



Country Partnership Strategy

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Tajikistan
2016–2020

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 August 2016)

Currency unit	–	somoni (TJS)
TJS1.00	=	\$0.12
\$1.00	=	TJS7.86

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
DSA	–	debt sustainability analysis
GDP	–	gross domestic product
GNI	–	gross national income
IMF	–	International Monetary Fund
MDG	–	Millennium Development Goal
OCR	–	ordinary capital resources
PBL	–	policy-based lending
PPP	–	public–private partnership
TA	–	technical assistance
TUTAP	–	Turkmenistan–Uzbekistan–Tajikistan–Afghanistan–Pakistan
TVET	–	technical and vocational education and training
TWh	–	terawatt-hour

NOTE

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

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COUNTRY AT A GLANCE

Economic	2011	2012	2013	2014	2015^a
GDP (\$ billion, current)	6.5	7.6	8.5	9.2	7.9
GDP per capita (\$, current)	845.6	961.5	1,053.5	1,119.1	929.2
GDP growth (% , in constant prices)	7.4	7.5	7.4	6.7	6.0
Agriculture	7.9	10.4	7.6	4.5	3.2
Industry	5.9	10.4	3.9	5.1	11.2
Services	13.5	14.5	9.7	1.0	(7.0)
Investment (% of GDP)	16.6	12.6	14.3	16.4	18.8
Gross national savings (% of GDP)	15.6	15.0	14.8	10.1	9.9
Consumer price index (annual % change)	12.5	5.8	5.0	6.1	5.1
Liquidity (M2) (annual % change)	33.1	19.5	19.7	7.1	18.7
Overall fiscal surplus (deficit) (% of GDP)	(3.3)	0.3	(0.8)	0.1	(2.3)
Merchandise trade balance (% of GDP)	(47.7)	(44.8)	(45.5)	(43.3)	(32.4)
Current account balance (% of GDP)	(4.8)	(2.5)	(2.9)	(9.1)	(5.9)
External debt service (% exports of goods, services)	5.1	8.0	9.4	6.1	7.6
Total public and publicly guaranteed external debt (% of GDP)	33.1	28.6	25.3	22.7	27.8
Poverty and Social	1990	2000	Latest Year		
Population (million)	5.3	6.2	8.54 [2015]		
Population growth (annual % change)	2.6	1.5	2.3 [2015]		
Maternal mortality ratio (per 100,000 live birth)	68	89	44 [2015]		
Infant mortality (below 1 year/per 1,000 live births)	85	74.3	38.5 [2015]		
Life expectancy at birth (years)	62.9	63.7	69.8 [2015]		
Adult literacy (%)	97.7 [1989]	99.5	99.7 [2013]		
Primary school gross enrolment (%)	90.5 [1991]	95.3	97.3 [2014]		
Child malnutrition (% below 5 years old)	...	14.9 [2005]	10 [2015]		
Population below poverty line (%)	...	81 [1999]	31.6 [2015]		
Population with access to safe water (%)	58.2 [1993]	59.6	73.8 [2015]		
Population with access to sanitation (%)	89.5 [1993]	90.4	95.0 [2015]		
Environment	2000		Latest Year		
Carbon dioxide emissions (ktCO ₂)	2,240		3,590 [2013]		
Carbon dioxide emissions tons per capita (tCO ₂)	0.36		0.44 [2013]		
Forest area (hectares)	410,000		412,000 [2015]		
Urban population (% of total population)	26.5		26.7 [2014]		
ADB Portfolio (as of 31 December 2015)	OCR	ADF	Other Trust Fund	Total	
Total number of projects					
Sovereign		10		2	12 ^b
Nonsovereign	1				1
Net project amount (\$ million, cumulative)					
Sovereign	0.00	765.67		26.05	791.72
Nonsovereign ^c	8.00			3.00	11.00
Disbursements ^d					
Net funds approved for withdrawal (\$ million) ^e					1,075.56
Disbursed amount (\$ million, cumulative) ^f					714.58
Percentage disbursed (cumulative disbursed amount/net funds approved)					66.44

...= not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

^a Preliminary data and government estimates.

^b Includes one project approved in 2015, but not effective as of 31 December 2015.

^c Includes \$5 million OCR loan, \$3 million equity investment, and \$3 million B-Loan, but financing agreements have not yet been signed. As of 31 December 2015, the ADB Trade Finance Program also supported 134 transactions of one local bank by providing guarantees and loans of more than \$18 million.

^d Disbursement data without policy-based loans.

^e Loan and grants total approved amount net of cumulative cancellations.

^f Cumulative disbursements from date of effectivity of loan or grant.

Sources: ADB. 2016. Asian Development Outlook; IMF Press Release No. 15/268 (9 June 2015); IMF. 2016. World Economic Outlook database; International Union for Conservation of Nature Red List. 2014; National Bank of Tajikistan; Statistical Agency under the President of the Republic of Tajikistan; UN. 2015. *Human Development Report*. New York; World Bank. World Development Indicators Dataset; ADB Staff estimates.

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. **Significant development challenges faced.** Tajikistan's development challenges arise from a narrow economic base and also that 93% of its territory is mountainous. The country has always been reliant on exports of two commodities (raw cotton and unwrought aluminum, which account for more than two-thirds of total exports) and inflows of remittances from Tajik migrant workers, mainly from the Russian Federation especially since 2002. It possesses the world's eighth highest hydropower resources potential with about 220 terawatt-hours technically recoverable, but most of the existing hydropower plants require rehabilitation as they were built during the times of the former Soviet Union. Sustained growth rates saw Tajikistan achieve lower-middle-income status with a gross national income (GNI) per capita (Atlas method) of \$1,240 for 2015.¹ The pattern of growth has however increased susceptibility to volatile international commodity prices and trajectory of the Russian economy, leading to periodic macroeconomic challenges. Effects of this volatility and dependency are compounded by its landlocked location and regional geopolitics that affect connectivity. Transition to market economy after independence in 1991 was set back by a 5-year civil war that saw the economy contract by an average of 17.1% during 1991–1996 before peace was restored in 1997.

