

X. THE BANK'S INTERIM OPERATIONAL STRATEGY

1. The interim operational strategy (IOS) is aimed at guiding the Bank's initial assistance program for Tajikistan. The rationale for formulating the IOS rests on the Bank's limited knowledge of the country and the incipient nature of its assistance activities. A full-fledged country operational strategy will be prepared after (i) the Bank has gained adequate knowledge of the strengths and weaknesses of the economy and institutions in Tajikistan, and (ii) the scope of Bank operations has been delineated more clearly in collaboration with the Government and other aid agencies.

2. The IOS is prepared on the basis of three criteria: it will (i) follow the Government's developmental priorities to maximize the impact of Bank assistance, (ii) take into account the activities of other aid agencies to avoid duplication of aid efforts, and (iii) be in accord with the Bank's comparative advantage to ensure efficient use of limited Bank resources.

A. The Government's Development Strategy and Priorities

3. The Government's medium-term development strategy concentrates on achieving sustained economic growth and improving the living standards of the poor. Taking into account its financial difficulties, the Government gives priority to agriculture, infrastructure, finance, education, and health. While the realization of this strategy requires concerted action in many areas, the most important tasks facing the Government are to (i) accelerate the peace process, (ii) enhance macroeconomic stability, (iii) facilitate structural reforms, (iv) reduce poverty, and (v) make efforts for natural disaster rehabilitation. The successful accomplishment of these tasks will provide the foundation for future sustainable development.

4. Peace is closely linked to economic recovery and social stability. Without peace there will be no sustained economic growth just as there can be no lasting peace without economic progress. The Government needs to work closely with UTO to accelerate the implementation of the peace agreement. Strong efforts are required to facilitate constitutional amendments, prepare for parliamentary elections, and demobilize and integrate former soldiers into civil society.

5. Macroeconomic stabilization is essential to elicit external assistance and attract FDI to promote growth of employment and incomes. Despite some progress, the stabilization process in Tajikistan remains fragile. Pressures for renewed inflation could arise due to extensive losses of SOEs and interenterprise arrears. The Government's fiscal situation remains weak as large amounts of tax arrears still exist. The balance of payments position continues to be precarious as reflected by the low level of international reserves and the large financing gap. The Government needs to maintain the tight monetary policy stance, strengthen revenue collection, promote export growth, and enhance the debt-service capacity to ensure a stable macroeconomic environment.

6. The implementation of structural reforms aimed at developing a competitive market economy is a primary determinant of sustained growth. Tajikistan has long-term growth potential because of its abundance of several natural resources (e.g., hydropower and gold) and a relatively well-educated but low-cost labor force. To fully tap this strong potential, the country needs to accelerate the process of structural reform to create a favorable environment for private sector development. While progress has been on structural adjustments in some areas, the unfinished reform agenda remains large and needs to be completed. Special attention will

need to be paid to (i) privatization and restructuring of medium-size and large SOEs, (ii) land reform and farm restructuring, and (iii) banking reform.

7. Poverty reduction is crucial to maintain political stability and public support for the economic reform. Poverty is alarming in Tajikistan as about 80 percent of the population are unable to adequately meet their basic needs for food, clothing, shelter, education, and medical care. Fighting poverty should be a focal point of the Government's development efforts. The Government is taking action to address the poverty problem by promoting rural development, raising the minimum wage, eliminating arrears of pension payments, improving the social security system, and providing microcredit financing. To make poverty reduction sustainable, special efforts are needed to create more employment opportunities for the poor, particularly in rural and war-affected areas, through labor-intensive rehabilitation and reconstruction work, and rural small enterprise development.

8. Tajikistan is prone to natural disasters. With its mountainous topography, precipitation concentrating in the winter and spring, deforestation, and soil erosion, the country suffered a series of floods in the 1990s. Heavy floods triggered by torrential rains washed away agricultural crops and destroyed houses, roads, bridges, and power lines. The country's vulnerability to such natural disasters has hampered the Government's efforts to improve the economy and worsened the living conditions of the population. There is a need to carry out natural disaster rehabilitation work to minimize the economic and social damage to the country.

B. External Assistance

9. Tajikistan has received limited external assistance since independence. By July 1998, assistance totaling \$454 million was committed for the country (Appendix, Table 23). The multilateral agencies, particularly IMF and the World Bank, are the major sources accounting for 88 percent of the total. World Bank operations began in 1994 and six loans totaling \$137 million have been approved.¹ A new World Bank country assistance strategy envisages total lending of \$220 million to Tajikistan for FY1999-2001 and focuses its operation on privatization, agriculture, finance, social services and protection, and capacity building. While assistance has been provided from several countries such as Germany, the Netherlands, and the United States, funds from bilateral sources were limited to \$46 million (10 percent of the total). The balance was covered by NGOs. During the Second Consultative Group Meeting for Tajikistan in May 1998, the multilateral agencies accounted for more than 90 percent of total assistance of \$280 million committed for 1998-1999.² The perceived high risks to project implementation and personal safety are the principal factors for the slow entry of much bilateral assistance.

