

## **Annex 2: Country Partnership Strategy (FY05-FY09) Completion Report**

### **I. INTRODUCTION**

1. The Completion Report for the Tajikistan Country Partnership Strategy (FY05-FY09) is drawn from inputs from the country team, available projects and AAAs. The Report is organized into five sections. Following the introduction, the second section recounts the challenges the country faced in 2004 and the strategies put in place to address them, including the CPS. The third section reviews the evolution of key development outcomes and results expected from the CPS program, identifying gaps between results attained and results expected. The fourth section examines the performance of the Bank based on the CPR conducted in October 2008 undertaken jointly with the ADB. The last section puts forth recommendations for the preparation of the next Country Partnership Strategy for FY10-FY13.

2. The rapid economic growth during the 2005-2008 CPS period contributed to poverty alleviation and, aided by increasing public expenditure, reversed a negative trend in social indicators. The global crisis, however, exposed the frailty of this growth, which had been driven by remittances and favorable international commodity prices. A number of governance missteps (among the most prominent was the mismanagement of the National Bank of Tajikistan under the purported intent to finance cotton) brought into question the quality of national economic stewardship and strained relations with the donor community.

3. The ambitious CPS program, which had sought an across-the-board transformation of the economy, produced mixed and uneven results. Progress was made when programs targeted well-defined outcomes and factored in capacity constraints through intensive AAA, well-designed programs, and allow for time and dedication for policy dialogue and technical assistance (examples of which include the liberalization of aviation and work in health and education). The government placed high priority on exploiting the country's energy potential and the electrical interconnection of the region. Efforts to transform agriculture, however, were inadequate (reform of the cotton sector, land restructuring and secured land use rights, irrigation), as have attempts to modernize the state.

4. A key lesson from this CPS Completion Report (CPSCR) is that an ambitious reform agenda in the context of a weak institutional environment can easily overburden the authorities. The result was dispersed and incomplete results that jeopardized the credibility of the initiatives. Therefore, this review calls for greater realism in program design and adherence to strict prioritization. This approach should assure a more timely delivery of coordinated results, and the benefit of generating a virtuous cycle of reform. The Bank showed flexibility in delivering the program during periods of unforeseen challenges (energy and food crises). It also maintained delivery of the core program, especially the Programmatic Development Policy Operation (PDPO) and AAAs. The CPS also delivered the expected level of financial support. Coordination with other development partners improved.

## II. CHALLENGES AND STRATEGY

### A. Background

5. Tajikistan became independent in 1991. Internal conflict, however, delayed its transition to a market economy. After the civil war ended in 1997, the government under President Rahmon worked to establish state authority, concentrating on political consolidation and security and rehabilitating and developing the war-torn country. Three years later, although much had been accomplished, the economy was fragile with a per capita income of only US\$310 for its 6.7 million inhabitants.

6. Between 2000 and 2004 the economy grew by almost 60 percent, driven by an expansion of services and construction fuelled by remittances and favorable world prices for country's main export commodities—aluminum and cotton. Good macroeconomic management helped bring inflation down to 7 percent in 2004, stabilized the exchange rate, and reduced the debt burden by restraining new borrowing and by restructuring agreements with bilateral creditors. External debt to GDP dropped from 85 percent in 2002 to 40 percent at end-2004. Gross international reserves increased to US\$189 million at end-2004. Economic growth reduced the poverty rate from 81 percent in 1999 to 64 percent in 2003, (although regional differences remained significant, ranging from 84 percent in Gorno-Badakhshan to 45 percent in Rayons of Republican Subordinated, RRS).

### B. Challenges (2004)

7. The 2005 CPS identified three sets of challenges, which remain valid today.

8. *Daunting geography complicated by man-made barriers.* The nearest port is found 2,000 kilometers away and high mountains separate Tajikistan from Kyrgyz Republic and China. In addition, man-made restrictions limit access to Uzbekistan and the long-border with Afghanistan raises security and drug trafficking concerns. Constraints to aviation further isolated the country.

9. *Major governance challenges due to a complex political economy.* The government, which had achieved the necessary political consolidation to establish security throughout the country through a complex web of political agreements after the war, faced significant governance challenges. The authorities confronted difficulties in transitioning towards a modern government grounded on transparency and accountability. Governance challenges were particularly troubling in the aluminum and cotton sectors. The opportunities and incentives for corruption were high in a public administration with the structure and procedures inherited from the Soviet system, beset by low public sector wages (around US\$10 a month on average) and a lack of accountability.

10. *Demography challenge.* A rapidly growing population was exerting severe pressure on service delivery, and, as a result, trends in school enrollment, child mortality, maternal mortality, and HIV/AIDS prevalence appeared to be moving in the wrong direction. The challenge was how to stem the decline in these indicators while retaining and expanding the human capital inherited from the Soviet system.

## **C. Government Strategy**

11. The Poverty Reduction Strategy Paper (PRSP-2002-2005) articulated the government's view of development and poverty reduction around four primary objectives:

- To encourage equitable, labor-intensive economic growth, with an emphasis on exports.
- To support the efficient and fair provision of basic social services.
- To target support to the poorest groups of the population.
- To improve governance and security.

12. First, the government prioritized state-building efforts around public sector reform—to improve administrative effectiveness and reduce corruption—and address critical governance challenges in the management of state enterprises and cotton sector reform. Second, the government foresaw a greater role for the private sector through continued privatization and a lower regulatory burden on business. On rural development, the government envisioned sorting out the cotton debt, continuing the farm land privatization program, improving competition in farm inputs and cotton marketing, and rehabilitating irrigation infrastructure. Third, the government placed a high priority on developing the country's hydropower infrastructure for electricity and aluminum exports as a strategic answer to Tajikistan's geographical isolation. Finally, the priority on health and education was to halt the deterioration of public service delivery and to subsequently recover and come as close as possible to the MDG targets.

## **D. Country Partnership Strategy (CPS)**

13. The Bank and the authorities met in Warsaw to agree on the key priorities of support. The dialogue emphasized selectivity (given the limited IDA resources) and maintaining the growth trend, while preparing the country for sustained growth over the longer term. The partners identified three strategic objectives for the CPS: (a) improve business opportunities in rural and urban areas; (b) preserve and enhance the quality of health and education; and (c) improve the delivery of energy services and exploit the country's hydropower potential. IFC participated actively at the Warsaw discussions and in the preparation of the CPS and took leadership of improving the business environment and facilitating access to credit.

14. Efforts to improve national governance and reduce corruption through strengthening of the state's institutional capacity were designed to support the three pillars. The CPS relied on an on-going program covering most of the result agenda. In addition, it introduced a DPO series of three operations to lead the policy dialogue with the authorities and help finance the budget. The CPS design was relevant to the government priorities and addressed the challenges facing the country. However, its scope was ambitious in light of the limited capacity of the government to implement the program and the limited IDA resources.

## **E. Risks**

15. The strategy document pointed to external risks related to potential spillovers from a tense regional situation in Afghanistan, the volatile Fergana Valley, and the drug trade. In addition, the CPS identified two likely sources of external economic shocks: (a) a decline in remittances from Russia, and (b) a fall in the world prices for aluminum or cotton. Lastly, the

CPS was concerned that IDA and other donors may not be able to generate a level of support sufficient to fund even a narrow set of development challenges given that other development partners allocated resources based on the country's performance.

16. As major internal risks, the CPS saw the limited implementation capacity and weak governance, and the likely complacency in the face of an improving external environment. Given Tajikistan's fragile economic and social setting, the CPS noted that any slackening of the reform effort, related to governance (state owned enterprise accountability, cotton, and energy sectors), would risk recent gains and would make the CPS goals unattainable. Lastly, the CPS alluded to potential instability arising from a growing and youthful population.

### III. ANALYSIS OF RESULTS

17. The analysis of results begins with a brief overview of the broad national development outcomes relevant to the CPS program. Subsequently, it provides a detailed discussion of the CPS program with emphasis on results from the program and, as possible, its contribution to development outcomes.

