

**ASIAN DEVELOPMENT BANK
Tajikistan Resident Mission**

**SUMMARY OF THE DISCUSSIONS
AT THE
CONSULTATIVE GROUP MEETING
FOR
TAJIKISTAN**

**2–3 May 2003
Dushanbe, Tajikistan**

SUMMARY OF DISCUSSIONS

A. Introduction

1. The fourth Consultative Group (CG) Meeting for Tajikistan was held on 2-3 May 2003, hosted by the Government of Tajikistan and held for the first time in Dushanbe. The meeting was jointly chaired by Prime Minister Akil Akilov and World Bank Regional Director Dennis de Tray. The Tajik delegation was led by President Emomali Rakhmonov and the delegation included, among others, the Prime Minister, the Ministers of Finance, Foreign Affairs, Economy and Trade, the central bank governor, and high ranking officials from the President's Office. The meeting was attended by representatives of 11 bilateral donors and 15 multilateral agencies. The participants of the meeting included representatives of Canada, People's Republic of China, Germany, France, Iran, Japan, Switzerland, UK, and the USA. The participants of two countries, the Republic of Korea and Russia, participated as observers. As authorized by Management, Asian Development Bank's (ADB's) delegation comprised Director General, East and Central Asia Department (ECRD); Country Director, Tajikistan Resident Mission (TJRM); and Country Economist (ECRD).

2. It was widely acknowledged that the fact the meeting was held in Tajikistan demonstrated the considerable progress in terms of internal security achieved by the government since the end of the civil conflict. This was the third CG meeting for Tajikistan attended by ADB after Tajikistan became a member in 1998. The meeting agenda was short and focused on four principal sessions: (i) Poverty Reduction Strategy (PRS); (ii) public investment and financial requirements; (iii) investment climate and private sector development; and (iv) indications of support by donor delegation. ADB delivered an opening statement, and presented a critical review of the Government's Public Investment Program (PIP).

B. Poverty Reduction Strategy

3. The Government outlined the key achievements of the PRS paper (PRSP) during the first year of implementation. These included strengthening the macro-economic environment through restructuring debt, improving tax collection, drafting a privatization plan, and improving the legal and regulatory framework for private sector development, agriculture reforms, and social sector reforms. The meeting supported the inclusion of the Millennium Development Goals (MDGs) in PRSP targets.

4. The IMF gave a brief overview over the macroeconomic performance which was cautiously positive, and pointed out that the IMF would consider greater flexibility regarding the ceiling on concessional borrowing for the PIP, provided implementation performance and absorptive capacity of government improved. However, the IMF noted the macro-economic stability is fragile, and the debt burden will remain a major concern, a concern also shared by the ADB.

C. Public Investment and Financial Requirements

5. The Government presented to the meeting its draft PIP for 2004-2006,¹ and a technical assistance program for capacity building and project preparation. The three primary areas of the

¹ The realization of the PIP document was supported by TAJ TA 3617 'Supporting Aid Coordination and Strengthening Debt Management' approved in December 2000.

Program are (i) social sector, (ii) infrastructure rehabilitation, and (iii) water resource management.

6. ADB's presentation focused on the need to improve project implementation, PIP planning and prioritization, and improved aid coordination. This is crucial to achieve a maximum development impact given the limited absorptive capacity of the government. It noted the low share of the PIP going to social sectors. Donors and government discussed the determinants of an appropriate level of public investment in the social sector. It was concluded that improved statistics on social sector expenditure and social indicators are needed to make informed decisions on prioritization. Figures that were used by donors and the government differed too widely to find a consensus. There was however a general consensus that prioritization should be based on economic returns, factoring in the need for maintenance, and contribution to meeting the PRSP and MDG goals.

D. Investment Climate and Private Sector Development

7. Tajikistan's foreign direct investment (FDI) is limited to approximately 250 joint ventures mostly in textile and mining, and FDI inflows have varied between \$15 to \$24 million a year. With improved security and safety as well as political stability and continued economic growth supported by the progress of economic reforms, the Government is eager to attract more FDI and strengthen private sector development.

8. The meeting acknowledged the progress that has been made so far, but indicated areas where further improvement was needed. New regulatory rules needed to be complemented by strong action to reduce administrative barriers and government interference in the private sector. The meeting acknowledged the progress to date in privatizing small enterprises and expressed hope that current plans to privatize medium to large enterprises would be implemented in the near term. The meeting also noted the importance of bringing the shadow economy into the formal sector to strengthen labor rights and improve government revenues.

E. Conclusion and Pledges

9. Donors expressed their support for the PRSP and acknowledged the progress in reforms made by the Government, while stressing the size of the reform agenda ahead. Donors provided an indicative figure of commitments totaling around \$900 million over the next 3 years, of which \$200 million is humanitarian assistance. The ADB delegation indicated a provisional resource envelope of \$100 to \$120 million over this period, subject to ADF availability and ADB's policy on Performance Based Allocation of ADF resources. Two thirds of the pledged total are grants and will therefore not increase the Government's substantial external debt burden. The Government proposed to prepare an action plan to address issues raised at the meeting, and to improve project implementation and aid coordination.

10. Donors also agreed to strengthen aid coordination and harmonization and have more informal, but regular donor coordination meetings at intervals of approximately 18 months.