2. **Robust yet jobless growth.** While robust growth was registered since 1997, it started from a low base and only from 2012 onward did comparable rates to pre-independence levels for per capita gross domestic product (GDP) resume.² During the 1997–2004 post-war recovery phase, GDP growth averaged 7.7%. Percentage contributions by sectors to GDP growth were broad-based as agriculture accounted for 27.8%, industry for 29.1%, and services for 43.1% (footnote 2). Growth rates during 2005–2014, which averaged 6.9%, were marked by increased volatility in international prices of cotton and aluminum. Limited agglomeration beyond Dushanbe, with only 17 other designated urban centers having a combined population of 1.5 million, offered few new job opportunities.³ This, combined with high wage differentials between domestic labor markets and the Russian Federation and lenient entry policies, triggered the migration of workers. Remittance inflows from migrant workers rose from 6.4% of GDP in 2002 to a high of 49.6% in 2013. However, since the size of average remittance amounts remained relatively small, limited portions of inflows were channeled to productive sectors and much of it was used for private consumption. Research on effects of the remittances indicates that they did not have positive effects on investments, but increased consumption expenditures by 1.7 percentage points.⁴

3. **Dramatic reduction in poverty.** Sustained growth contributed to a drop in poverty from 81% in 1999 to 47% in 2009 based on the living standards survey, down to 35.6% in 2012 using the household budget survey that factors seasonal changes.⁵ Estimate from first quarter of 2015 puts it at 31.6% although the pace has decelerated. Similarly, those below \$1.90 at 2011

¹ As of July 2016, lower-middle-income economies were those with GNI per capita (Atlas method) of between \$1,026 and \$4,035 in 2015. Tajikistan's 2015 GNI per capita is \$1,240.

² Asian Development Bank (ADB). 2016. *Tajikistan: Promoting Export Diversification and Growth. Country Diagnostic Study*. Manila.

³ Center for Economic Research. 2013. *Urbanization in Central Asia: Challenges, Issues and Prospects*. Tashkent: United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and United Nations Development Programme (UNDP).

⁴ ADB. 2011. Remittances and Household Expenditure Patterns in Tajikistan: A Propensity Score Matching Analysis. *Asian Development Review*. 28 (2). pp. 58–87.

⁵ Under the household budget survey, households are visited 4 times a year and less subject to bias, while the living standards survey is administered once.

purchasing power parity dropped from 10.4% in 2007 to 4.7% in 2009.⁶ Data from 2003 to 2009 showed that labor earnings, remittances, and pension payments were factors that reduced poverty, although there are some regional disparities. Income inequality measured by the Gini coefficient widened from 0.29 in 1999 to 0.32 in 2002 and 0.33 in 2004, but has remained at 0.32 in 2007 and 0.31 in 2012 (footnote 2). The ratio of consumption share of the highest to the lowest quintile groups to assess inequality rose marginally from 4.5 in 1999 to 4.7 in 2009.⁷

4. **Employment remains agriculture-based.** When growth averaged 6.9% in 2005–2014, contribution of agriculture to GDP growth reduced to 21.7%, contribution of industry contracted to -1.1%, while contribution of services, including construction, expanded to 79.4% (footnote 2). In terms of total employment, share of industry reduced from 20.5% in 1991 to 4.1% in 2014, services from 34.8% to 30.3%, although agriculture increased from 44.7% in 1991 to 65.6% in 2014 (footnote 2). So while Tajikistan, from the perspective of outputs, became a service economy, in terms of structure of employment, it remains agriculture-based.⁸

5. Agriculture grew at 9.3% from 1997 to 2004 and 6.4% from 2005 to 2014 marked by low productivity. Exports of raw cotton; fruits, nuts, and vegetables; and leather and tobacco products averaged 30% of total exports. Industry grew by 7.0% during 1997–2004, but contracted by -0.4% in 2005–2014. The aluminum segment, with its one of the largest manufacturing plant in Central Asia has seen production levels drop because of the need for modernization. It accounts for 5%–7% of GDP, 40% of exports, and about 10,000 jobs. On services, remittance inflows raised demand by households, which resulted in rise in imports with hydrocarbons and food grains accounting for a quarter of imports. Exports were affected as the number of products with comparative advantage decreased from 48 in 1995 to 44 in 2012. This decrease is a result of both price competitiveness factors (where increased remittances raise demand for nontradables with the resulting inflation reducing cost competitiveness of exports) and non-price competitiveness factors like quality, distribution, and logistics (footnote 2).⁹

6. High reliance on hydropower (i.e., 98% of total electricity generated) results in a power surplus during summer and acute deficits in winters, which in turn affects electricity availability outside Dushanbe. In 2015, winter energy shortage was estimated at 1.1 terawatt-hours (TWh), about 9% of annual consumption. Electricity exports from summer surplus to Afghanistan increased from \$33 million (2013) and \$39.3 million (2014) to \$44 million (2015). However, unreliable winter electricity supply and the dependency of the aluminum industry on subsidized energy (which consumes about 40% of total electricity generated) coupled with a small finance sector (where 17 banks account for 84% of total finance sector assets or about 32.6% of GDP in 2014) impede private investments and limit industrial diversification. Tajikistan has had the lowest share of private investments among transition economies at 26% in 2000–2012 and its foreign direct investment stock reached \$1.88 billion in 2014.¹⁰

7. **Susceptibility to external shocks.** The economy's vulnerability is reflected in identical developments faced during the preparation of the country partnership strategy (CPS) for 2010–2014.¹¹ Because of the 2008–2009 global financial crisis and downturn in the Russian economy,

⁶ ADB, UNESCAP, and UNDP. 2015. *Making It Happen: Technology, Finance and Statistics for Sustainable Development in the Asia and Pacific*, and World Development Indicators.