#### A. Development Outcomes

18. *The level of poverty has decreased but remains high, especially in rural areas.* Preliminary findings from the 2007 Tajikistan Livings Standards Survey (TLSS) indicate that economic growth and remittances improved the livings standards of the Tajik population since 2003, when the rate of poverty incidence stood at 64 percent. The same survey shows that remittances accounted for around 17 percent of the disposable household income on average and contributed to poverty reduction more than social transfers, which account for only 2 percent of disposable income. Still, by the end of 2007, 41 percent of the population was poor and 17 percent was extremely poor.<sup>28</sup> In addition, considerable income volatility in rural areas, where 72 percent of the poor live, exposes its population to periodic deeper drops in consumption. About 50 percent of the poor are working poor, meaning that labor market participation does not reduce the risk of falling into poverty.

19. *The economy grew rapidly.* From 2004 to 2008 the economy grew on average at an annual rate of 8 percent. Remittances and increasing public expenditure drove demand. Supply was relatively elastic, given that private investment remained low (around 7 percent of GDP which is scarcely above 5.1 percent in 2003.) Increases in the domestic supply of goods relied for the most part on existing capacity. Public investment as a share of GDP (increasing from 8.1 percent in 2004 to 14.1 percent in 2007) was driven by electricity investments. In 2009, with the backdrop of the global recession, fears of an economic slowdown have materialized.

20. *Availability of resources to the public sector increased considerably.* The resources available to the government to finance its expenditures increased on account of (a) the rapid rate of growth of GDP; (b) the increase in the ratio of domestic revenue to GDP from 17.3 percent in 2004 to 20.5 percent in 2007; and (c) external assistance. Public expenditure jumped from 20.3

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<sup>28</sup> The 2007 WB poverty estimate applies the 2003-2007 rate of per-capita income growth to the 2003 household survey data.

percent in 2004 to 27.6 percent of GDP in 2007. The government increased (a) financing of social sectors, (b) wages and salaries of public officials, and (c) public investment.

21. *But the macroeconomic environment has deteriorated since 2007.* Inflation was exacerbated—the rate of inflation rose from 5.1 percent in 2004 to 19.8 in 2007. Concurrently, the external position of the economy deteriorated as the current account deficit moved up from 4 percent in 2004 to 9.5 percent of GDP in 2007 and unencumbered foreign exchange reserves fell to slightly above US\$100 million at the end of 2007. The domestic cotton debt problem, the international financial crisis, and the declining liquidity of commercial banks have weakened the stability of the financial sector. The frail position of the National Bank of Tajikistan (NBT) has reduced the scope for monetary policy.

22. *The perception of the quality of governance has worsened.* Tajikistan's CPIA in 2008 remained the same as that of 2004 (3.2, at the bottom of the IDA ECA scale). Governance proper within the CPIA (property rights, public expenditure management, public administration, transparency and revenue) remained static at 2.6. Only social sectors showed an improvement from 3.0 (2004) to 3.4 in (2008). While governance might not have deteriorated during the period, the cracks became more evident and are affecting the credibility of the state. The developments at the Central Bank concerning the non-transparent provision of guarantees and loans to KreditInvest and cotton investors and the lack of proper accounting and the absence of internal controls at the NBT are clear example of the governance shortcomings. These concerns extend to other areas such as the management of public funds, and the handling of large public enterprises, where improvements in governance have also been hard to come by.

23. *Tajikistan faces the emerging crisis from a very weak position.* Despite the rapid rate of economic growth and rising public revenues, structural reforms in key strategic sectors have been slowly implemented. Today, the government is in a weak position to face the current crisis: remittances have dropped, prices for cotton and aluminum products are lower, and it faces a substantive loss in credibility resulting from the mismanagement of the cotton farm debt.

## **B. Results from CPS Interventions**

### Pillar I: Foster broad based growth in urban and rural areas

24. Under this pillar, the CPS supported actions to remove institutional barriers to economic growth. The strategy envisaged the development of a highly competitive investment climate as the compensating factor for the extreme isolation of the country. In addition, the strategy emphasized the development of agriculture, as the majority of the population, in particular the poor, live in rural areas. The pillar defined two sets of results clusters around:

- Improving the business climate and access to finance
- Improving the competitiveness of agriculture.

25. To help achieve the objectives, the World Bank Group drew on a wide range of instruments; most notably the three operations under the Programmatic Development Policy Grant (PDPG), several operations in support of agricultural reform, IFC through technical assistance, availability of credit lines to finance small and medium enterprises and a series of analytical notes in support of the policy dialogue. The following paragraphs take stock of the

results achieved. A key lesson that emerges is that in a weak institutional environment major efforts are needed to set the basis for progress and that initial change can be slow.

***Marginal progress in improving the business climate and access to finance***

| <b>Results expected by the CPS</b>  | <b>Results Achieved</b>  | <b>Other Achievements</b>   |
|---|--|---|
| <p>Improved business environment by reducing costs and time imposed by government regulation on businesses as measured by surveys (IFC SME survey)</p> <p>Created conditions for better access to financing by SMEs through the Tajik Micro &amp; Small Enterprise and Regional Leasing facilities</p> <p>Increased the share of the private sector (from 50% in 2004) including through completing the 2004-2007 Privatization Plan for Medium and Large Enterprises</p> | <p>Implementation of Inspections and Tax Administration reforms yielded savings to businesses of US\$11.2 million [IFC].</p> <p>Tajikistan leasing portfolio across all financial institutions grew 860% from 2006 to 2008, reaching US\$21.7 million. (IFC support)</p> <p>Private sector share in the economy had increased. (See CPS Progress Report)</p> | <p>In July 2006, the law on Inspections was adopted; successive regulations have followed. Amendments to licensing law approved in July 2006 reduced the number of activities to 65.</p> <p>IFC has provided about US\$21 million of its funds in 8 projects in the financial sector. IFC extended US\$2.5 million for trade finance and US\$5.5 million for micro finance. In addition, IFC Corporate Governance Project is helping improve institutional capacity in banks; Some 500 medium and large enterprises were privatized through a process most observers deem as transparent.</p> |

Supporting Program: PDPG I, II and III, Private Sector Development Note; Aviation Policy Note; Banking TA, IFC TA, IFC Corporate Governance Project; IFC direct lending; and IFC lending through regional instruments.

26. *IDA has led the dialogue to improve governance and competition in aviation through the PDPG series.* A new institutional architecture for the aviation sector has separated policy making from technical regulation and from operations. The government adopted a resolution to restructure Tajik State Airlines by end 2008, leading to separation of airlines, airports, and air tariff control. These reforms have improved access and safety and the expectation is that they will lower costs as well. This hard-won progress illustrates how time and effort can pay off in building capacity and institutions.

27. *IFC and IDA have supported simplification of business inspections and licensing.* PDPG dialogue and IFC support have helped achieve significant results in both inspections and taxation reform. To implement the 2006 Law on inspections, the IFC supported amendments to more than 20 laws, regulations, and instructions to comply with the Law. In 2008, the IFC assisted in the adoption and implementation of a simplified tax reporting system for individual entrepreneurs. In addition, WBG support was behind the adoption of the July 2006 law “On Inspections” and legislative and regulatory changes needed for its implementation. Reportedly the number of activities subject to licensing has been reduced from 1,500 to about 113; new rules and procedures have been established to reduce arbitrariness.

