



Concept Note

PUBLIC

Project Number: 56299-001
October 2023

Proposed Programmatic Approach and Policy-Based Grant for Subprogram 1 and Technical Assistance Grant

Republic of Tajikistan: Enabling Climate-Responsive Business Environment Improvement Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 September 2023)

Currency unit	–	somoni (TJS)
TJS1.00	=	\$0.0912
\$1.00	=	TJS10.9613

ABBREVIATIONS

ADB	–	Asian Development Bank
EU	–	European Union
GDP	–	gross domestic product
GEDS	–	Green Economy Development Strategy
IMF	–	International Monetary Fund
MEDT	–	Ministry of Economic Development and Trade
MOF	–	Ministry of Finance
NDC	–	nationally determined contributions
NDS 2030	–	National Development Strategy 2030
OP	–	operational priority
SCISPM	–	State Committee of Investment and State Property Management
SME	–	small and medium-sized enterprise
SP	–	subprogram
TA	–	technical assistance

NOTES

In this report, "\$" refers to United States dollars.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 56299-001	
Project Name	Enabling Climate-Responsive Business Environment Improvement Program (Subprogram 1)	Department/Division	SG/SG-PSMG
Country	Tajikistan	Executing Agency	Ministry of Finance
Borrower	Republic of Tajikistan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=56299-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=56299-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Public administration		25.000
	Public expenditure and fiscal management		25.000
	Total		50.000
3. Operational Priorities		Climate Change Information¹	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Medium
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP6: Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	12.625
		Mitigation (\$ million)	12.625
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender	
SDG 9.1		Effective gender mainstreaming (EGM)	✓
SDG 13.a			
SDG 16.10, 16.6, 16.7			
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Track 1 (No-objection procedure)		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.000	
Sovereign Programmatic Approach Policy-Based Lending (Grant): Asian Development Fund		50.000	
Cofinancing		0.000	
None		0.000	
Counterpart		0.000	
None		0.000	
Total		50.000	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-7) in the amount of \$500,000.			
Currency of ADB Financing: US Dollar			

¹ The project reduces greenhouse gas emissions. However, it does not fall under the eligibility criteria for climate mitigation finance as defined by the joint multilateral development bank methodology on tracking climate finance, which notes that not all activities that reduce greenhouse gases in the short term are eligible to be counted towards climate mitigation finance. Accordingly, greenfield fossil fuel projects are excluded, and climate mitigation finance is considered zero.

PROGRAM CONCEPT NOTE

1. Program Overview	
Program Number: 56299-001	Program Name: Enabling Climate-Responsive Business Environment Improvement Program (Subprogram 1)
Country and Borrower: Tajikistan	Sector Office: Public Sector Management and Governance Sector Office, Sectors Group (SG-PSMG)
Modality: Policy-based lending (PBL)	PBL Type or Financing Option: Programmatic approach
2. The Proposal	
Program description	The primary objective of the proposed program is to improve the enabling environment for small and medium-sized enterprises (SMEs) and entrepreneurship development, digital transformation, tax administration and compliance, green economic development, diversification, and competitiveness. The program is aligned with the country's long-term National Development Strategy 2030 (NDS 2030) and Green Economy Development Strategy (GEDS) for Tajikistan. It includes reforms to strengthen SMEs and promote climate-responsive investments, promote digitalization, strengthen public investment management to align with national development and climate objectives, and trade facilitation. By addressing these dimensions of the enabling environment for business development, the program seeks to promote green job creation and economic diversification, strengthen climate-friendly business opportunities, and enhance overall competitiveness. The program is included in the Asian Development Bank's (ADB) Tajikistan country pipeline for 2024–2026 and is in line with ADB's country partnership strategy for Tajikistan, 2021–2025. Moreover, it is aligned with ADB's Strategy 2030 operational priorities (OPs), specifically (i) OP1 on addressing remaining poverty and reducing inequalities; (ii) OP2 on accelerating progress in gender equality; (iii) OP3 on tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; and (iv) OP6 on strengthening governance and institutional capacity.
Choice of modality	To help sequence substantial and politically complex reforms in a manner that allows deep diagnostic and design work, extensive stakeholder consultation, well-coordinated development partner support, and evidence-based policy dialogue, a policy-based programmatic approach comprising two subprograms will be adopted. This approach will facilitate well-sequenced and well-structured cross-sector reforms in multiple implementing agencies. Coordination among stakeholders is crucial for achieving the desired reform outcomes.
3. Program Rationale	
Background and development constraints	Macroeconomic management and debt sustainability. With the minimal disruption caused by the Russian invasion of Ukraine, the country's growth remains robust. The real gross domestic product (GDP) growth increased from 7.4% in the first half (H1) of 2022 to 8.3% in H1 2023. The increase is driven by a rebound in industry and services sector along with substantial remittances from migrant workers. Growth is projected at 6.5% in 2023 and 7.0% in 2024. Inflation dropped from 8.3% in June 2022 to 2.4% in June 2023. The National Bank of Tajikistan lowered its policy rate from 13.0% to 10.0% during H1 of 2023 to stimulate investment and domestic spending. The Tajikistan somoni depreciated by 7.0% against the US dollar in H1 2023 but appreciated by 11.4% against the Russian ruble. The remittances were strong enough to narrow the current account deficit from 12.4% of GDP in H1 2022 to 7.8% in H1 2023. The

