

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Tajikistan	Project Title:	Financial Sector and Fiscal Management Improvement Program (Subprogram 1)
Lending/Financing Modality:	Policy-Based Grant	Department/ Division:	Central and West Asia Department/ Public Management, Financial Sector and Trade Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General Intervention

#### A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The National Development Strategy of the Republic of Tajikistan for the Period up to 2030 (NDS 2030)<sup>a</sup> seeks to reduce the poverty rate from 29.5% (2017) to 15.0% (2030) and eradicate extreme poverty by 2030 (15.7% in 2015). The NDS 2030 focuses on creating productive jobs through increased private investment and economic diversification. The Asian Development Bank (ADB) country partnership strategy (CPS) for 2016–2020<sup>b</sup> is closely aligned with the goals of the NDS 2030. The CPS focuses on helping the government achieve sustained and inclusive growth that is less susceptible to external shocks and creates higher-paying jobs.

In 2019, real gross domestic product (GDP) grew by 7.5%, driven by increasing remittance flow and state-led industrialization that boosted growth in manufacturing. Problems arising from the weak banking sector and unfavorable business climate, however, remained unresolved. The proportion of the population below the national poverty line went down to 27.5% (2019) from 29.5% (2017). In 2020, the trend of sustained high growth and poverty reduction will be significantly dampened by the coronavirus disease (COVID-19) pandemic. Trade disruptions are linked to the COVID-19 spread. Tajikistan closed its borders with its main trade partner, the People's Republic of China (PRC) (accounting for 43% of trade turnover), in January 2020. The 2020 losses to the state budget from custom duties on PRC imports are estimated at \$20 million. Spillover effects will be felt from the economic slowdown of oil export-dependent Russian Federation, Tajikistan's large trade partner (accounting for 35.8% of trade turnover) and the main source of remittances. Of Tajikistan's migrant workers, 95% go to the Russian Federation; they sent back \$2.7 billion or 33.8% of GDP in 2019 but remittances are estimated to decline by at least 35% in 2020.

#### B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

**1. Key poverty and social issues.** The national poverty rate declined from 81% in 1999 to 27.4% in 2019, but the country remains the poorest in the region, 12% of the population are extremely poor, and inequality is high, with the Gini coefficient estimated at 0.34 in 2015. Consistently high economic growth and an upward trend of remittance flows drove down poverty, but now they are threatened by the adverse economic and social impacts of the COVID-19 pandemic. The poor and vulnerable are most at risk, have the least means to respond, and quickly have difficulty financing basic needs after incomes fall. The pandemic has caused a sharp decline in remittances; increased inflation, which saw higher food prices; and increased unemployment.

Tajikistan remains one of the smallest and poorest economies in Central Asia, with gross national income per capita of \$1,010 (Atlas method) in 2018. The national poverty rate is 27.4% (2019) and an additional 46.0% of the population are classified as vulnerable and at risk of falling into poverty. Migrant workers (1 million) are facing job losses as a result of the pandemic's regional impact, and firms suffering weak sales from low demand, caused by domestic and external factors, have cut staff numbers or put staff on indefinite unpaid leave. The official unemployment rate of 2.4% accounts only for the registered unemployed, i.e., those receiving unemployment benefits (about \$3.60 per month); they are a small fraction of the estimated total. Unemployment is highest in the Gorno-Badakhshan Autonomous Oblast and lowest in Khatlon, and is higher for men (24%) than for women (15%). High youth unemployment (37%) is particularly problematic. According to the 2009 Tajikistan Living Standards Survey, about 31% of the labor force was employed informally; most had received general secondary education and were 15–34 years old.

Tajikistan lags behind its regional peers in financial sector penetration. Tajikistan ranks third lowest in the world for financial depth: only 2.5% of adults have an account with at least one formal financial institution, 4.8% have a bank loan, 0.3% have formal savings, and only 0.8% have paid for health insurance. The number of bank branches and ATMs per person is lower than in all regional peer countries. Credit to the private sector fell from 23% of GDP in 2015 to 12% in 2018, and lending costs are the highest in the region, with an average weighted rate of 25% per annum.