28. *Access to financial services has improved, but the gains are at risk.* By June 2008 credit to the private sector was estimated at 20.7 percent, compared to 14.4 percent of GDP in 2005. Banking assets have increased rapidly from 11 percent of GDP in 2005 to 25.3 percent at the end of 2007. Microfinance institutions have grown in number and types and now serve 50,000 clients. Lending by micro-credit organizations grew by 200 percent in 2006 and a further 80 percent in the first half of 2007, but the sector remains small with a portfolio of US\$37 million. Still, high interest rates, lack of long-term sources of funding, a weak secure lending framework, and accounting and auditing shortcomings remain formidable barriers to improved access to

finance. Not surprisingly, the 2010 Doing Business places “Getting Credit” in Tajikistan 167 among 183 economies. Recently, the financial sector is coming under stress from the forced lending from the government to commercial banks to on-lend to the cotton sector, now up to 19 percent of the banking sector capital (April 2009.) The likely effects of the global crisis on the banking sector represent an additional risk factor, even if the banking system appears well capitalized and non-performing loans are at 7.9 percent in June 2009. The gains of the last four years are at risk.

| 2008-BEEPS--Problems Doing Business<br>(Percent of firms that identify activity as constrain) |  |
|---|--|
| 80% and more  | Inadequately Educated Labor Force; Tax rates   |
| 60% - 80%   | Business licensing and permits; Access to land; Electricity; Crime theft and disorder; Practices of competitors in the formal sectors; Access to finance; Business inspections   |
| 40% - 60%   | Compulsory certificates; zoning restrictions; Transportation of goods, supplies and inputs; Telecommunications; Customs and trade regulations; Corruption; Courts; Political stability; Practices of the informal sector |
| 20% - 40%   | Labor regulations  |
| 0-20%   | None   |

29. *IFC actively supported financial sector development.* During FY05-09, IFC committed a total of US\$23.0 million in 8 projects in Tajikistan’s financial sector. Of this amount, US\$6.3 million was provided to First Microfinance Bank of Tajikistan (FMBT) support their microfinance IFC also provided a \$2.5 million trade finance line to Eshkhat Bank (under the Global Trade Finance Facility). To increase microfinance lending, IFC provided US\$3 million to FMBT and to IMON to support their microfinance lending operations. In addition, IFC provided a US\$2.5 million trade finance line to Eshkhat Bank (under the Global Trade Finance Facility). IFC also invested US\$10 million in Aureos Central Asia fund, which will invest in SMEs in the region. In addition, IFC’s role in the development and growth of financial services in Tajikistan includes specific advisory services to financial institutions on agricultural financing, and the leasing market. Its portfolio across all financial institutions grew by 860 percent during 2006-2008, reaching US\$21.7 million. IFC South Tajikistan Cotton Lending Project’s partner financial institutions saw their cotton portfolio reaching 95 percent repayment, much higher than the national cotton portfolio repayment rate. The support of the IFC Central Asia Mortgage Market Development Project helped draft the Mortgage Law of the Republic of Tajikistan (2008), which allows banks to start mortgage operations; IFC is providing TA to develop the needed skills. The IFC Corporate Governance Project has increased knowledge and training capacity on Corporate Governance, along with consultations on Board structures and requirements to companies in both the financial and real sectors.

30. *The available evidence shows a mixed picture in the quality of the business climate, with some successes.* IFC SME Survey results reveal improvements in the prevalence of some administrative procedures from 2005 to 2007. Fewer SMEs were inspected in 2007 than in 2005, reflecting good implementation efforts of the 2006 Inspections Law. The 2006 Inspections Law and its implementation resulted in annual savings to the Tajik SME sector of \$9.3 million in direct and indirect costs. The percentage of SMEs that report obtaining a permit also dropped significantly, particularly for dekhkan farms. The government undertook comprehensive reform of

the licensing regime with the 2004 Licensing Law, and fewer small and medium companies and dekhan farms report obtaining a license in 2007 than in 2005.

31. *Challenges remain to implement and expand business environment reforms.* 2010 Doing Business, IFC SME Survey, and 2008 BEEPS continue to report many impediments to doing business in the country. The 2010 Doing Business ranks Tajikistan 152 among 183 countries (an improvement from 2009 when it was 164). The ranking of some categories improved, for example protecting investors ranked 73 and enforcing contracts ranked high at 39. Starting a business ranked 143 and registering a property ranked 78. Overall, entry (creating companies) and obtaining construction permits appears to be difficult. Such barriers can easily negate efforts that have been made to increase competition through amendments to the competition law and to the law of natural monopolies. Operating a business is difficult as underscored by the rankings: (a) taxation (162), (b) trading across borders (179), (c) getting credit (167), and (d) employing workers (143.). The IFC SME Survey shows that certification procedures for products and services are more prevalent; the main administrative procedure requirements for SMEs in Tajikistan impose direct costs of approximately \$18 million per year.

32. Information from the 2008 BEEPS survey confirms that most firms in Tajikistan continued to face hurdles in all fronts. These findings should concern the Bank, IFC and other donors that have been working hard on areas such as business licensing and permits, business inspections, access to credit, competition, and electricity.

33. A strategy is in place to foster private sector development, the present crisis provides the opportunity to speed up implementation and increase the supply response of the economy. At the request of the government, IDA in close collaboration with IFC and other donors developed a Private Sector Development (PSD) Strategy in March 2007. Implementation of the strategy started slowly but the pace has picked up in 2009. The renewed effort is welcome given the limited participation of the private sector in the economy-- around 55 percent<sup>29</sup>--despite the implementation of the 2004-2007 Privatization Plan which transferred around 500 medium and large enterprises to the private sector. In the present environment, the chances for further privatization are low. Emphasis should be on fostering the entry of new enterprises and the growth of existing firms.

***Reform and performance in agriculture continue to lag.***

34. Bank support for agriculture has been guided by the dual objectives of assisting the government (a) develop policies for sustainable agriculture growth; and (b) resolve the cotton crisis. The CPS targeted results in the agriculture sector was highly relevant because the majority of the population and the poor live in the agriculture sector that underperformed the rest of the economy since 2003 and because cotton utilizes around three-fourth of irrigated land. Various factors have constrained the cotton sector growth including slow progress in issuing land use certificates, weak price incentives for cotton farmers from a group of non-competitive and closely held ginneries, continued state management of production targets,<sup>30</sup> and difficult access

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<sup>29</sup> See CPS Progress Report.

<sup>30</sup> On paper, freedom to farm exists. On 5 March 2007, the President signed Decree #111 Action Plan (Road Map) for the Implementation of the Farm Debt Resolution Strategy in the Republic of Tajikistan for 2007-2009, provided

to finance. The high and mounting debts of cotton farmers to a select group of input suppliers were further crippling the sector.

| Results expected under CPS   | Results achieved under CPS  | Other achievements   |
|--|---|--|
| <ul style="list-style-type: none"> <li>• More competitive cotton market as measured by market-conforming changes in farm gate prices of inputs and outputs</li> <li>• Increased income opportunities for farmers, including by rehabilitating irrigation and drainage infrastructure on 60,000 ha of agricultural lands</li> </ul> | <ul style="list-style-type: none"> <li>• Commercial credit procedures applied to cotton loans for IFC Partner Financial Institutions. Repayment reached 95% in 2009.</li> <li>• IFC enabled financing of \$7 million in loans to farmers in the cotton sector, covering nearly 6,500 hectares.</li> <li>• Not achieved. An equitable and pro-poor farm debt resolution strategy for cotton farms agreed and under implementation</li> <li>• Not achieved on account of the slow progress with titling (only new 808 certificates issued) and infrastructure rehabilitation but opportunities have improved with the increase in non-cotton agriculture prices.</li> </ul> | <ul style="list-style-type: none"> <li>• Reform of the Commodity Exchange completed</li> <li>• International Cotton Grading standard introduced;</li> <li>• Cotton Export licensing removed;</li> <li>• Passage of the Water Users Association Legislation as part of the implementation of the Water Code;</li> <li>• Land Code amended.</li> </ul> |

The supporting program: PDPG I, II and III, Cotton Recovery Project, Land Registration and Cadastre System for Sustainable Agriculture Project.

35. *Bank AAA supported preparation of an Agriculture Sector Strategy in 2007.* This strategy identified land titling and resolution of the cotton crisis as priorities. The strategy gave way to a Roadmap, which the government adopted in 2007 through a Presidential Decree 111 and later decree 313 in 2008. However, progress in reform was minimal, thus, affecting the implementation of the Bank's assistance program and the delivery of expected results. On May 30, 2009, the government announced a Presidential decree related to cotton debt resolution and in July 2009 approved an action plan to write off cotton debt owed by farmers to ginners and commercial banks.