⁷ ADB. 2014. *Framework for Inclusive Growth Indicators*. Fourth Edition. Manila.

⁸ Official statistics have a low unemployment rate of 2.3% for 2013 because it counts only those receiving benefits.

⁹ The country's competitiveness is constrained by the high cost of transport logistics as reflected in its ranking of 153 out of 160 countries in the 2016 Logistics Performance Index.

¹⁰ United Nations Conference on Trade and Development Statistics. <http://unctadstat.unctad.org/EN/>

¹¹ ADB. 2010. *Country Partnership Strategy: Tajikistan, 2010–2014*. Manila.

remittance inflows fell by 35% (\$800 million, roughly 15% of GDP), which reduced consumption, slowed construction, and affected imports. About 460,000 migrants returned in 2009, which increased the pressure for jobs. There was a drop in the demand for and prices of unwrought aluminum and raw cotton, which accounted for 80% of exports. The somoni depreciated by 28% and the finance sector was stressed as nonperforming loans reached 22%. Timely budget support by development partners, including the Asian Development Bank (ADB), and quick recovery in the Russian Federation helped to stabilize the economy in 2010. The repetition of this cycle demonstrates continued vulnerability to external shocks, so although the economy registered growth, structural transformation is needed to minimize volatility.¹² With 31% of the population aged 15–29, employment is a critical policy imperative.

8. **Gender disparities persists.** The gender inequality index, which estimates women's ease and quality of access to health, education, labor market, and representation in Parliament, slipped from 0.347 in 2011 (rank of 61 out of 146)¹³ to 0.383 in 2013 (75 out of 152),¹⁴ although it improved in 2014 to 0.357 (69 out of 155). This drop was mostly because of a slight increase in maternal mortality ratio (from 64 in 2008–2009 to 65 in 2010 after which it reduced to 44 in 2015), rise in adolescent birth rate or births per 1,000 girls between 15 and 19 years (from 28.4 in 2010 to 42.8 in 2014) and a drop in percentage of women older than 25 years with at least some secondary education (from 93.2% in 2010 to 89.9% in 2014). Evidence from 2011 show that women dominate lower paying jobs in agriculture, health and education.¹⁵ Assessment of Millennium Development Goal (MDG) achievement is hampered by the lack of updated data. The final assessment is scheduled for later in 2016, but many targets are not expected to be reached. While significant progress was made in eradicating poverty, infant and maternal mortality rates are below the targeted two-thirds and three-quarters reduction from 1990 levels. So implementation of 17 post-2015 Sustainable Development Goals will be against this backdrop of MDG underachievement. Food security is a critical issue.¹⁶

B. Economic Assessment and Outlook

9. **Slower growth and widening current account deficit.** The official growth estimate in 2015 is 6.0%, decelerating from 7.4% in 2013 and 6.7% in 2014 because of lower remittance inflows and a fall in the demand for unwrought aluminum and raw cotton. Remittances that rose from 6.4% of GDP in 2002 to 49.6% in 2013 fell to 41.7% in 2014 and 33.4% in 2015. The Russian Federation tightened regulations for reentry and by December 2015, 333,391 migrant workers were given reentry bans for 3–5 years.¹⁷ Current account deficit widened to 9.1% of GDP in 2014. The somoni depreciated by 31.7% against the US dollar in 2015 (and by a further 10.7% in first half of 2016) and 16.1% against the Russian ruble in 2015 (and 17.5% in the first half of 2016), despite interventions by the central bank. Currency reserves by the end of 2015 were \$494.3 million, or 1.6 months of imports. Low fuel and food prices, accounting for a quarter of total imports, kept inflation to single-digit levels in 2015.

10. The government's fiscal balance in 2014 saw a surplus of 0.1% of GDP, from a deficit of 0.8% in 2013. Fiscal deficits are expected to be in the 2%–3% range in 2015–2016. Total

¹² This entails shift to industry-based enterprises, higher value-added products, and increased export sophistication.

¹³ UNDP. 2011. *Human Development Report 2011— Sustainability and Equity: A Better Future for All*. New York.

¹⁴ A gender inequality index of 0 indicates that men and women fare equally while 1 denotes maximum inequality.

¹⁵ United Nations. 2012. *Report on Article 18 of Convention on the Elimination of All Forms of Discrimination against Women*. New York: Committee on the Elimination of Discrimination against Women.

¹⁶ The global food security index measures food affordability, availability, quality, and safety; Tajikistan ranked 88th out of 109 countries in 2014.

