for the two land locked countries of the Kyrgyz Republic and Tajikistan to trade with the PRC. It is also an integral part of the regional road network in Central Asia that links Afghanistan, Kazakhstan, the Kyrgyz Republic, PRC, Uzbekistan, and Tajikistan. More broadly, it is part of the Asian Highway Network connecting the ocean ports of the Islamic Republic of Iran and Pakistan in the south to Kazakhstan and to the Russian Federation in the north.
3. The proposed PRC–Kyrgyz Republic–Tajikistan Regional Road Corridor Project would improve parts of the corridor from Nimich to Karamik (Tajikistan component) and Karamik to Sary-Tash (Kyrgyz component) so as to foster regional trade and cooperation. The Tajikistan component of the Project will also assist the Ministry of Transport and Communications in outsourcing road maintenance to private sector and introducing preventive road maintenance practices.
4. The project area of the proposed Khatlon Province Flood Management and Rehabilitation Project is located along the Pyanj River, which forms the border with Afghanistan and provides vital irrigation water to 86,000 hectares of land in four districts by means of the Chubek canal. Damage caused by recent frequent natural disasters, including the 2005 flood, have endangered people’s lives and livelihoods. The short-term and emergency measures taken by the Government do not adequately address the long-term issues in a sustainable way. Cognizant of the need for a more comprehensive, long-term approach, the Government has requested assistance from ADB to protect key irrigation infrastructure in the area by financing a rehabilitation program to upgrade about 20 kilometers of flood embankment in Khatlon province to international standards. Thus the proposed Khatlon Province Flood Management and Rehabilitation Project is expected to address medium- to long-term flood management issues and promote sustainable and inclusive economic growth in rural and urban communities in flood-prone areas.
5. The 2007 nonlending program includes four technical assistance (TA) projects amounting to \$4.06 million, that is, one PPTA and three advisory TAs. The advisory TAs would support key policy reforms, including cotton taxation reform and marketing, transport sector master plan, and implementation of a private sector development strategy.

UPDATED COUNTRY SECTOR AND THEMATIC STRATEGIES AND PLANS

A. Agriculture and Natural Resources

1. The agriculture sector witnessed sustained growth of about 10% per year in 2003 and 2004, but because of a 20% decline in the productivity of the cotton crop and a high level of farmer indebtedness, growth declined significantly in 2005. Cotton accounts for about 20% of exports, occupies more than 75% of irrigated farmland, supports 75% of farm households, and is the dominant income source for 75% of poor and extremely poor households. To address farm debt and agriculture sector reform issues, the Government formulated a farm debt resolution strategy and set up a high-level, independent commission to implement the strategy. ADB is providing specific assistance to implement the farm debt resolution strategy, and helped by a long-term international consultant financed by the Department for International Development of the United Kingdom, is facilitating close coordination among donors and between donors and the independent commission. As a result of a quarterly dialogue mechanism between ADB, the World Bank, and the president of Tajikistan, a road map is currently under development that focuses on five key areas, namely: (i) resolving debt through a process of farm-by-farm analysis; (ii) introducing transparent and sound regulations for agricultural financing; (iii) giving farmers freedom of choice in making farm management decisions, including what to produce; (iv) introducing land reforms, including land use certificates that would secure farmers' land use rights; and (v) providing access to markets. The Sustainable Cotton Development Project approved in 2006 will help the Government address these issues in four major cotton-growing districts.

2. As part of Tajikistan's preparations for accession to the World Trade Organization, the agriculture sector is diversifying beyond cotton to other crops. The Rural Development Project approved in 2007 will facilitate private investment in cash crops other than cotton, as well as downstream (agroprocessing) and upstream (input development) activities, using an integrated area approach focusing on poverty reduction. Given the importance of the rural sector, the Rural Enterprise Development Project in 2008 will provide a platform for comprehensive development of rural enterprises, including enhancing opportunities in nonfarm activities. A second phase of the Rural Development Project (\$20 million) is proposed in the forward program for 2009. As discussed with the Ministry of Water Resources and Land Reclamation, the Project would include an irrigation rehabilitation component. The PPTA for the Rural Development Project II (\$500,000) will be processed in 2008.