36. *The objective of a more competitive cotton market has not been met, but partial gains have been made.* The Bank has pursued a dialogue on cotton grading standard and export licensing through the PDPG series and the Cotton Sector Recovery Project.<sup>31</sup> Recent achievements include deregulating the grading of cotton and lifting licensing of cotton exports by the NBT in late 2008, so the barriers in the cotton sector were in place during most of the CPS period. Most importantly, the production target for cotton farming remained mandatory throughout this period. However, the authorities have reduced the area under mandatory cultivation by 50,000 hectares (around 25 percent of the total area) for the on-going season. Forcing cotton production has weakened reform efforts. For instance, opening to competition in ginning with the idea of bringing in foreign investment has not delivered expected results as potential investors are driven away by the present uncertainties. Implementation of the Cotton Sector Recovery Project has been slow and has been restructured.

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for freedom to farm without Government interference. However, slow implementation means that even non-cotton farms must report on the acreage used for each crop, herd numbers, etc. In the Dairy sector, government control has lead to low levels of production of fodder crops, reduced fodder available for milk cows, and therefore lower production of milk.

<sup>31</sup> The Cotton Sector Recovery Project was effective September 2007.

37. *Financing cotton has given rise to several governance failures.* The Cotton Sector Recovery Project sought to address the cotton debt and proposed a mechanism to do so. This came to naught, and unbeknownst to the public; the NBT extended loans to and guaranteed foreign borrowing by private investors under the assumption that they would finance farmers. As investors defaulted on their obligations the NBT took on their debt, affecting its capital and net reserve position. The recent audit of the NBT (March, 2009) pointed to a number of deficiencies and questioned the involvement of the NBT in cotton financing. While this involvement stopped as of 2008, the Ministry of Finance lends funds to commercial banks to on-lend to cotton farmers (in 2008) and for the agricultural sector (2009), thereby engendering a problem for the banks or further fiscal costs.

38. *Titling of the land is behind schedule due to lack of political will especially in cotton areas.* Efforts to advance land titling through the Land Registration and Cadastre System for Sustainable Agriculture Project have fallen short of expectations and only 509 land certificates had been issued as of the September 2008 midterm review. Recently, there has been some acceleration and as of end April 2009 a cumulative total of 2,488 certificates had been issued. The mid-term review of the project suggested lowering the final target to 37,500 certificates rather than 75,000 as in the original project document and to focus attention on removing institutional barriers to the introduction of a land-property system. The multi-donor dialogue is helping improve the legal framework as the Land Code limits the government's discretion to revoke land rights without fair compensation and due process was amended in early 2008. In addition, a new law has been approved for the creation of a unified registration system. Overall, while progress towards a modern legal framework for land has been incomplete and at times contradictory, it has nevertheless taken important steps forward with CPS support.

39. The tardiness in titling is delaying improvements in irrigation. Bank support for building irrigation institutions came through a pilot supported by the Fergana Valley Project. Lack of proper titling slowed down implementation, specifically the creation of water user associations. The already established water user associations in the pilot areas worked with local governments to issue land titles so that irrigation infrastructure could be rehabilitated. This fact reinforced the findings of IEG's Project Performance Assessment Report (PPAR) for the Farm Privatization Support Project (FPSP) that efforts at improving and manage infrastructure are less sustainable in the absence of clear property rights.<sup>32</sup> It downgraded the outcome's rating of the FPSP from satisfactory to moderately satisfactory. In addition, IEG's review of the Rural Infrastructure Rehabilitation Project downgraded the project outcomes from moderately unsatisfactory to unsatisfactory, showing the difficulties in improving infrastructure in an institutional weak environment. Lastly, the fact that agriculture is performing better outside of cotton areas, suggesting that farmers respond to market incentives.

40. *IFC is the only IFI that has remained substantially engaged at a grassroots level in the cotton sector.* The Farmers Ownership Model that forms, trains and empowers farmer-owned

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<sup>32</sup> The FPSP, concluded in 2004, help privatize 10 collective farms, rehabilitate infrastructure and create nine user associations have assumed water distribution to members collecting fees for their services. Also it helped issue 6000 titles. An IEG PPAR for the FPSP noted that while the repair needs for irrigation had been carefully assessed under the project, in the absence of cropping freedom, access to free markets , etc. the farms were unlikely to maintained-repaired systems.

finance cooperatives has produced results on the ground. SugdAgroServe (SAS), the recipient of IFC support, currently has more than 1,080 member shareholders (from 400 shareholders at the beginning) and a loan portfolio of over US\$1.15 million that finances a variety of crops and livestock. Through its retail business, SAS provides high quality fertilizers, crop protection products, seeds and machinery. The marketing division ensures that farmers receive the best possible price for their crops. SAS is now operating independently without IFC Advisory Services support. This experience allowed IFC to launch the South Tajikistan Cotton Lending Project that partners with banks to introduce commercially viable loan products tailored to financing cotton production (average loan size is \$20,000). The project now works with two IFC investment client banks that have expanded their lending portfolio to small and medium sized cotton farmers from almost zero to \$2.7 million over 2 years. Through both the South Tajikistan Cotton Lending Project and IFC support for SAS, IFC approved more than \$7 million in loans for the cotton sector, covering nearly 6,500 hectares.

41. In addition, the Agribusiness Supply Chain project that began implementation from 2007 has provided more than 300 hours of consultations to 100 farms and 20 organizations. The results are tangible: demonstrated increases of at least 8 percent in milk production at the larger dairy farms. Outreach on farmers' rights has also been successful with farms taking independent decisions to expand fodder crops by 5-10 percent. The project has been very successful at the farmer level but has encountered challenges in establishing a strong anchor client around which to build a supply chain.

#### First pillar contribution to long-term outcomes

42. The Bank program under this pillar was to help the country prepare for the long-term by removing critical barriers to private sector economy activity. By this account the impact of the program has been subdued, although there is a fair amount of work in progress. The salient outcome is the reform of the aviation sector that is already having an impact. Towards the end of the CPS the government introduced some reforms on cotton—lifting the exporting licenses and reforming the cotton grading process. However, there is evidence that mandatory cotton farming is still in place, even if the area under cultivation is going down. The financing of cotton gave rise to considerable governance missteps that have damaged the credibility of the nation, and that will require fiscal resources to capitalize the NBT. Even today, financing cotton from the budget through the banking system carries both fiscal and financial risks given the relatively low rate of repayment of loan obligations. Now that the legal background is in place, land titling could take off during the next strategy (assuming adequate government commitment), setting a basis for rapid improvement in irrigation and increased investment in rural areas. During this CPS, land titling and irrigation recovery has fallen below expectations. The work of IFC and IDA in search of a better business environment is on-going, contributing to the modernization of the framework for permits, tax administration, licensing and inspections. Intensive work to develop and implement the Inspections Law by IFC has led to the development of inspection checklists, enabling regulations in inspectorates, and training for all inspectors in the two pilot inspectorates. The focus on implementation has yielded results in decreasing the coverage of inspections, number of inspections, and duration of inspections, yielding cost savings for the private sector of US\$9.3 million. Tax administration has been identified by SMEs as a constraint in IFC SME Surveys. In 2008, IFC implemented a simplified taxation regime for individual entrepreneurs (patent) which has also yielded cost savings of US\$2 million to SMEs. However, the low level of

private investment raises questions about the pace and scope of deregulation, and whether the on-going pace suits an increasingly difficult external environment. Analytical work should inform rapid and coherent actions to trigger a fast supply response in this time of crisis.