¹⁷ International Organization for Migration. 2016. *An Overview of Current Migration Trends in Tajikistan*. Dushanbe.

revenues and grants reached 30.1% in 2015 compared with 28.4% in 2014 and 26.9% in 2013. A revised tax code was formalized in 2013 that rationalized the number of taxes from 21 to 13, but administrative laws and procedures to minimize bureaucratic arbitrariness and a sanctions mechanism for violations are areas that need improvement. Total expenditure of the government in 2015 was 32.4% compared with 28.3% in 2014 and 27.7% in 2013. Capital investments by the government remained high at about 10% of GDP during 2011–2014. Much of the government's capital spending is in energy and transport.¹⁸ Current expenditures at 18.2% of GDP in 2014 include wages and transfers to households at levels lower than in comparator economies. During 2010–2015, spending was 2.1% of GDP for health and 5.0% of GDP for education, with plans to increase health to 4.4% and education to 7.0% by 2020.¹⁹

11. The somoni depreciation intensified finance sector problems, where 84% of assets are owned by 17 banks and 15% by 120 microfinance institutions. Nonperforming loans spiked to 28.3% in December 2014 in six banks that account for 81% of total banking assets. Borrowers face increasing difficulties in repaying their dollar-denominated loans because of the depreciation. The dollarization observed since 2011 and the rapid expansion of credit to the private sector in 2013–2014 exacerbated this problem. Nonperforming loans are concentrated in the commercial sector (46% of nonperforming loans), government entities (30%), and small and medium-sized enterprises (14%). Results of stress tests reveal that banks are vulnerable to risks related to solvency, credit, liquidity, and exchange rates.²⁰

12. **Debt sustainability.** Long-term debt sustainability improved as total public external debt (57.9% of GDP in 2000–2011) fell to 22.7% in 2014, with all-grant assistance of development partners (including ADB and the World Bank) and economic growth. ADB approved \$760.65 million in grant support in 2010–2015. The 2014 debt sustainability analysis (DSA) conducted by the International Monetary Fund (IMF) and the World Bank in November 2014 assessed Tajikistan to be in moderate risk of debt distress. Based on the DSA and ADB's 2014 country performance assessment, Tajikistan was rated as a medium performer and received concessional assistance (half in grants and half in loans) for the first time in 2015–2016 after receiving only grants in 2010–2014. The 2015 DSA rating improved to *low risk* and the World Bank moved to 100% loan from July 2015.²¹ Total public external debt was 27.8% in late 2015.

C. Highlights of Previous ADB Country Strategies

13. **Positioning and focus.** The strategic focus evolved to meet varying country needs through the past three CPS cycles since 1998. The economic report and interim operational strategy, 1998–2003 focused on post-conflict reconstruction, rehabilitation from disasters triggered by natural hazards, and transition to market economy.²² The country strategy and program, 2004–2009 widened the focus to rural development; transport, energy, and irrigation infrastructure; private sector activities in rural development; and regional connectivity.²³ The 2010–2014 CPS focused on energy, transport, and private sector development through

¹⁸ While the spending level of the government is comparable with low-income and lower-middle-income countries, the country's capital spending rate is the highest among countries with similar income levels.

¹⁹ World Bank. 2013. *Government Expenditures, Size, Composition and Trends*. Washington, DC.

²⁰ IMF. 2016. Republic of Tajikistan: Financial System Stability Assessment. *IMF Country Report No. 16/41*. Washington, DC.

²¹ ADB's grant framework adopts a conservative policy implying that, if the debt distress classification improves, the country retains the original grant share during the second year of any biennial allocation period (2016 in this case). However, if debt distress classification deteriorates, the country moves to a higher grant share from 2017.

²² ADB. 1998. *Economic Report and Interim Operational Strategy for Tajikistan*. Manila.

²³ ADB. 2003. *Country Strategy and Program 2004–2008*. Manila.

strengthened public sector management (footnote 11). Positive portfolio indicators support the previous sector selectivity adopted.

14. **Good portfolio quality and high success rates.** By the end of 2015, ADB's total approvals reached \$1.4 billion. With the ongoing country program of \$791.72 million as of December 2015, the active portfolio is the largest among international financial institutions. The 2013 annual evaluation review ranked the Tajikistan portfolio second-best across developing member countries, after the People's Republic of China.²⁴ Tajikistan was also ranked among the top countries with a project success rate of 82.4% as of October 2013, compared with 56.8% for Central and West Asia and 64.2% for ADB, although it was 75% by the end of 2015. In January–February 2015, ADB's Office of Anticorruption and Integrity conducted a procurement review of the Central Asia Regional Economic Cooperation (CAREC) Corridor 6 (Ayni–Uzbekistan Border Road) Improvement Project, where it assessed internal controls, supervision, and management to be adequate and overall work quality to be satisfactory.²⁵

15. The country assistance program evaluation covered 1998–2013 and rated the program *successful*.²⁶ It noted that the 2010–2014 CPS decision to discontinue support for rural development, health, and education sectors resulted in foregone opportunities for targeted inclusive growth projects. The first recommendation was to employ inclusion-oriented project designs, especially viewed through the lens of jobs and gender. There were four more recommendations—two where significant ground is covered—which are to improve the business and investment climate, and integrate climate change and disaster risk activities.

II. THE COUNTRY STRATEGY

A. Government National Development Strategy

16. The priorities of the government's National Development Strategy 2016–2030 are energy security and efficient use of energy, improved communications and reposition as a transit country, food security, nutrition and improve public access to quality food, and creation of jobs through increased private investment, economic diversification, and competitiveness. Three medium term development programs will be sequenced, with the first phase covering 2016–2020, where strategic directions will include developing an institutional support system, improving the business environment for private sector development, and increasing human capital productivity. The second phase (2021–2025) is planned for rapid growth of investments; while the third phase (2026–2030) is projected to mark the transition from industrialized growth strategies to diversified production and knowledge-based innovation.