Lack of access to affordable loans and the limited range of financial services constrain the ability of the poor to improve their socioeconomic situation. With restricted access to finance through formal financial institutions, many households and businesses use their own capital to finance their operations or seek informal loans. High interest rates, cumbersome procedures, and lack of collateral acceptable to the banks are some key reasons why many households still do not access bank loans.

**2. Beneficiaries.** Direct beneficiaries of the program include the government, the National Bank of Tajikistan, and the Individuals Deposit Insurance Fund. The program's indirect beneficiaries include finance institutions and private sector borrowers (small and medium-sized enterprises, farmers, and vulnerable households). They will benefit from access

to a broader range of financial products and more stable financial sector, which will support investments and job creation. The program will help strengthen regulatory structures for financial stability, financial market deepening, and greater financial inclusion.

**3. Impact channels.** Empirical studies document a strong correlation between financial sector development and poverty reduction. The link is through the following transmission channels:

- (i) Better access to finance is an effective mechanism for investment, job creation, and poverty reduction. Financial sector development allows more entrepreneurs, especially those who are less well off, to obtain affordable credit that can be used to expand and grow their business. The government's increased focus on financial literacy has the potential to empower consumers, especially those less well off, to increase savings and to use financial services.
- (ii) A developed financial sector is more stable, which indirectly benefits the poor, who have fewer and less diversified assets and are thus more vulnerable to financial instability than the rich.
- (iii) Improved fiscal management and more efficient public expenditures on productive economic infrastructure and services can help catalyze private investment and increase economic growth.

**4. Other social and poverty issues.** The major source of job creation has been migration to the Russian Federation and elsewhere, which indicates that the labor market—the pathway to socioeconomic progress for most of the population—is not functioning effectively, in turn reflecting sluggish economic growth.

**5. Design features.** The program is designed to help the government implement reforms to (i) increase banking sector stability, (ii) improve the finance enabling environment, and (iii) strengthen fiscal management.

## II. PARTICIPATION AND EMPOWERING THE POOR

**1. Participatory approaches and project activities.** Consultations with ministries and development partners helped adapt the program design to the local context, harmonize assistance with other development partners, and reflect a broad range of information and perspectives. Consultations with the government added value to program design and targeting, increased ownership and sustainability, and offered potential benefits to poverty reduction and to sustained pro-poor economic growth.

**2. Civil society organizations.** The program does not anticipate the participation of civil society organizations in program implementation.

**3.** The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

Information gathering and sharing: L  Consultation: L  Collaboration: NA  Partnership: NA

**4. Participation plan**  Yes.  No.

A project participation plan will not be required under the program, given its scope. Information generation and sharing will be disclosed in accordance with ADB's 2011 Public Communications Policy.

## III. GENDER AND DEVELOPMENT

**Gender mainstreaming category:** Some gender elements

**Key issues.** Tajikistan ranked 137 out of 153 countries in the World Economic Forum's 2020 Global Gender Gap Index, with a score of 0.626, indicating limited progress from its 2007 score of 0.658. In 2018, the labor force participation rate was much lower for females (48%) than for males (78%). According to the Labor Force Survey,<sup>c</sup> the most common female occupations are in unskilled work such as cleaners and servants in institutions, hotels, and other places. In 2018, women earned four times less (\$1,404 per year) than men (\$4,939).<sup>d</sup> In 2014, women represented 21.3% of individual entrepreneurs operating on the basis of a patent and 38.0% operating on the basis of a certificate. In 2013, the proportion of female participation in company ownership was 33.0%, but in sole proprietorships it was 14.7%. Women officially manage only 9.0% of all firms, compared with the average of 21.1% in Europe and Central Asia.<sup>e</sup> Female entrepreneurs have less access to financing, especially commercial loans, than male entrepreneurs. Women remain excluded from the financial system, especially in rural areas, where the gender gap in access to finance is more than 20%. The main obstacles to providing women with financial services are the lack of products and services that meet their needs and requirements, low financial literacy, and social and cultural barriers.<sup>f</sup>