## Pillar II: Preserve and enhance the quality of health and education

43. Under this pillar the CPS supported government efforts to reverse the negative trends in health and education induced by the lack of financing and deteriorating delivery systems. The government program committed to turn the situation around by increasing budgetary allocations to the health and education sectors (which had gone down respectively to 0.9 and 2.7 percent of GDP in 2004), and modernize institutions to increase coverage and efficiency. The aim was to improve the likelihood of delivering on the Millennium Development Goals. The CPS results can be grouped in two results packages:

- Improving the health of the population
- Improving education for the population

### **Improve health of the population.**

| <b>Results Expected Under the CPS</b>   | <b>Results achieved under the CPS</b>  | <b>Other Achievements</b>  |
|---|--|--|
| Improved access to and quality of health services, as measured by (i) increased utilization of primary health care by children and women of childbearing age, (ii) increased immunization coverage rates, and (iii) increased number of trained family doctors in areas covered by the IDA program<br>Increased patient satisfaction with health services in areas supported by IDA programs as measured by surveys<br>Progressive reallocation of public health spending from hospitals to primary health care | Achieved--increased access of the poor to health services-see text..<br><br>Proper indicator not available.<br><br>In 2008, Government adopted a decree on allocation at least of 40% of total health expenditure to district level which is complied with. .<br>Progress in implementing per capita financing for primary health care in WB project pilot areas but oblast pooling has yet to be implemented. Limited progress implementing the basic benefit package.<br>The TLSS reports that knowledge of preventive measures has improved (See text.) | Initiated a process for the development of the Health Concept and Strategy, but a fully-cost health strategy is not yet in place.<br><br>Separate management and financing of primary health care and hospitals is now mandatory.<br><br>Tajikistan is benefiting beyond initial expectations from the regional Central Asia Aids Fund |
| More equitable financing of health services, both in primary health care (through per capita financing) and hospitals (through basic benefit package implementation)  | Partially achieved. (See Text)   | Rehabilitated water supply activities in 8 towns, have improved availability and quality of water supply by 20% on average.  |
| Reduced the growth rate of HIV prevalence among identified intravenous drug users, commercial sex workers, prisoners, migrants, and out of school unemployed youths.  |  |  |
| Increased consumption of safe water in Dushanbe and selected municipalities in Tajikistan, to be measured by: (a) increased consumption of safe water in liters per capita; (b) quality measured by meeting WHO/national standards  |  |  |

Supporting program: Community and Basic Health Project (CBHP), sector investment grant co-financed by SIDA, and regional operation on HIV/AIDS, 2007 Tajikistan Living Standards Survey (TLSS).

44. *The Bank program supporting health was relevant, but the lack of a comprehensive strategy complicated implementation.* The Bank instruments have been a Community and Basic Health Project (CBHP), and a sector investment grant co-financed by SIDA. In addition, a regional operation financed work on HIV/AIDS. The Bank project supported development and pilot implementation of (a) primary health system financed with capitation grants, and (b) a basic benefits package. The pilot approach took account of the capacity limitations in the country. Regretfully, during implementation lack of a comprehensive health strategy created duplication and fragmentation from piecemeal intervention of players in multiple PIUs. The government and development partners are now working towards a comprehensive strategy.

45. *The poor have better access to health services in the regions of Bank support.* The preliminary results from the 2007 Tajikistan Living Standards Survey (TLSS) report improvements in the access to health services by the poor. For Sogd and Khatlon oblasts (where the seven rayons the Bank project is working with are located), the percentage of the households that do not seek access to health services because they cannot afford them dropped to 29 and 37 percent respectively from a 2003 baseline of 57 percent. In turn, the share of health in household expenditure has dropped from a baseline of 9 percent to 4.8 and 3.1 percent respectively in these two oblasts.

46. The implementation of the strategy has achieved definite progress in the introduction of per-capita financing in primary health care: the per capita financing system has been designed and piloted. The legal/regulatory framework for implementing the first phase of the Public Health Care Centers financing reforms is in place. The provisions include, amongst others, (a) consolidation of the PHC at the rayon level; (b) separation of hospital and PHC budgets; (c) increased autonomy of PHC facilities, (d) separate execution, control and reporting of per capita health budgets, and (e) separate information systems. The per capita financing (capitation) program is under implementation in two oblast that cover 60 percent of the population. However, currently per capita allocation of funds is done on a district level, while the largest disparity in public expenditure is observed among districts and regions. In the next phase of reform, it is envisioned to redistribute health public funds for primary health care at the regional level (i.e., pool the fund at regional level).

47. *Progress with the implementation of the Basic Benefit Package (BBP) is somewhat mixed.* The BBP has proven an effective tool for converting a large share of out-of-pocket payments into legal payments; however, the broad coverage of the benefit package and the inefficiencies of the service delivery make the package unsustainable given the limited resources the state assigns to health. In September 2008, government redefined the basic package structure to help financial sustainability; a pilot to implement these ideas is underway in eight rayons. The PDPG operations supported these reforms.

48. *AIDS awareness improves.* Tajikistan has received around 30 percent of the small grants allocated under the Central Asia AIDS project during the first and the second cycles, which exceeded original expectations. The grants helped to increase AIDS awareness as was intended. Preliminary results show that knowledge of HIV prevention increased from 43 percent of respondents in the relevant age group in 2005 to 57.5 percent in 2007. However, it is still below the PSRP set for 2009—75 percent.

49. *Partial improvements in safe water availability in Dushanbe have taken place.* The quality of safe water in Dushanbe has improved despite a slow start and protracted implementation of the supporting Dushanbe Water Project. With the rehabilitation of the daily sedimentation pond and installation of pumps, the quality of the water in the supply network of Dushanbe has improved, with turbidity remaining low even on rainy days. 75 percent of the population now receives continuous, 24-hour service; more than 65 percent of the population now receives water with low turbidity as compared to 52 percent in 2003. Outside, water availability is improving in the 8 towns participating in the Municipal Infrastructure Development Project (FY06). A recent impact assessment under the project shows that water availability has increased by 20 percent.

***Improve education of the population.***

| <b>Results expected under the CPS</b>   | <b>Results Achieved under the CPS</b>  | <b>Other Achievements</b>   |
|---|--|---|
| <p>Increase primary completion rates in 7 rayons covered by the IDA program (benchmark to be established during CPS implementation)</p> <p>Improved learning conditions (as proxy for improved learning achievement) in schools in 7 rayons (increased access to textbooks; improved teaching practices and enhanced physical conditions of schools)</p> <p>Rationalized resource management by:</p> <ul style="list-style-type: none"> <li>• More equitable regional allocation of expenditures by movement to formula allocation based on per capita financing criteria</li> <li>• public expenditures allocation to schools based on per-capita financing criteria in at least one rayon</li> <li>• increased community participation in decision making process in schools in 7 rayons</li> </ul> | <p>Fully achieved--Completion rates in 7 rayons increased and now 99.85%.</p> <p>Achieved (See text.)</p> <ul style="list-style-type: none"> <li>• (Not relevant, the system of per-capita financing has to be in place for regional equalization to be a feasible.)</li> <li>• Per capita funding implemented in 12 rayons, ready to be expanded nation-wide</li> <li>• 100% of PTAs in schools covered by IDA program active.</li> </ul> | <p>Strong donor alignment around the National Education Strategy (NES) used for EFA/FTI funding and the design of the new SWAp.</p> |

Supporting Program: Education Modernization Project (EMP); EFA/FTI financed project; 2007 Tajikistan Living Standards Survey (TLSS); Programmatic PER.

50. *The Bank education program was relevant to the government priorities that were well articulated in a comprehensive strategy.* The government, jointly with stakeholders, has put forth a National Strategy for Education Development (NSED) that is guiding program design and implementation towards the medium term. Bank support has come through the Education Modernization Project (EMP) predating the CPS; the Bank has also helped coordinate approval and is implementing an EFA/FTI financed project. Both projects are focused on improving access and quality from grades 1-11 and strengthening education institutions. In addition, the EFA/FTI is contributing to donor harmonization with the government. The authorities recently developed and approved a better prioritized and costed strategy as part of the preparation for FTI 3.