3. The proposed Khatlon Province Flood Management and Rehabilitation Project for \$22 million in the 2007 program aims to rehabilitate the Pyanj River flood protection infrastructure, which was damaged by floods in 2005, and develop concrete, medium-term measures for flood management in the area.

B. Education/Health, Nutrition, and Social Protection

4. ADB aims to continue the ongoing reform process in the education and health sectors. The government put together the national education strategy in 2005 in close consultation with its development partners. The strategy empowered the government to coordinate donor programs and paved the way for significant support from external funding agencies. In this changed context, ADB has begun preparing the second education sector reform project for 2008 approval. In the health sector too, excellent coordination mechanisms have been set up between the government and its development partners on the one hand, and among the development partners on the other. ADB will continue to provide support for health sector reforms, particularly health financing reforms, through the second health sector reform project in 2008.

C. Energy

5. ADB interventions in the energy sector have increased their focus on regional cooperation. The Regional Transmission Interconnection Project to facilitate the export of surplus energy from Tajikistan to Afghanistan was approved in 2006 with an allocation of \$21.5 million from ADF. Cofinancing from the Organization of the Petroleum Exporting Countries and the Islamic Development Bank was mobilized.

6. The Regional Gas Transmission Improvement Project, a firm loan for 2006, was dropped because of uncertainty about the outcome of bilateral negotiations with Uzbekistan. It has been replaced by another regional project, namely, the Nurek Switchgear Project, which would be cofinanced by the Kreditanstalt für Wiederaufbau. The feasibility study for the Project, funded by the Kreditanstalt für Wiederaufbau, is ongoing.

7. ADB, together with other development partners, is actively supporting dialogue between Afghanistan, the Kyrgyz Republic, Pakistan, and Tajikistan in relation to exporting clean electricity from the Kyrgyz Republic and Tajikistan. The first ministerial meeting was held in Islamabad in May 2006 and the second one was held in Dushanbe in October 2006.

8. An ADTA on Strengthening Capacity in Electricity Regulation has been included for 2008. The ADTA will focus on helping the regulator improve economic incentives to increase investment in the construction, maintenance, and rehabilitation of energy infrastructure.

D. Law, Economic Management, and Public Policy

9. ADB continues to invest in projects promoting regional cooperation and governance in this sector. The second phase of the Regional Customs Modernization and Infrastructure Development Project for \$10 million is included as a firm project in 2009.

10. ADB will pay heightened attention to private sector development. The Government is currently developing a private sector development strategy. ADB has programmed a major ADTA in the forward program to support the implementation of the Government's private sector development strategy. Cofinancing from bilateral development partners is at an advanced stage of consideration to make ADB intervention comprehensive, including the vital task of donor coordination.

E. Transport and Communications

11. ADB's focus in the transport sector is on regional cooperation. The proposed PRC–Kyrgyz Republic–Tajikistan Regional Road Corridor Project is programmed for 2007 with funding from the

ADF IX subregional window. The feasibility study for the project is under way. Initial estimates indicate that the current allocation for the project will be inadequate and cofinancing options are being explored. To help the Ministry of Transport and Communications with wider transport sector policy reforms, technical assistance on Transport Sector Master Plan has been programmed in 2007. Government priorities for the forward program were discussed, and as a result, the Dushanbe-Tursunzade Uzbek Border Regional Road Rehabilitation Project for \$25 million has been included in the lending pipeline for 2009. The PPTA for this project (\$500,000) will be processed in 2008.

12. The Government wishes to include a railways improvement project in the lending pipeline. Accordingly, a \$25 million project has been included as a standby project in 2009, and technical assistance to prepare the project is included in the nonlending assistance for 2008. Final determination regarding funding of a railways improvement project will be made after finalization of the transport sector strategy for Tajikistan in 2007.