inflation rate is projected to reach 5.5% in 2023 and 6.0% in 2024. ADB assesses the overall medium-term direction of macroeconomic conditions and macroeconomic policies *satisfactory*. In February 2023, the World Bank and International Monetary Fund (IMF) Debt Sustainability Analysis concluded that Tajikistan's debt was sustainable but with a *high* risk of debt distress.

Challenges in financing and regulatory issues affecting SMEs growth. SMEs' vital role in Tajikistan economy as an engine for growth. In 2022, SMEs comprised more than 98% of all enterprises and contributed to more than 20% of the country's workforce and about 60% of its GDP. SMEs are predominantly involved in the service sector and have a widespread presence across the country. Insufficient access to finance poses a significant obstacle to the growth of SMEs. To encourage lending to SMEs, the government has implemented various incentives, including concessional loans through state-owned enterprise banks; however, SMEs still face significant issues. The leasing industry in Tajikistan is currently undergoing a development phase and is relatively weak. There are multiple regulatory, taxation, and capacity issues that hinder the growth of the leasing sector; thus, the Government of Tajikistan needs to perform a comprehensive diagnostic study to identify the critical issues related to the leasing sector and implement reforms to strengthen this important sector. The government is also amending the Law on Islamic Banking to further streamline the Islamic banking operations in Tajikistan, which can play an important role in SME lending.

Climate change challenges and needs for reforms. Tajikistan faces significant risks from climate change because of its high dependence on natural resources as well as from social vulnerability. Tajikistan is recognized as vulnerable to climate change impacts, ranked 98th out of 185 countries in the 2020 Country Rankings by the Notre Dame Global Adaptation Initiative Country Index. Disaster risk is also relatively high in Tajikistan; the country's disaster risk ranking is 64th out of 191 countries. Tajikistan submitted its updated nationally determined contributions (NDCs) in October 2021, building on the 2017 version. The updated NDC outlines the country's commitments to emission reduction and expanded adaptation. The revised target aims to achieve a 40%–50% decrease in emissions by 2030 compared to 1990 levels, conditional on international funding and technology transfer, and an unconditional target of 30%–40% reduction. To achieve the national climate change agenda (covering mitigation and adaptation aspects), it is important for the Government of Tajikistan to develop policies that promote climate-friendly SMEs and private businesses. In September 2022, the government approved the green economy development strategy (GEDS) for 2023–2037. The GEDS focuses on implementing institutional reforms, using natural capital efficiently, attracting investments, adopting modern technologies, and strengthening international cooperation in the green economy. Efficient and effective implementation of GEDS requires integration of climate change targets in every sector including SMEs.