B. ADB Country Strategy and Priority Areas

17. **Pathways to widen economic base.** The strategic objective is to help the government achieve sustained and inclusive growth that is less susceptible to external shocks and create higher-paying jobs. Three pathways are proposed to achieve this: (i) continue infrastructure investments in energy and transport where ADB has had a lead role and initiate support for integrated urban development; (ii) sequence investment climate reforms, technical and vocational education and training (TVET), backed with knowledge work focusing on economic diversification; and (iii) integrate food security with value-chain development, water resources

²⁴ Independent Evaluation Department. 2013. *2013 Annual Evaluation Review*. Manila: ADB.

²⁵ ADB. 2016. *Project Procurement-Related Review: Grant 0301-TAJ(SF) and Loan 8259-TAJ: Central Asia Regional Economic Cooperation Corridor 6 (Ayni–Uzbekistan Border Road) Improvement Project*. Manila.

²⁶ Independent Evaluation Department. 2014. *Country Assistance Program Evaluation: Tajikistan*. Manila: ADB.

management, and climate change adaptation targeting poorer regions (oblasts). These pathways will contribute to widen the country's narrow economic base by increasing electricity exports from its summer surplus, develop human capital with sustained engagement in TVET, and strengthen institutions for agricultural and market linkages.

18. First, helping Tajikistan increase electricity exports to neighboring countries particularly during summer surplus months will be a key ADB approach to diversify markets. The projected level of annual electricity exports in 2020 is 3 TWh from a baseline of 0.9 TWh in 2013.²⁷ ADB-financed transmission lines made it possible to export electricity to Afghanistan since 2013 (para. 6), but the achievement of the export target to Afghanistan and Pakistan will depend on continual investments in different regional power trade initiatives including ADB's Turkmenistan–Uzbekistan–Tajikistan–Afghanistan–Pakistan (TUTAP) initiative.²⁸

19. Second, improving skills development of the workforce through TVET is an ADB priority for diversification. Findings from country sector plans also highlight that 115 industrial sites are to be developed, which will create 12,000 new skilled employment opportunities covering 3,000 in energy, 3,200 in agriculture, and 3,000 in agro-processing. A labor market survey jointly conducted by ADB and German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) prioritized 17 occupations in five sectors—agriculture and food processing, construction, energy, tourism and services, and transport and communication.²⁹ ADB will constitute and work with five industry working groups and representatives to develop new competency standards, technical and vocational qualifications, training curriculum, and competency assessment methods.

20. Third, agro-food processing, crop farming, animal farming, textiles and garments, mining and quarrying, and basic precious metals and nonferrous metals were identified by ADB's country diagnostic study as specific drivers that offer potential for both growth and structural transformation based on existing in-country endowments and capabilities (footnote 12). While there is big potential for development in agriculture, food processing, and livestock, the lack of structure in value chains remains a constraint for investments in agribusiness.³⁰ Building on past experience in the agriculture sector, ADB will provide targeted improvements to develop institutions and create an enabling environment for private enterprises, including reduced costs for product quality standards and improved government apparatus for product quality certification, agriculture value chains, and innovation support services to businesses.³¹

21. **Alignment with ADB strategy.** The strategic objective and planned pathways to widen the country's narrow economic base are well aligned with ADB's Midterm Review of Strategy 2020 and supports the three pillars of inclusive economic growth.³² A phased policy-based lending (PBL) program to improve investment climate will contribute to growth and job creation, where ADB will collaborate with development partners through complementing each other's

²⁷ The annual average electricity exports from Tajikistan during 2002–2009 were 4.25 TWh and from 2010–2013 was 0.49 TWh as a result of it getting decoupled from the regional Central Asia Power System.

²⁸ TUTAP is a series of individually justified investments that will allow interconnection between Central Asia and South Asia. It is flexible to complement other initiatives under Central Asia–South Asia Regional Electricity Market.

²⁹ ADB. 2014. *Labor Market Demand in Tajikistan: Priority sectors on the labor demand*. (joint ADB–GIZ report).

³⁰ World Bank. 2013. *Reinvigorating Growth in Khatlon Oblast*. Washington, DC.

³¹ The ADB Sustainable Cotton Subsector Project, which was implemented in February 2007–January 2013 with \$9.89 million financing, led to the creation of Tajikistan–Wakefield Cotton Inspection Services as a PPP in 2009. Support in 2016–2020 will aim to create new organizational capacities and minimize product-specific constraints.

³² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

programs to “connect the dots” and leverage structural reforms.³³ Increased private sector participation in TVET targeting migrant workers will improve their employability. Support to increase electricity supply and exports, improve transport connectivity and agriculture development (including food security, creation of agri-logistics hub and market linkages in rural and peri-urban areas) will increase access to economic opportunities.

III. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

22. **Financing volume and modality.** Indicative Asian Development Fund (ADF) resources and concessional ordinary capital resources (OCR) lending available in 2016–2019 is \$459.12 million.³⁴ Allocation for 2017–2018 will depend on available ADF resources and concessional OCR lending resources and country performance assessments. Funding from other sources, including subregional pool under concessional resource, and cofinancing from other development partners (traditional and newly emerged) will be explored. The proportion of ADF grants will follow debt distress classifications and ADF grants framework (para. 12). With 2016 as the second year of ADB’s present biennial allocation period, Tajikistan will retain the original share of grants at 50% for 2016 (footnote 21). The share of grants in 2017–2018 allocation could either rise to 100%, remain at 50%, or reduce to zero based on 2016 debt distress classification. Any nonsovereign investment by ADB will be in addition to the indicated allocations for 2016–2019 given the difficulties with prior estimation of the values of the transactions.