51. Attendance and completion rates are up in areas of Bank project implementation; also in these areas the bases have been set for improving the quality of the service. In the seven rayons covered by the Education Modernization Project, enrollment is close to 100 percent and completion rates are at 99.85 percent. Nationwide, the TLSS estimates school attendance at about 95 percent, although quality of education is an issue. To address quality, the government,

with donor support, has been undertaking various activities: (a) new curriculum framework for two primary education subjects has been developed and distributed nationally; (b) 300 teachers with secondary education have been trained in the pilot areas; (c) fourth grade assessment has been developed and pilot tested; and (d) refurbishing of the basic textbooks with 50 new titles complete. One hundred percent of schools in pilot rayons have functioning Parent Teacher Associations (PTAS) and 416 Parent Teacher Associations have been created. In the targeted rayons, 132 schools buildings have been rehabilitated.

52. *Progress in implementing education per capita financing has exceeded expectations.* Per-capita funding of schools is the centerpiece for rationalizing resource utilization in the education sector. The progress here has gone beyond CPS expectations, with per-capita funding in 12 rayons rather than one and plans underway to expand nationwide based on the findings of an evaluation of the results thus far.

53. *Going forward the priority should be given to protecting and consolidating the gains that have been made.* These include: national rollover of pilot experience, institutionalization of per capital financing and school autonomy, engagement of the community, curriculum up-grading and teacher training. Achievement of results expected under the CPS was aided by realistic design, commitment of government, and increased capacity at the education ministry. The NSED continues to provide the framework for the EFA/FTI funding and the forthcoming SWAp. The 2008 BEEPS Tajikistan preliminary results point to lack of skilled personnel as one of the major constraints to business. Brief and pointed analytical work can delve in greater detail to identify the nature of this limitation, and help inform the government and development community on ways to address it.

#### Second pillar contribution to development outcomes

54. The objectives set by the CPS under the second pillar were realistic and have been met for the most part, although improvements in water availability (mostly Dushanbe) have been slow to come. Downward trends in health and education indicators seem to have been halted; definite information will be available with the final publication of TLSS. In water, the situation is less clear. Preliminary information from the TLSS suggests the percentage of households having access to safe water remains the same as 2003. The compatibility between project information and general survey results needs to be examined.

55. Overall, the situation in health, education and the availability of potable water remains dire, with country indicators lagging the region by far. The on-going crisis puts at risk the gains that have been achieved. These can be protected by maintaining funding levels, including the salaries of teachers and health personnel so that service delivery units can remain open. In addition, the partners should forge ahead with components that have been tested successfully, like per capita financing in education and health. The challenge will be to maintain the levels of investment. For instance, in education, the Multi-cluster Assessment survey finds that the quality of school and health facilities are still not appropriate, especially when it comes to functioning properly in winter conditions.

Pillar III: Improve delivery of energy services and exploit the country’s hydropower potential

56. The authorities set a high priority on developing the energy potential of the country, which already contributed five percent to GDP and was a critical direct input into the production of aluminum and indirectly into cotton through irrigation. The CPS strategy centered on improving governance, financial performance, and quality of service delivery in the internal markets. With a longer term perspective in mind, the CPS focused on helping build the basis for Tajikistan to supply regional electricity markets. The main instruments of assistance have been the Energy Loss and Recovery project (which is half way through implementation), the Pamir Private Power project (close to completion), and dialogue around the preparation of a regional project to complete the interconnections. Emergencies made it necessary to provide additional financing for Pamir and a self-standing operation (Emergency Energy Assistance project) to help with the effects of the harsh winter of 2007-08 (among which was a drastic drop in electricity) and to improve the country’s readiness in dealing with future emergencies. The DPO series has taken on the policy dialogue.

| Results Expected under the CPS  | Results Delivered under the CPS   | Other Achievements  |
|---|---|---|
| <ul style="list-style-type: none"> <li>Improved reliability of service provision of both electricity and gas, measured by increased hours of uninterrupted service in Dushanbe and GBAO. (Benchmark to be established during IDA projects’ implementation)</li> <li>Improved financial viability of energy utilities, measured by: (a) increasing contribution of investment from internal resources to 30%; (b) improvements in cash collections by at most 5% annually (baseline –53% in 2003)</li> <li>Improved transparency and reduced quasi-fiscal deficit in the gas and electricity sector from 15%</li> <li>Create conditions for substantial growth in revenues from electricity exports and their transparent use</li> <li>Improved institutional and financial performance of Dushanbe Vodokanal, as evidenced by increased cash collections and reduced revenue arrears</li> <li>At least 3 municipalities achieve 30% improvement in cost recovery</li> <li>Increase poor people’s access to essential economic and social services (225,000 people)</li> </ul> | <p>Hard figures are not available. Enterprise surveys—2008 BEEPS--identified electricity as one of the main constrains to business.</p> <p>Partially achieved (the internal cash flow generation has improved, but targets unmet.)</p> <p>Achieved (quasi-fiscal now at 12% of GDP)</p> <p>Not achieved, but satisfactory work in progress.</p> <p>Partially Achieved—the ratio of revenue to costs has improved (see text).</p> <p>Not achieved</p> <p>125 micro-projects approved in communities, lacking economic and social infrastructure ( CAWMP)</p> | <p>Some 63,566 gas meters at households and 6000 electricity meters were installed</p> <p>The government increased electricity tariffs in January 1, 2009, by some 15%. The annual weighted average posted tariff for 2008 equaled to US\$0.0131/kWh.</p> <p>Gas tariffs are adjusted to follow the imported price that doubled in 2009 to \$300/1000 cu. m. Cost recovery is expected to be achieved in 2012.</p> <p>Sangtuda I and II co-financed by Russia and Iran, under construction, will generate a surplus of electricity in the summer for export. Tajikistan signed Power Export Agreement with Afghanistan in September 2008 to export electricity surplus in summer beginning in 2010.</p> |

Supporting program: PDPG I, II, and III; Energy Loss and Recovery Project ; Community and Agricultural Watershed Management Project; Pamir Private Power Project; Additional Pamir Financing; Emergency Energy Assistance Project; Dushanbe Water Project.

57. *The quasi-fiscal deficit of the energy sector has been reduced, but by less than expected.* The CPS sought to help the government reduce the quasi-fiscal deficit associated with public enterprise activity, especially energy. The strategy combined tariff realignment, improved collection and management improvements in the state companies. Progress includes bringing gas sector tariffs to the cost recovery ahead of the original target date (2010). Collection rates in gas and electricity are well above targets. The 2008 quasi-fiscal deficit stands at 12 percent, well below the level of 15 percent in 2004. However, the contribution of internal funds to finance investment is below the 30 percent target, as servicing debt with China to finance the construction of the transmission line connecting the country from north to south has reduced the availability of internal resources. The country is on track to improve the finances of the sector, but must accelerate investments to meter consumption and reduce losses.

58. *Progress in improving corporate governance at Barki-Tajik has been slow.* Although delayed, an audit of Barki-Tajik is now available. And because the auditors lacked proper information on financial accounts, the audit is incomplete. Overall, concerns with the governance of BT continue to linger and are shared by the authorities and development partners. The urgency remains to bring to international levels governance in BT so that the company can play a central role in the ambitious regional program.

59. A more prolonged and bitter cold season than had been the norm and a low water level at the main dam created a dire situation during the 2007/2008 winter. The Bank fielded an emergency operation that became effective almost a year after Board approval, an indication that the country is not adequately prepared to address risks in a timely manner. While the Bank helped address the energy crisis, electricity remains a major constraint to business and production in general, especially during the winter months (2008-BEEPS). In addition, results from the recent Multi-Cluster Assessment survey (October 2008) show that households remain at risk due to lack of fuel at hand or resources to purchase it when needed.