10. External assistance has consisted mainly of balance of payments support reflecting the country's severe economic difficulties. Of the \$454 million total commitments by July 1998, balance of payments support accounted for nearly 50 percent of the total. Emergency rehabilitation and reconstruction and humanitarian relief accounted for a further 26 percent, while conventional development projects accounted for only 18 percent of total assistance. Tajikistan's external sector is expected to remain under pressure in the near term,

¹ These include a \$5 million Institution Building Technical Assistance Loan approved on 16 May 1996; a \$50 million Policy-based Agricultural Recovery and Social Protection Credit approved on 2 September 1996; a \$12 million Pilot Poverty Alleviation Project approved on 10 April 1997; a \$10 million policy-based Postconflict Rehabilitation Credit approved on 16 December 1997; a \$10 million Postconflict Emergency Reconstruction Project approved on 29 January 1998; and a \$50 million policy-based Structural Adjustment Credit approved on 31 July 1998.

² IN. 126-98: Tajikistan: Second Consultative Group Meeting, 22 June.

so the bulk of external assistance will continue to be required for balance of payments support. As further progress on the peace process and macroeconomic stabilization is achieved and the economic recovery continues, more external resources are expected to shift from balance of payments support to conventional project assistance.

C. The Bank's Interim Operational Strategy

1. Overall Objectives

11. The overriding objectives of the Bank's IOS are to (i) facilitate the country's transition to a market economy, (ii) assist in its postconflict rehabilitation and reconstruction efforts, and (iii) provide support for natural disaster rehabilitation. Bank assistance will be extended in support of policy reforms, institution building, and investment operations. Bank operations will pay attention to promoting the development of small and medium-size enterprises and reducing poverty, particularly for female-headed households and communities in remote mountainous areas.

2. Priority Sector Strategies

12. Because of the Bank's comparative advantage at the sector level, the objectives of the IOS will be achieved through sector operations. Taking into account the Bank's resource constraints, the IOS focuses the Bank's country assistance program on a few priority sectors to maximize its development impacts. In view of the Government's development priorities and the activities of other aid agencies, Bank assistance in the near term will concentrate on three priority areas: (i) agriculture and agroprocessing; (ii) infrastructure rehabilitation, especially roads and power; and (iii) education. Involvement in these sectors builds on the Bank's comparative advantage as the Bank has gained significant experience from its similar operations in the other FSU republics in Central Asia.

13. The Bank's efforts to reduce poverty will be made through its operations in agriculture, roads, power, and education. While this approach will ensure that the limited Bank resources are given to the priority sectors, it will make poverty reduction both effective and sustainable in Tajikistan. Agriculture and infrastructure rehabilitation projects will create additional job and income opportunities through major investments, while education rehabilitation projects will help maintain the relatively strong human capital of the country.

a. Agriculture

14. The principal objective of Bank assistance to agriculture is to support the Government's efforts for sector reforms and postconflict agricultural rehabilitation and reconstruction. The Bank will assist the Government to implement major sector reforms that include (i) facilitating land reform and farm restructuring to improve the incentive structure and farm management, (ii) encouraging competition in agricultural marketing, and (iii) developing a framework for providing the necessary financial services. Bank assistance will be provided to help policy formulation, strengthen institutional capacities, support small rural enterprise development, reduce rural poverty, and address environment-related water management issues. Community-based agricultural rehabilitation will be the focus of the Bank's near-term sector intervention. A Bank-financed agriculture study will be undertaken to examine the critical sector issues and lay the basis for the Bank's medium-term involvement in the sector.

b. Infrastructure

15. In the transport sector, the Bank will assist the Government to (i) undertake sector reforms to remove policy and institutional impediments to the delivery of efficient services, and (ii) rehabilitate the deteriorating and damaged infrastructure. Bank operations will concentrate on the road subsector. Bank support will include (i) developing a policy and regulatory framework appropriate for a market economy; (ii) commercializing and privatizing operations of SOEs to improve operational efficiency; (iii) promoting competition and private sector participation in the provision of services; (iv) raising funding by improving collection of tariffs, introducing user charge practices, and removing subsidy-induced distortions in the pricing of services; (v) rehabilitating key infrastructure; (vi) improving maintenance and safety standards; and (vii) developing human resources and strengthening institutions.