Efforts toward digital transformation. Digitalization acts as a catalyst for growth and transformation in the private sector, empowering the sector to overcome traditional obstacles, enhance efficiency, explore untapped markets, and drive innovation in a competitive business landscape. Tajikistan faces significant challenges in establishing an inclusive, secure, and open digital environment that can drive the country's future social and economic progress. Despite these challenges, the government has taken steps to promote digitalization. Measures related to e-governance, e-document flow, e-signature, e-payment, and e-commerce have been adopted. On 22 June 2023, the

President of Tajikistan, Emomali Rahmon, signed a decree to expand cashless payments. In accordance with the decree, commencing from 1 August 2023, all public services including taxes, state fees for issuing permits and licenses, fines, mandatory insurance fees, and health care services must be transferred in noncash methods. This also applies to the acceptance of funds by ministries and state organizations. The government is also planning to introduce a law on techno parks and is establishing a new entity, “agency for innovation and digitalization.” These initiatives will help streamline complex business processes and strengthen digitalization efforts in Tajikistan.

Need to improve risk management for better tax compliance. The new Tax Code, which became effective on 1 January 2022, introduced important changes to tax rates to streamline tax policy, simplify tax administration, and lower the compliance cost for taxpayers while enhancing tax collection. Although the 2022 Tax Code includes provisions for implementing risk management, the Tax Committee has encountered challenges in its effective implementation, with staff lacking preparedness for compliance risk management. In addition, there is a need to update the risk management system that addresses the underlying reasons for noncompliance. The Tax Committee’s implementation of risk management has been hindered by the absence of supporting regulations for the newly introduced Tax Code, resulting in conflicting interpretations by tax inspectors.

Trade facilitation, diversification, and untapped potential for exporters. Tajikistan’s economic growth has been constrained by its reliance on remittances and exports of aluminum and cotton, which are vulnerable to external factors. To sustain high and inclusive growth, the country needs to diversify and upgrade exports and move away from low value-added to high value-added exports. In addition, there is untapped potential to expand the export supply to the European Union (EU). In 2021, Tajikistan exported 5.5% of its goods (by value, equivalent to \$117.8 million out of \$2,149.6 million) to the EU, compared to 26.3% in 2015. However, there exists an opportunity to diversify the export supply to the EU market, benefiting from favorable trade conditions such as preferential tariffs offered by the Generalized System of Preferences (GSP). The government is also developing an economic diplomacy strategy to strategically engage with other countries to increase exports and attract investments in order to achieve economic growth. By strengthening diplomatic relations through economic engagement, Tajikistan can address the challenges being faced by exporters.

Improving infrastructure governance and fiscal transparency. Investing public funds into infrastructure, such as transportation, communication networks, and industrial parks, establishes a beneficial foundation for the private sector, specifically for SMEs, and promotes climate-responsive investments. This is because it enhances the prospects for SMEs by enhancing connectivity, reducing transportation costs, and improving market accessibility. To achieve climate targets, it is also crucial for Tajikistan to modernize its public investment management framework to ensure that it contributes to carbon emission reduction, creation of green jobs, and enhancement of community resilience to climate change impacts. The government also needs to publish government finance statistical data to achieve fiscal transparency, accountability, and informed decision-making.

[Sector Assessment \(Summary\): Public Sector Management \(Business Environment\)](#)

