

**Development Forum for the Republic of Tajikistan  
A Meeting of the Consultative Group**

**Chairmen's Concluding Remarks  
Dushanbe, June 2, 2007**

Your Excellency, distinguished members of the delegations, ladies and gentlemen:

1. We know all participants agree that this Development Forum for the Republic of Tajikistan provided a timely opportunity for the Government and donors to engage in a fruitful discussion and review of the reform priorities for Tajikistan in the coming years. Participants expressed their appreciation to the Government of Tajikistan for hosting the event and paid special tribute to President Rahmon for his active participation.

2. Participants commended Government's achievements in economic growth and poverty reduction over the last five years. Economic growth has averaged 9.4 percent for 2000 to 2005 and inflation has been relatively stable and kept at single-digits. Growth in traditional sectors, such as cotton and aluminum, combined with remittances has enabled Tajikistan to sustain its economic growth performance. Participants agreed on the importance of regional cooperation, particularly in the areas of energy, transport and trade facilitation, for promoting regional stability and sustaining Tajikistan's economic growth in the long term.

3. President Rahmon and Donors alike stressed that the successful political consolidation and stable macro-economic performance provides a solid platform for an accelerated reform agenda. Participants recognized that much work remains to be done to implement the Poverty Reduction Strategy (PRS) for 2007-2009 and achieve the development outcomes envisaged in National Development Strategy.

4. Tajikistan is entering a new stage of development. The joint efforts of the Government and Donors have resulted in progress in key strategic areas which are beginning to bear fruit. Looking forward there is a need for further action on the part of Government and Donors to achieve lasting results. Donors expressed a commitment for continued support of the Government's PRS with a view to promoting economic growth and poverty reduction to improve the living standards of the population which remains the poorest in the CIS.

National Development Strategy and second Poverty Reduction Strategy (PRS) for 2007-2009

5. The Donors applauded the Government's frank and critical review of the implementation of the first PRS in order to better formulate the development strategy for the next three years. As a result the second PRS focuses on specific implementation challenges, including monitoring and evaluation, and a more selective set of priorities. The donors welcomed Government's continued commitment to improve the delivery of basic social services and improve welfare indicators in the PRS for 2007-2009. Donors expressed their strong commitment to support Government efforts in this area.

6. Participants were encouraged by Government's efforts to encourage investment, including liberalizing the visa regime and increasing airline access. Donors agreed that there is

an enormous potential in Tajikistan to develop the private sector, particularly small- and medium-sized enterprises (SMEs). Institutional constraints to private investment and doing business have to be removed, including licensing, inspection and legal constraints, if this potential is to be realized.

There was an active discussion and agreement on the next steps and these include:

7. Government and donors agreed that despite the strong performance over the last five years, the more recent slow-down in overall growth, increases in projected external debt levels, fuelled by government borrowing for large infrastructure projects, the low private investment rate and the remaining challenges in human development indicators are cause for concern. Participants highlighted that full and equal participation of women is a key element for achieving results outlined in the National Development Strategy and second PRS. Donors agreed to continue to provide much needed assistance in addressing these challenges but stressed the need for concomitant government reforms. Particular attention should be paid to deepening the public administration reforms and furthering the public expenditure and public financial management reform to increase effective use of public funds for basic service delivery. This would allow donors to move to budget support in the longer term. Donors also expressed the hope that the Government will continue to take steps to reduce bureaucratic obstacles to donor assistance.

8. Donors urged the Government to manage its external borrowing in such a way as to minimize risks to debt sustainability and maintain macroeconomic stability through prudent fiscal and monetary policy. A balanced approach to investments in energy, infrastructure and human development is necessary to realize long term sustainable gains. In this context, they called for putting in place a public external debt strategy, including a prudent absolute limit for the debt-to-GDP ratio, continuation of borrowing only on concessional terms, and independent vetting of projects. In view of increasing debt some donors encouraged the Government to initiate a new IMF program to provide additional reassurance to investors.

9. Donors stressed the backbone of sustainable growth and poverty reduction lies in proper private sector development, in particular for SMEs, and suggested launching a “foreign investor council” as a forum to help improve the investment climate. It was also suggested that the “Doing Business” report could serve as a roadmap. It was noted by the Government and donors alike that increased regional connectivity and cooperation was critical for sustained growth.

### **Energy Sector Development in Tajikistan**

10. Government and Donors agreed on the importance of energy sector development for the long-term growth of Tajikistan. Donors welcomed the Government’s comprehensive strategy for energy development, including the focus on electricity exports, backed by the development of indigenous resources such as hydro and thermal/coal reserves.