23. **Cost sharing and taxes.** Tajikistan received only grants from ADB during 2010–2014 (para. 12) and was assessed to be in high risk of debt distress in 2009–2012. The assessment improved to moderate risk in 2013–2014 and then to low risk in 2015. In accordance with the ADF grants framework, it received 50% of its allocation in grants in 2015. A cost-sharing ratio of up to 99% is proposed for operations and TA projects. To expedite project disbursements and simplify processing, ADB will finance project expenditures on eligible items elaborated in cost sharing arrangements and expenditure financing parameters (Linked Document 14).

B. Program Overview

24. A broadened scope while maintaining ADB focus on infrastructure improvements in energy and transport is proposed for the CPS 2016–2020. However, unlike the preceding CPS 2010–2014 that allocated more than 80% of the resource envelope to the two sectors, the present CPS aims to widen areas of ADB engagement. Combined with a phased approach to improve business and investment climate and TVET, the CPS will holistically address food security, water resources management, and climate change adaptation. ADB may add flexibility to engagement areas to support health and social protection or, taking into account good portfolio quality, pilot results-based lending after assessing country systems.

1. Continue Infrastructure Investments to Remove Key Bottlenecks

25. **Energy.** ADB will support sector restructuring and reforms, modernizing generation and transmission assets, improving financial management and reducing system losses. Investments will improve the financial and operational performance of Barki Tojik (state-owned enterprise) by

³³ ADB chairs the Development Coordination Council with 28 multilateral and bilateral partners. The CPS formulation was done in consultation with development partners, private sector, and civil society organizations.

³⁴ Reflecting the combination of ADF lending resources with OCR balance sheet effective January 2017. Final allocations are subject to available ADF and concessional OCR and outcome of country performance assessment.

separating assets and accounting for generation, transmission, and distribution; and improving tariff setting to remove cross-subsidies that favor state-owned enterprises and pumping stations at the expense of private enterprises, in addition to increasing electricity exports from its summer surplus (para. 18). Investments in rehabilitating aging hydropower plants and transmission lines in remote areas will benefit the rural population.

26. **Transport.** Improving physical connectivity for both cross-border and national corridors will be a priority. Depending on actual needs, ADB may support both the road and railway subsectors. ADB will complement its investments in transport corridors with targeted support to rehabilitate rural access roads and bridges in remote regions, in collaboration with other development partners. To improve sector performance through investments for road and or railway development, ADB will support long-term sector policy support and institutional capacity development in the areas such as performance-based maintenance and road safety.

27. **Urban Development.** Investments in infrastructure will be supplemented with support to urban development as part of an energy–transport–urban nexus. Support is envisaged for select urban centers to improve their competitiveness and livability. ADB will cover integrated urban planning and prioritized improvements in urban infrastructure and services including water supply and sanitation, solid waste management and sustainable urban transport, with a thematic focus on climate resilience, low-carbon technologies and tourism development.

28. Tajikistan is an advocate and beneficiary of CAREC. In energy, the TUTAP (flagship CAREC initiative for increasing regional electricity trade) will receive investments (footnote 28). In transport, ADB completed an initial analysis in December 2015 to respond to a government request on how the broad principles of economic corridor development could be relevant to the country’s development needs. Regional and geopolitical dimensions will be assessed to inform project designs. ADB will continue to play the role of an honest broker through CAREC.

2. Sequence Investment Climate Reforms and Skills Development to Increase Productive Employment

29. **Business and investment climate.** A three-phase PBL program will improve the business and investment climate, reduce the cost of doing business, strengthen the protection of businesses, and increase business innovation and productivity.³⁵ A phased approach will allow sustained deepening of reforms. This is a logical extension in terms of complexity of support from 2009 to 2013.³⁶ In light of the prevailing volatility of exchange rates and scarcity of local currency, policy actions will cover measures that stimulate the economy by providing liquidity in local currency through banks to the private sector.

30. **Technical and vocational education and training.** Support to education will focus on TVET, which will complement efforts of other development partners. Lack of skilled labor is a key constraint for private investments and many Tajik migrant workers can only find lower

³⁵ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan and Grant for Subprogram 1 to the Republic of Tajikistan for the Investment Climate Reforms Program*. Manila (\$60 million; approved 4 December).

³⁶ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Republic of Tajikistan for the Crisis Recovery Support Program*. Manila (single-tranche grant; \$40 million; approved 6 July 2009; ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Republic of Tajikistan for Strengthening Public Resource Management Program*. Manila (three-tranche program covering tax policy, social safety net pilot projects, and public financial management in 2011–2013; \$45 million; approved 26 April 2011).

skilled jobs limiting their earning potential. ADB has programmed two projects on TVET for the CPS period targeting women and returned migrant workers (para. 19).³⁷ Many development challenges relate not only to lack of private investments in physical infrastructure, but also lack of know-how and technologies. ADB consolidated its sector approaches in a country knowledge plan, prioritized jointly with the government focusing on economic diversification.³⁸

31. Tajikistan has a democratic constitution, but separation of powers with needed checks and balances are still evolving. A new anticorruption strategy for 2013–2020 was approved, but the challenge is to ensure effective implementation. Efforts to improve Doing Business rankings are a government priority as private investments are affected by unfavorable business environment. Initial results of these efforts are reflected in its 2016 ranking where it rose six places. Public procurement system improved with support from development partners.