<p>Reform areas, ADB's value addition, and sustainability</p>	<p>The proposed program is part of a comprehensive and integrated package of public sector management support from ADB that is closely aligned to NDS 2030, GEDS, and ADB's Strategy 2030. ADB has been providing support to enhance the business environment and promote the growth of SMEs in Tajikistan through grants and technical assistance projects. The main areas of focus are (i) improving access to finance for SMEs, (ii) streamlining regulatory requirements to reduce the cost of doing business for SMEs, (iii) enhancing business protection through transparency measures, and (iv) providing climate-change related technical assistance. Previous policy-based financing facilitated reforms for improving the business environment by (i) reducing the number of mandatory inspections, (ii) introducing a risk-based inspection system, (iii) rationalizing the electricity tariff, (iv) streamlining tax administration, and (v) establishing the Islamic banking sector.</p> <p>The program builds on ADB's prior efforts to enhance overall business environment in Tajikistan. It aims to support the country in implementing reforms focused on (i) strengthening SMEs and promoting climate-friendly employment; (ii) enhancing governance, transparency, and digitalization; and (iii) trade facilitation. The proposed reforms planned under subprogram-I (SP1) serve as foundational steps that not only address immediate challenges but also lay the groundwork for subsequent reforms in subprogram-II (SP2). By addressing key structural issues and building essential capacities, the SP1 reforms create an enabling environment and synergistic momentum for the successful implementation of SP2 reforms.</p> <p>The selection of reform areas from a range of development constraints is guided by a thorough assessment of the criticality and potential impact of each constraint on the country's development goals. This selection process ensures that interventions are both strategic and contextually relevant. Furthermore, the selected reform areas are designed to work in synergy with the development constraints that are not targeted under the program. This comprehensive approach acknowledges the interdependencies and interconnectedness of various development challenges. By addressing specific constraints while considering their ripple effects, we aim to create a holistic and sustainable impact.</p> <p>ADB's policy engagement, TAs, and long-standing relationship with the government have played a pivotal role in identifying and shaping reform areas and policy actions that could be supported under the proposed program. In addition, close coordination with other development partners will ensure sustainability and consistency of key policy reforms.</p>
<p>Expected outcome of the reform</p>	<p>The outcome of the program is a broad economic base and climate-friendly economic growth through improving overall business environment for the private sector in line with climate-considerate approaches. Detailed policy actions under the reform areas will help to meet the outcome.</p>
<p>Development financing needs and budget support</p>	<p>The government's development financing needs are calculated based on estimated budget deficits in 2024 (about \$319.8 million or 2.5% of GDP) and in 2025 (about \$345.1 million). The government has requested a grant of \$50 million from ADB's Special Fund resources (Asian Development Fund) to help finance SP1, which will support 15.6% of the budget deficit for 2024. To fill the remaining gaps, the government is exploring funding options from other development partners. The proposed implementation period for SP1 is from June 2023 to December 2024, and for SP2, from September 2024 to March 2026.</p>

Implementation arrangements	The Ministry of Finance (MOF) will be the responsible executing agency, while the Ministry of Economic Development and Trade (MEDT), Ministry of Foreign Affairs, National Bank of Tajikistan, and State Committee of Investment and State Property Management (SCISPM) will serve as implementing agencies. The loan funds will be disbursed following the guidelines outlined in ADB's <i>Loan Disbursement Handbook</i> (2022, as amended from time to time).
4. Technical Assistance	
Technical assistance description	An attached transaction technical assistance of \$500,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7), will be approved with the report and recommendation of the President and will support (i) implementation of policy, legal, and regulatory reforms related to climate-friendly SMEs and exports; (ii) capacity development for implementing agencies; (iii) implementation of public investment management reforms to improve SMEs and trade and achieve climate targets; (iv) preparation and implementation of trade development strategy and action plans; (v) implementation of GEDS through regulatory adjustments; and (vi) implementation of interventions to increase digitalization, strengthen the leasing sector, and enhance transparency. Ongoing support to the National Bank of Tajikistan to introduce amendments to the Law on Islamic Banking is being financed by the Preparing the Financial Sector and Fiscal Management Improvement Program (TA 9894-TAJ). In addition, minor changes were approved in Preparing the Building Resilience with Active Countercyclical Expenditures (TA 6975-TAJ), which allowed the recruitment of local and international consultants to support the program.
5. Due Diligence	
Due diligence requirements	The program will undertake due diligence on (i) institutional capacity to implement the GEDS, (ii) efficiency of public investment management framework, (iii) technical capacity of key agencies, (iv) fiduciary arrangement and risk management, and (v) potential poverty reduction and social and gender impacts. It will prepare a safeguards assessment matrix to confirm that reforms under the policy-based grant do not have any safeguard impacts. Following ADB's Safeguard Policy Statement (2009), the program is expected to be classified category <i>C</i> for environment, involuntary resettlement, and indigenous people. Moreover, it will also perform climate assessment to ensure alignment with the Paris Agreement. The program is categorized <i>effective gender mainstreaming</i> and will integrate actions to ensure that women can equitably benefit from the program. The program's reforms will include gender-related actions that will narrow the gender gap or improve gender equality.
Risks and mitigating measures	The program is assessed <i>low risk</i> as the loan amount is within the \$50 million threshold and ADB has extensive experience in the public sector of Tajikistan. The executing and implementing agencies have experience in managing loans from international financial institutions.
6. Stakeholder Engagement	
	The program team is actively collaborating with various ministries, development partners, private sector, and civil society organizations. These consultations have proven to be valuable in designing the program and ensuring alignment with government priorities and complementarity with other development partners' planned support. The program team will continue to maintain close coordination with all key stakeholders through regular meetings and discussions concerning the program's policy matrix. Additionally, ADB's collaboration with development partners, including the International Monetary Fund, the World Bank, and the Eurasian Development Bank, will ensure effective resource allocation, sustainability, and effective stakeholder management.