11. Participants also noted the importance of regional cooperation in terms of realizing Tajikistan’s energy potential and participants agreed that the Central Asia South Asia Regional Electricity Market (CASAREM) program provides an opportunity to advance this agenda. As a critical first step, Government of Tajikistan needs to formalize a power purchase agreement with Afghanistan in the nearest future.

There was an active discussion and agreement on the next steps and these include:

12. The Government will define and implement additional reforms including pricing, unbundling, and corporate governance measures in the energy sector, including pricing reforms and social protection measures more aggressively.

13. The Government and Donors agreed that there needs to be greater selectivity and sequencing in implementing the potential projects identified to exploit the energy potential, including a thorough analysis of financial viability.

The Government will examine and adopt a fiscal regime to enhance benefits to the Republic from the energy sector; as well as an internationally recognized transparency initiative to manage the potential resources and set up an asset and/or income management scheme to maximize returns on electricity exports.

### **Human Potential Development in Tajikistan**

14. Participants agreed on the importance of health, education and social protection services for the development of a productive labour force and a prosperous country. Indicators of health and education have started to move in the right direction, following a period of regression. Over the last five years infant mortality, together with primary enrollment have improved substantially. Participants welcomed the fact that 50 percent of the budget is spent on social sectors. However, problems in poor sanitation, unsafe water supply, food insecurity and secondary enrollment of girls remain areas that require urgent attention if Tajikistan is to meet its Millennium Development Goals (MDGs). Government, aware of these challenges, is collaborating with donors to improve the quality of social services through wide-ranging reforms in the social sectors.

There was a discussion and agreement on the next steps and these include:

15. Donors emphasized the need to give priority access to health and education services for women and children, particularly girls, as their health and education status continues to lag. There is also a need to actively develop social services and sound safety nets for vulnerable populations, including the unemployed. Donors suggested that the Government and Donors together explore ways to ensure remittances complement social safety nets in supporting the poor.

16. Donors agreed to work together to support Government's efforts in improving human development. Participants agreed that the prerequisites for achieving sustainable results include: (i) a strong prioritized country-led sector strategy; (ii) strong country systems for absorbing resources (fiduciary and procurement); (iii) interventions linked to medium-term budget expenditure framework; (iv) increased budget allocation; and (v) improved aid harmonization, particularly for monitoring and information systems. Donors agreed to work towards supporting sector-wide approaches, which relies on the development of robust Government strategies for these sectors.

## **Rural Sector and the Resolution of the Debts of Cotton Farms**

17. The cotton debt situation continues to be of major concern to the Government and Donors. Participants agreed that the agricultural sector needs substantive policy and institutional reforms to accompany investments in the short term. A sustainable and affordable solution to improve the profitability of the sector is needed, particularly given its importance for poverty alleviation.

There was a discussion and agreement on the next steps and these include:

18. Government expressed its full commitment to implement decree-111 the roadmap of time-bound actions, including specific policy measures, to ensure the return to a profitable cotton sector for farmers. The Government's roadmap for the sector is being implemented though it needs to be monitored closely. This has measures due in the short- and medium-term. A debt resolution scheme involving the Government, creditors and farmers will be defined and finalized during 2007.

19. An agreement was reached between Government and Donors on an action plan to resolve the debt of farmers and implementation details are expected soon. Due diligence work that analyzes both assets and liabilities is required to determine debt estimates and define a pay-out amount. Government will establish appropriate legal and administrative mechanisms to support the debt resolution schemes following market principles which could be supported by donor financed projects.

### **Conclusion**

20. This Development Forum has proven to be a valuable opportunity for an open and inclusive discussion on difficult, but critical issues for the future of Tajikistan. The Government outlined their development vision and ambitious reform program and donor partners reaffirmed their commitment to aligning their support behind the priorities identified in the Poverty Reduction Strategy. Participants welcomed the participation of emerging donors including Russia at this meeting and expressed hope that G8 donors recognize that countries like Tajikistan are in need of increased assistance. Participants were encouraged to see the Government's commitment and strong engagement. Further progress on good governance, improving the business environment and willingness to accelerate the pace of economic reforms could result in more access to financing to implement the Government's ambitious reform program.

21. In line with the Paris Declaration on aid effectiveness, Government and Donors agreed to work in close collaboration to improve their joint impact and focus on tangible, visible results to improve the lives of the people of Tajikistan. Working towards a Joint Country Partnership Strategy will help us to make progress in this area.