16. In the energy sector, the power subsector will be the focus of Bank assistance. The Bank will assist the Government to implement sector reforms, and rehabilitate the deteriorating infrastructure. Bank operations will focus on (i) establishing an efficient policy and regulatory framework; (ii) fostering privatization and commercialization of energy-focused SOEs; (iii) encouraging private sector involvement in energy production and delivery services; (iv) increasing funding by phasing out electricity subsidies, improving collection of electricity payments, and installing meters for all energy consumers; (v) rehabilitating existing infrastructure and improving maintenance operations; (vi) developing the necessary human skills; and (vii) strengthening Government institutions to achieve good governance.

c. Education

17. In the education sector, the major objectives of Bank assistance are to (i) further sector reforms to enable the education system to meet the needs of a market economy, and (ii) rehabilitate education infrastructure to improve access to and quality of basic education services. Bank assistance will focus on improving education management, encouraging private sector participation in financing and provision of education services, facilitating curriculum and textbook development, strengthening teachers' training, rehabilitating the damaged primary and secondary school buildings, and implementing remedial and catch-up educational programs to ensure continued access to education services by disadvantaged groups.

D. Operational Issues

18. Tajikistan's urgent need for external support for its postconflict rehabilitation efforts warrants Bank assistance at the earliest possible time. The Bank's first operation will be provided under the mode of program lending to support the country's sector reforms in coordination with IMF's ESAF framework. This modality is deemed appropriate and necessary because the program will contribute to the peace process and economic recovery in a timely and tangible way by addressing key policy constraints and rehabilitating transport and energy infrastructure damaged by the civil war and natural disasters.

19. In the following year, the Bank could consider project lending operations in agriculture, infrastructure, and education. Small-scale community-based agricultural and education rehabilitation projects could be envisaged. Such projects do not require comprehensive sector studies; they could be prepared with limited risks and achieve immediate positive results as there have already been similar projects successfully conducted by other aid agencies and NGOs. Projects in roads and power could also be possible, subject to the completion of sector studies.

20. Because of the limited in-country experience, after the projected initial intervention the Bank will undertake sector studies on agriculture, transport, power, and education through technical assistance projects to lay the foundation for the future Bank lending program. Such sector work will contribute to a better understanding of sector problems and thus help design appropriate projects, including agendas for policy and institutional reforms, for the Bank's medium-term assistance.

21. In view of the Government's weak institutional capacity, the capacity-building efforts will constitute an integral component of Bank assistance in each of the sectors covered. Such efforts will assist the Government to develop appropriate institutional structure in agriculture, infrastructure, and education to carry out new roles of policy formulation, sector planning, social and environmental assessments, and project implementation. Given the limited knowledge of Government officials about the functioning of the Bank, the Bank will conduct seminars in Tajikistan on Bank operational policies and procedures.

22. As a mountainous land-locked country, Tajikistan needs strong cooperation with neighboring countries to promote economic growth. Major benefits to be generated from regional economic cooperation include (i) widening markets to improve the competitiveness of domestic producers, given Tajikistan's long distances to international markets; (ii) creating more job opportunities and reducing unemployment; (iii) contributing to the improvements in the balance of payments situation through increased exports of hydropower; and (iv) ameliorating the severe domestic supply constraints of consumer goods. The Government has expressed strong interest in participating in the Bank's efforts to encourage economic cooperation in Central Asia.³ Subject to the approval of the Bank's management, Tajikistan will be included in the second phase of the Bank's regional economic cooperation initiative.

23. As a transition economy, Tajikistan needs Bank assistance to promote private sector development. The Bank has recently finalized a Private Sector Strategy for Central Asia,⁴ that states that the Bank will (i) focus on private sector operations that will be directly complementary to its public sector programs; (ii) develop programs in those sectors that can have a direct impact on reducing the costs of transition, particularly in the social sectors; and (iii) seek the maximum involvement of other investors or participants. The Bank is now looking for opportunities to operationalize the strategy in the region. Bank private sector operations in Tajikistan will focus on support for the Government's nascent privatization program.

³ The Bank is presently providing regional technical assistance to promote economic cooperation among Kazakhstan, Kyrgyz Republic, Uzbekistan, and Xinjiang Uygur Autonomous Region of the People's Republic of China. The Bank's regional economic cooperation efforts focus on three areas: transport, energy, and trade and payments systems. Bank activities are being organized in two phases. During the first phase, the study was completed and a series of workshops were held to identify priority policy reforms and investments with cross-border characteristics. It is proposed that under the second phase, (i) the dialogue will be intensified to support policy reform and sector analysis; (ii) active private sector involvement will be sought; (iii) steps will be taken to improve the institutional capacity of public agencies involved and to enhance the legal and regulatory framework; and (iv) assistance will be provided to implement priority regional infrastructure investments.

⁴ IN.59-98: *A Private Sector Strategy for Central Asia*, 16 March.