7. Program Category	
	<input checked="" type="checkbox"/> Track 1 (No objection procedure) <input type="checkbox"/> Track 2 (Full Board discussion)
8. Resource Requirements	
	ADB staff with experience in advising on and implementing reforms in the public sector will process the program. A total of 14 person-months of international and national staff support will be needed.
9. Key Issues	
	There is a strong and continuing political commitment to transition to green and market-based economy driven by private sector development, including SMEs. Based on the latest Public Expenditure and Financial Accountability (PEFA) report, the program team will consider fiduciary risks and will propose mitigation measures in the report and recommendation of the President to the Board of Directors.
10. Indicative Timeline	
Milestone	Expected Completion Date
Concept note clearance	10 October 2023
Fact-finding mission	25 October 2023
ADB approval	7 June 2024
Grant signing	21 June 2024
Completion	31 December 2024
11. Team Composition	
a. ADB Program Team	
Team Leader	Anjum Israr, Senior Public Management Specialist (Domestic Resource Mobilization), Public Sector Management and Governance Sector Office, Sectors Group (SG-PSMG)
Team Members	Muhammadi Boboev, Senior Economics Officer and Co-Team Leader, Tajikistan Resident Mission (TJRM), Central and West Asia Department (CWRD) Mel Altoveros, Procurement Specialist, Procurement Division 1, Procurement, Portfolio, and Financial Management Department (PPFD) Ethyl Bulao-Lorena, Senior Operations Assistant, SG-PSMG Firuzada Dodomirzoeva, Senior Project Assistant, TJRM, CWRD Gulnora Kholova, Gender Officer, Gender Equality Division, Climate Change and Sustainable Development Department (CCSD) Llona Isabel Marty, Project Analyst, SG-PSMG Malte Maass; Climate Change Specialist, Climate Change, Resilience, and Environment Cluster; CCSD Oksana Nazmieva, Principal Financial Management Specialist, Public Financial Management Division (PFFM), PPFM Ezzatullah Oriakhail, Associate Financial Management Officer, PFFM, PPFM Ninette Pajarillaga, Senior Environment Specialist (Safeguards), Office of Safeguards (OSFG) Yukihiro Shibuya, Senior Social Development Specialist (Safeguards), OSFG Adeliya Zhunussova, Counsel, Office of the General Counsel
b. Supporting Departments	(i) Controller's Department (ii) Economic Research and Development Impact Department
c. Sector Peer Reviewers	Jhelum Tini Thomas, Senior Public Management Specialist, SG-PSMG