32. Women are disadvantaged because many are left behind by their husbands as they migrate for jobs. ADB will continue to support gender equity through gender mainstreaming designs and components in transport, TVET and resource management projects. Stand-alone technical support for reproductive, maternal, child, and adolescent health; labor force participation; and awareness-raising of legal rights could also be provided.

3. Integrate Support for Food Security and Value-Chain Development, Water Resources Management, and Climate Change Adaptation

33. **Agriculture, Natural Resources and Rural Development.** ADB will finance food security improvement through climate resilient technologies and value-chain development, potentially in the livestock sub-sector (para. 20). Helping improve capacity to manage water resources to boost food production and climate change adaptation capabilities is a priority. Building on its investment project³⁹ and capacity-building TA⁴⁰ on climate resilience, ADB will improve food security and water resources management focusing on the Pyanj River basin. Mobile phone applications for site-specific information and call centers for technical advice on demand are anticipated to strengthen local value chains.

34. High dependency on glacier-fed rivers for water supply and irrigation makes the country vulnerable to climate change, floods; besides seismic risks. It received grant support to build climate resilience through the Pilot Program for Climate Resilience, one of the three targeted programs of the Strategic Climate Fund (footnotes 39, 40). Through its planned program, ADB will support identified country priorities in their intended nationally determined contributions. In agriculture and water resources, priorities include the development of sustainable agricultural irrigation systems. In energy, the focus will be on the reduction of energy losses and promotion and diversification of renewables.⁴¹

35. The policy-based program to improve business and investment climate (paras. 17 and 29) and private participation in TVET (paras. 19 and 30) will be reinforced with private sector

³⁷ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Administration of Grant to the Republic of Tajikistan for Strengthening Technical and Vocational Education and Training Project*. Manila (\$32 million; approved 9 November).

³⁸ ADB. 2015. *Country Knowledge Plan: Tajikistan, 2016–2018*. Manila.

³⁹ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Administration of Grant to the Republic of Tajikistan for Building Climate Resilience in the Pyanj River Basin Project*. Manila.

⁴⁰ ADB. 2012. *Technical Assistance to the Republic of Tajikistan for Capacity Building for Climate Resilience*. Manila.

⁴¹ The country's intended contribution towards the UN Framework Convention on Climate Change is reducing greenhouse gas emissions in 2030 to 80-90% of 1990 levels, or, subject to substantial international funding and technology transfer, 65%–75% of the 1990 levels.

operations. As identification of private sector investments depends on opportunities, in the prevailing macroeconomic climate the number and size of such transactions is expected to be small. Any nonsovereign investment of ADB's Private Sector Operations Department will be in addition to allocations for public sector operations. The Private Sector Operations Department is exploring investments in finance, agribusiness and mining, especially those operators with successful social license and strong environmental record.⁴²

36. Investments will be streamlined through Faster Approach to Small Nonsovereign Transactions pilot initiative of March 2015.⁴³ These carry high risks and upfront costs that need to be justified by high development impact. ADB will support public-private partnerships (PPPs) through the PPP Center created mainly with ADB support. Ongoing work will help identify ways to operationalize a project development facility that will finance prefeasibility, feasibility studies and transaction advisory services to develop a pipeline of PPP projects, government financial support mechanisms, legal and regulatory amendments and awareness-raising.⁴⁴

IV. RESULTS MANAGEMENT

A. Monitoring

37. The CPS results framework (Appendix 1) forms the basis for results monitoring. This will be conducted through annual results-based country portfolio reviews that started in 2011.

B. Risks

38. The macroeconomic and associated social risks stem from weak capacities to counter external shocks. ADB has programmed a phased PBL activity and will coordinate with the IMF and the World Bank to monitor macroeconomic performance and offer assistance to the government in carrying out structural reforms to improve investment climate and diversify the economy. Tajikistan is prone to disasters triggered by natural hazards and ADB has had positive experience in rapid responses. In addition to a recently approved climate change adaptation projects (footnotes 39, 40), ADB remains ready to respond to emergencies.

39. A procurement risk assessment was conducted as part of the CPS formulation. The assessment shows that procurement procedures and practices in the country are generally in compliance with international best practice, but issues and areas for improvement were identified for the transport, energy, and agriculture sectors.⁴⁵

40. Building on its good track record on compliance with safeguard procedures, ADB will minimize gaps between national safeguard system and the Safeguard Policy Statement (2009). The gap analysis in the 2015 country assessment on land acquisition and resettlement will inform capacity development.⁴⁶ Macroeconomic risks stem from geopolitical factors that are pertinent in cross-border projects. ADB will continue working with Central Asian countries through CAREC to maximize benefits and ensure sustained engagement.

⁴² ADB approved one transaction in banking for \$11 million in 2014, but financing agreements have not been signed. As of 31 December 2015, ADB's Trade Finance Program supported over \$18 million by providing guarantees and loans through 134 transactions of one local bank; 44% of transactions were cofinanced by the private sector.

⁴³ ADB. 2015. *Faster Approach to Small Nonsovereign Transactions*. Manila.

⁴⁴ ADB. 2013. *Support Enabling Capacity Building for Public-Private Partnerships in Tajikistan*. Manila.

⁴⁵ ADB. 2015. *Tajikistan Pilot Country and Sector Agency Procurement Risk Assessment*. Manila.

⁴⁶ ADB. *Technical Assistance for Mainstreaming Land Acquisition and Resettlement Safeguards in the Central and West Asia Region*. Manila (TA 7433-REG).