**B. Key actions.**

Gender action plan  Other actions or measures  No action or measure

The program has some gender elements. It supports the improvement of gender outcomes across all three key reform areas. Gender aspects are expected to be incorporated, monitored, and reported regularly under the medium-term financial sector strategy and road map, which include trackable target indicators for improving access of women to financial products and services, promote fintech development and mobile financial services, and contain plans to strengthen financial consumer protection. The effective rollout the medium-term expenditure framework will ensure gender-responsive budgeting and analysis and greater budget transparency. The program's reform areas include gender-related actions or measures that are likely to narrow gender gaps or improve gender equality, such as ensuring that women participate in the working group to prepare the medium-term financial sector development strategy, and that the action plan includes gender-responsive budgeting.

## IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

**A. Involuntary Resettlement**

**Safeguard Category:**  A  B  C  FI

**1. Key impacts.** Not applicable.

2. <b>Strategy to address the impacts.</b> Not applicable.	
3. <b>Plan or other Actions.</b>	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan
<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
<input checked="" type="checkbox"/> No action	
<b>B. Indigenous Peoples</b> <b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
1. <b>Key impacts.</b> Not relevant.	
Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. <b>Strategy to address the impacts.</b> No actions required.	
3. <b>Plan or other actions.</b>	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input checked="" type="checkbox"/> No action	
<b>V. ADDRESSING OTHER SOCIAL RISKS</b>	
<b>A. Risks in the Labor Market</b>	
1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).	
<input checked="" type="checkbox"/> unemployment: H <input checked="" type="checkbox"/> underemployment: H <input checked="" type="checkbox"/> retrenchment: L <input type="checkbox"/> core labor standards: NA	
The program will be highly relevant to labor market development.	
2. <b>Labor market impact.</b> No negative impact on the labor market is envisaged. More people are expected to benefit from income-generating opportunities through the creation of new businesses and the growth of existing ones.	
<b>B. Affordability</b>	
The program is not expected to exclude people because of price mechanisms. The use of innovative mechanisms to improve access to finance and financial services, and better planning and execution of infrastructure projects are expected to improve financial inclusion and public services for all sectors of society.	
<b>C. Communicable Disease and Other Social Risks</b>	
1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):	
<input type="checkbox"/> Communicable diseases: NA <input type="checkbox"/> Human trafficking: NA <input type="checkbox"/> Others (please specify) _____	
2. Risks to people in project area: Not applicable.	
<b>VI. MONITORING AND EVALUATION</b>	
1. <b>Targets and indicators.</b> Targets and monitorable indicators of poverty reduction and inclusive social development include (i) amendment of the law on insurance, (ii) amendment of the law on Islamic banking, and (iii) a strategy for program budgeting and gender-responsive budgeting.	
2. <b>Required human resources.</b> A national social and gender specialist at the resident mission will monitor the program's poverty and social impact.	
3. <b>Monitoring tools.</b> Program monitoring tools (reflected in the policy matrix and the design and monitoring framework) will be used to track achievement of poverty, gender, and social targets.	

<sup>a</sup> Government of Tajikistan. 2017. *National Development Strategy of the Republic of Tajikistan for the Period up to 2030*. Dushanbe.

<sup>b</sup> ADB. 2016. *Country Partnership Strategy: Tajikistan, 2016–2020*. Manila.

<sup>c</sup> [Agency on Statistics under the President of Tajikistan. 2017. \*Situation in the Labor Market in the Republic of Tajikistan\*. Dushanbe.](#)

<sup>d</sup> World Economic Forum. 2019. *The Global Gender Gap Report 2018*. Geneva. [http://www3.weforum.org/docs/WEF\\_GGGR\\_2018.pdf](http://www3.weforum.org/docs/WEF_GGGR_2018.pdf).

<sup>e</sup> United Nations Development Programme. 2017. *Barriers to Female Entrepreneurship in Tajikistan—Micronarrative Study*. Dushanbe. <https://www.tj.undp.org/-content/tajikistan/en/home/library/poverty/barriers-to-female-entrepreneurship-in-tajikistan--micronarrativ.html>.

<sup>f</sup> [National Association of Businesswomen of Tajikistan](#) (accessed 17 September 2020).