60. *The regional electricity interconnection agenda is roughly on track.* The electricity interconnection line, built with the support from the Republic of China, is designed to connect the south and the north of the country. This will break the interdependency with Uzbekistan, which now operates the electricity grid control center it inherited from Soviet times. This interconnection will not only help connect the country but eventually the region (Kyrgyzstan, Tajikistan, Pakistan and Afghanistan) once complementary investments (CASA 1000, financed by IDA and others) link regional markets are completed, possibly as early as 2013. In the meantime, RAO UES of Russia provided financing and completed the construction of Sangtuda 1, which helps reduce domestic energy shortages and generate summer surpluses for sale to neighbors—possibly Afghanistan. Iran is financing the construction of Sangtuda II.

61. *Institutional upgrading of the water sector has moved slowly.* The initial design of the Dushanbe Water Supply Project envisaged private sector management and participation through contract management; ultimately, this did not prove politically feasible. The project has been managed by the local water company under the Mayor's office. Tariff increases and better collection practices have raised the ratio of collected revenues to the sum of operational costs, adequate maintenance, and project related expenses from 21 percent in 2002 to 65 percent in the first nine months of 2008. Improvements have been made in the finances of the companies through upward water tariff readjustments and better collection practices, which are feasible now

that the quality of the service has improved. Still, the governance of the water company remains a concern and is hindering other development partners from making sizeable financial contributions needed to carry out the necessary investments, which IDA cannot cover given the available envelope. In addition, the Municipal Infrastructure Development Project (FY06) has the objective of increasing institutional capacity at the central agency responsible for municipal services in small towns outside of Dushanbe and Khodjand. Progress has been slow given the weak institutional capacity and, as a result, the financial and institutional performance of KMK has not yet improved significantly.

### **Pillar Three: contribution to long-term objectives**

62. The poor quality of energy supply for the domestic market continues to constrain production and has the potential to significantly limit the supply response in the short to medium-term. It is likely that the country will remain vulnerable for some time, especially if procuring regional supplies of energy continues to be difficult. Governance remains a concern for energy and water. In energy, it has (and may continue to) affect the willingness of sound and credible international partners to invest in the government's ambitious plans to be a regional player in energy. The lack of transparency at TALCO remains a concern as the country; in fact, the firm did not benefit from high world aluminum prices during the past several years due to a questionable tolling arrangement. The current drop in international prices is affecting the company's profitability, raising fiscal risks related to lower tax contributions. Good progress has been made in developing the regional energy market, which augurs well (for now) given such an ambitious undertaking. However, further large hydro investments will require attention on account of geopolitical risks and the need to improve the investment climate to attract the large foreign investment necessary for its construction.

#### Underpinning the strategic objectives: Improve governance and state capacity

63. The spirit of the CPS was for the governance work to help all pillars deliver their expected results. Hence, governance work was conceived as complementary to the achievement of the CPS results and not as an objective in itself. Within the resulting broad governance agenda, the Bank focused the bulk of its support on building the capacity of the central government as the backbone of a long-term strategy to address the constraints. The main components have been (a) public expenditure reform, (b) fiduciary reform, and (c) public administration and civil service reforms. Bank support has come through policy dialogue under the DPO, the Public Administration Reform Project, analytical work (Programmatic Public Expenditure Review (PPER), and Public Sector Pay Policy Note) and the National Statistical Capacity Building Project.

| Results Expected under the CPS  | Results Delivered under the CPS   | Other Achievements  |
|---|---|---|
| <ul style="list-style-type: none"> <li>• Rationalization of budget process and investment planning in key sectors as measured by (i) alignment between the national objectives and expenditure allocations (e.g., real progressive increase in health expenditures); and (ii) expenditure tracking</li> <li>• Public procurement and financial accountability systems modernized and strengthened</li> <li>• Improved statistical capacity</li> <li>• Improved civil service performance as a result of improved incentives, increased transparency, and merit based recruitment and promotion within management tier.</li> <li>• Conditions created for improved policy making and execution by redesigning architecture of executive</li> </ul> | <p>Achieved: (i) PRSP and NDS were aligned and integrated into the 2007-2009 PRSP and allocations to health and education have increased; and (ii) PETS in education and health were carried out in 2006.</p> <p>Partially Achieved. Public Procurement Law adopted in 2007 and implementation has begun.<br/>Information not available.<br/>No information available on changes in civil service performance</p> <p>Not achieved, constitutional changes are needed.</p> | <p>The EC initiated automation of expenditure flows and 4 rayons in RRS have dial-up connections. An administrative classification has been developed and will be introduced in the budget management and treasury system during 2010.</p> <p>Bonus consolidation increased total pay and pay decompression has been introduced gradually. New Civil Service Law in place promotes merit practices.</p> |

Supporting Program: PDPG I, II, and III; Public Administration Reform Project; PDPG I, II, III; PEFA (2007); Programmatic PER.

64. *The government brought all of its development strategies under a single umbrella—PRSP 2007.* The government met its commitment to consolidate all existing development strategies at the time the CPS was approved under a single framework, the National Development Strategy (NDS 2006-2015). In 2006, it produced a second and more comprehensive PRSP (2007-2009). The strategic integration would help facilitate development of a single budget and the alignment between budgetary allocations and national objectives. Already, the allocation of resources to health and education has increased in line with national priorities and preliminary expenditure tracking for health and education has been undertaken. Given the various crises that have occurred since 2007, the bulk of the PRSP activities remain to be implemented.

65. *Gains have been made in setting the basis for better civil service practices.* The objective to decompress the pay scale has been met; further decompression is not advisable given that wages for entry level specialists would not be competitive. Transparency in the pay system has been improved as bonuses and in-kind payments were integrated into the base pay, thus reducing the remaining payments to less than 30 percent of total pay (compared to 75 percent in 2006). A new Civil Service Law, approved in 2007, separates political and administrative functions and makes merit recruitment through open competition compulsory for administrative positions. Between 2006 and 2008, the number of posts advertised for competitive recruitment increased from 640 to 1,707. Knowledge of the legal framework is adequate. Although merit based selection is an increasing practice, merit based promotion is not well established as the “cadre reserve approach” remains the norm. At present, the impact of these measures on actual performance has not yet been evaluated as the conceptual framework for a performance appraisal system is being put in place during 2009.

66. *Some progress has been made in public expenditure reform, but capacity remains a major constraint.* A 2007 Public Expenditure and Financial Accountability (PEFA) assessment provided benchmarks to track progress in public financial management (PFM) and identify

weaknesses. Tajikistan was at a relatively low stage in public expenditure reform (see CPIA rating—2.6) and the Bank agenda on the ground is ambitious, including gradual introduction of a MTEF and a move towards use of country systems. Partial results include the adoption of a new Public Procurement Law (May 2006); an impact assessment will be available only with the next PEFA. External control was reversed when the President restructured public agencies in late 2006. The restructuring limits the independence of the external audit body, the State Financial Control Committee that was merged into the anti corruption agencies reporting to the President. Subsequently, some progress has been made towards the establishment of an independent external control. The Public Financial Management Modernization project, which was preceded by the Public Sector Reform project, was recently approved by the Board in May 2009.

67. *Reforms of the structure of public administration have lagged expectations.* Progress in reforming public administration includes the reduction in the number of ministries and central agencies and the introduction of the principle of separation of service delivery from policy formulation. Progress in implementation has been slow as shown by various vertical reviews of individual ministries. As a result, achievement of the proposed CPS result “clarification of responsibilities between different layers of government at the central, regional and local level” remains in mid-stream, with the remaining agenda to be addressed during the next CPS. It is difficult to proceed in an environment where a dedicated institutional structure, one that is expected to design, manage and monitor broad public administration reforms, is absent.

#### CPS contribution to improving governance

68. Although the CPS emphasized governance and capacity building as cross-cutting themes, this pillar included only work with the central government on civil service, financial management and administration. Some progress has been made towards the ambitious agenda, which was defined with the long-term in mind. Civil servant salaries are higher and new rules are in place for hiring. A strategy for PFM has been adopted as has a new procurement law. On administration, progress is less noticeable given a lack of appropriate counterpart for the overhaul envisaged. With hindsight, and especially now given the on-going crisis, perhaps greater attention should have been given to help the authorities address the multiple crises that arise regularly.