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Impact Indicators with which the CPS is Aligned				
<ol style="list-style-type: none"> 1. Achieve annual average GDP growth rate of about 6.5% during 2016-2020; 2. Share of industrial sector in GDP: 15.7% by 2020 from 12.5% in 2015; 3. Proportion of population living under the national poverty level: 20% by 2020 from 31% in 2015; 4. Share of the middle class as proportion of total population: 30% by 2020 from 22.4% in 2015; 5. Electricity generation 26.1 billion kilowatt-hours (kWh) in 2020 from 17.1 billion kilowatt-hours (kWh) in 2015 ; 6. Public expenditure on education and health including investments: 6.7% and 4.4% in 2020 from 5.5% and 2.3% in 2015. 				
CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes To	Outcome Indicators	CPS Resources
<p>Infrastructure investments to remove key bottlenecks</p>	<p>Transport. Improve road and rail connectivity for both international corridors and domestic network.</p> <p>Improvement in Central Asia Regional Economic Cooperation corridors, and rural and access roads</p> <p>Performance-based road maintenance</p> <p>Energy. Improve power supply and energy security.</p> <p>Rehabilitate existing hydropower stations, rehabilitate and construct transmission lines, substations, and metering equipment</p> <p>Sector restructuring and tariff reforms</p>	<p>Reduced time and costs on movement of people and goods</p> <p>Increased competition and private sector participation in road maintenance</p> <p>Increased reliability of electricity supply to all citizens, particularly those in rural areas</p> <p>Improved access to affordable electricity by all citizens and businesses</p> <p>Higher levels of electricity exports from summer surplus to neighboring countries.</p>	<p>Freight carried by road transport (tons) grows 6.5% per year (2014 baseline: 13.02 million tons)</p> <p>Number of passengers carried by road transport grows 2.5% per year (2014 baseline: 191 million persons)</p> <p>Winter deficit decreased to 1 TWh by 2019 (2013 baseline: 2.7 TWh)</p> <p>Barki Tojik restructured with generation, transmission, and distribution departments split into three legal entities by 2018</p> <p>Annual summer electricity exports reach 3 TWh by 2020 (2013 baseline: 0.9 TWh)</p> <p>New tariff policy for electricity in line with good international practice, which eliminates cross subsidies, is developed, adopted, and implemented by 2017</p>	<p>Ongoing: 10 Asian Development Fund and 2 from Other Trust Fund projects with net grant amount of \$765.70 million, 1 private sector loan totaling \$11 million, and 10 TA projects totaling \$12.32 million.</p> <p>Planned operations: Total resource envelope of \$459.12 million allocation for 2016–2019.</p>

CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes To	Outcome Indicators	CPS Resources
Investment climate reforms and skills development to increase productive employment	<p>Public sector management. Improve investment climate.</p> <p>Increase businesses' capabilities and opportunities to set up and expand production of higher value-added products.</p> <p>TVET. Rehabilitate and reform technical and vocational training, including training for disadvantaged groups, to make them more relevant to labor market.</p>	<p>Institutional reforms for private sector development implemented</p> <p>Overall investment and business risks and costs reduced</p> <p>Improved quality of education and increased number of graduates that match labor market requirements</p> <p>Greater proportion of skilled workforce respond to the demand of labor market in national priority economic sectors and international labor markets</p>	<p>Private investment as % of GDP (2013 baseline): 5.2%; 2020 target: 8.5%.</p> <p>At least 20% of firms reported having an internationally recognized quality certification in 2016 (subprogram 1); 25% in 2020 (2013 baseline: 17%).</p> <p>Number of workers in domestic labor market with TVET qualifications increase to 10% (2013 baseline: 7.5%).</p> <p>Competency-based training assessment and certification system operational.</p> <p>Employer satisfaction with (TVET) graduates improves by 10% by 2020.</p>	
Integrated support for food security, water resources management, and climate change adaptation	<p>Agriculture and natural resources. Rehabilitate and construct climate-resilient irrigation channels, river embankment, and rural water supply schemes.</p> <p>Improve value chain covering food production and marketing.</p> <p>Reform water resources management.</p>	<p>Improved food security and climate resilience</p> <p>Increased access to finance to ensure sustainability of climate change adaptation work in select rural areas</p>	<p>Country defined by food security phase "crisis" or "stressed" decreased to 35% by 2020 (2013 baseline: 42%).</p> <p>River basin plans for all four major rivers on water use for irrigation, water supply, and flood protection developed by 2020 and implemented.</p> <p>At least 1,000 people access climate-resilient agriculture and revenue diversification credit lines by 2020.</p>	

ADB = Asian Development Bank, CPS = country partnership strategy, GDP = gross domestic product, TA = technical assistance, TVET = technical and vocational education and training, TWh = terawatt-hour.

Source(s): Government of Tajikistan and ADB Staff Estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=TAJ-2016>

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Transport
7. Sector Assessment (Summary): Energy
8. Sector Assessment (Summary): Agriculture and Natural Resources
9. Sector Assessment (Summary): Public Sector Management
10. Sector Assessment (Summary): Education
11. Risk Assessment and Risk Management Plan (Summary)
12. Country and Portfolio Indicators
13. Country Performance Assessment Ratings
14. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
15. Country Partnership Strategy Formulation
16. Country Partnership Strategy Final Review
17. Country Operations Business Plan
18. Country Assistance Program Evaluation

Supplementary Documents

19. Sector Assessment (Summary): Finance
20. Regional Cooperation and Integration Assessment (Summary)
21. Sector Procurement Risk Assessments (Summary)
22. Country Knowledge Plan, 2016–2018
23. List of Indicative Knowledge Publications and Events, 2016