69. On the broader governance picture, the impact of the CPS program has been subdued and not much progress has been made in improving sector governance, as had been expected. The collapse of governance at the NBT caught all external observers by surprise. The IMF is now leading the dialogue on getting NBT on track and taking the corrective measures that follow from the recent audit. It remains to be seen what corrective actions the authorities will take outside the NBT pursuant to the audit’s findings. Such measures will signal the willingness of the authorities to move towards greater accountability. Governance improvements in energy include the completion of the Barki-Tajik audit (although with a delay and a disclaimer due to inadequate financial information on the company’s operations). The CPS kept the program out of aluminum by design, but governance concerns remain with regard to the Tajik Aluminum Plant (TADAZ) and with TALCO, a new company carved out to deal with international transactions. Governance issues in cotton remain intractable.

#### IV. BANK PERFORMANCE

70. *Delivery of operations set out in the FY06-09 CPS is on track but with a delay, as Table 1 shows.* One operation was dropped (Poverty Alleviation III) and three operations are under preparation (Regional Electricity, Health and Education SWAp). Several operations were added to the indicative IDA program outlined in the CPS: (i) an Avian Flu Project in FY07; (ii) a supplemental credit to the ongoing Dushanbe Water Supply Project; and (iii) a Youth Development Grant funded by the Post-Conflict Trust Fund. Emergency projects including a standalone Energy Emergency project, additional financing for Pamir Private Power, and Food Security and Seeds imports were delivered in 2008. Tajikistan also benefited from the FTI in 2006 (IDA and other donors contributed US\$18 million in grant terms over a two year period).

71. *A large number of small projects consume the supervision budget, reducing the resources available for AAA.* Today, 15 IDA operations are under implementation and the balance of funds (approved and not yet disbursed) adds up to US\$141.9 million. The distribution of approved and undisbursed resources is aligned with the CPS. The portfolio also included 30 operations financed by trust funds (including IFC, WBI, Avian Flu, FTI, Food Price Crisis, GEF) with total commitment of US\$65 million (equivalent to the remainder of IDA15 allocation), of which US\$30 million are undisbursed. Jumbo Trust Funds represent the bulk of the portfolio, and the education sector accounted for about 30 percent of all trust funds. There are also smaller sized Trust Funds, such as 3 Institutional Development Funds (IDFs) (characterized by slow implementation), a First Initiative grant, and PHRD grants for project development.

72. *The CPS delivered financial resources to the budget in line with the initial estimates.* During the CPS period, IDA disbursed US\$410 million, which was slightly less than the US\$433.5 million in the original disbursement estimates. Most of the projects disbursed much quicker than originally expected. However, the Ferghana Valley, Land Registration and Cotton Sector Recovery projects brought the performance down.

73. *The mix of investment and development policy lending has been in line with the CPS outline.* As planned, a PDPG series is providing a platform for policy dialogue with government on a broad range of themes (mostly capacity and competitiveness) and supporting the implementation of the investment projects. The full PDPG series (3 operations) have been delivered, with a delay in the delivery of PDPG III due to the need for the government to complete the IMF SMP. An ICR for the PDPG series is pending.

74. The three PDPG operations drove the policy dialogue with the authorities and helped coordinate implementation of the CPS program, contributing to the achievement of a significant share of CPS results. Its agenda was broad, touching on all of the core areas of the CPS. It has helped to promote private sector development by supporting liberalization of the aviation sector, encouraging transparency in the privatization of SOEs, and supporting adoption of laws to prevent monopolistic practices. With IFC, it has moved along the agenda on reducing the regulatory burden of inspections and licenses. In agriculture, it has targeted measures to give farmers a better deal, with positive results towards the end of the period. It has supported the dialogue on financing of education and health services and helped to ensure that budget allocations for the services were protected during the recent global economic crisis. It has promoted greater efficiency and financial viability of the energy sector through support for better

corporate and financial management. On public sector management, the PDPG has supported significant public financial management reforms, including adoption of a new procurement law, establishment of an external audit function, strengthening of internal audit, and civil service pay reform. To achieve these results, PDPG worked with sectors and IFC where investment operations are ongoing, and mobilized additional resources from other donors to advance the agenda. However the degree of coordination with sector teams varied considerably from one sector to another and this is an area for further improvement.

75. Despite its successes, the difficult environment has affected PDPG implementation, particularly the crisis at NBT, which led to delays in preparing PDPG 3. The PDPG operation has been most successful in areas for which government ownership has been strong, technical assistance has been available (from the Bank or other donors), consensus among other development partners on the way forward has been forged, and engagement on the issues has been long term. A thorough assessment of its contribution to the country's reform agenda, in this difficult environment, will have to wait for the ICR. Continuing with the PDPG operation will help to deepen the reform agenda that is underway and to support reforms in emerging areas.

76. *AAA has contributed to advancing the program in various ways, but some have come with a delay.* AAA work contributed to the preparation of the 2006-2009 PRSP, the PDPG dialogue and project design. The PPER process supported Tajikistan's first PEFA self-assessment, in partnership with the Swiss Economic Cooperation (SECO), in January 2007. In addition, the PPER has taken stock of health and education issues and debt sustainability. The TLSS completed and under processing, covers health, education, labor market participation, food security, and access to financial services, children immunization, and other themes. Its results will allow the government and the development partners to take stock of progress towards PRSP outcomes. Policy notes include a poverty profile at the national and regional levels; migration and labor markets; food security; gender aspects of access to land and financial assets; access to and quality of public health and education services; and social safety nets. UNICEF, DFID, and the government are the main contributors. Other AAA includes a Fiduciary Assessment of the Education and Health Sectors, Fiduciary Assessment of Tajikistan's Portfolio, sector strategies for agriculture and private sector development, and three policy notes on Enhancing Development Impact of Remittances, Civil Service Wages, and Aviation. AAA work has been of good quality, informative, and, for the most part, timely (with an exception of the CEM that is expected to be completed in FY10).

77. *Portfolio quality has deteriorated slightly during the implementation of the CPS.* At the beginning of the CPS, the portfolio did not have problem projects (although 3 projects were rated not likely to meet their Development Objectives). Today, 5 projects are at risk, of which one has a moderately unsatisfactory development objective that represents a significant deterioration in portfolio performance since the start of the CPS. The disbursement rate is at 38.1 percent in FY09, compared to an ECA average of 17.1 percent.

78. *IDA has emphasized training for policy makers, including several high-level leadership seminars.* IDA, in collaboration with WBI, organized a high-level workshop in February 2006 for the economic and social team of the government, which was very well received. A subsequent leadership seminar for the new Cabinet of Ministers was held in April 2007 and focused on the strategic reform priorities for Tajikistan and showcased the experiences of a

number of more advanced countries. Most recently, a high level seminar for crisis management brought to Tajikistan several high level international practitioners to share their experiences with the authorities.

79. *Periodic CPPRs have tracked gradual progress in addressing key implementation concerns.* The action plan agreed to at the third government-IDA-ADB CPPR, held in October 2006, focused on resolving four systemic issues: mainstreaming Project Implementation Units (PIUs); orienting project implementation towards outcomes; resolving taxation issues; and expediting government procedures on project selection, approval and implementation. The fourth government-IDA-ADB CPPR (2008) took stock of progress in implementing the recommendations of the 2006 CPPR and reports:

- Development partners' efforts to reduce the costs of project implementation through more integrated mechanisms and the use of country institutions have brought several projects under the same implementation unit, such as in the energy sector the Center for Management of Projects that implements eight energy infrastructure projects. However, differences in fiduciary, reporting and accountability systems of the government and development partners are retarding implementation of more integrated agendas. To address this concern, ADB and the WB have streamlined and harmonized their operational procedures. In addition, the WB has been moving away from self-standing PIUs for project implementation. , Of 18 projects, 10 are implemented by stand-alone PIUs, six are implemented by their respective ministries or agencies, two by a state-owned enterprise (Barki-Tajik), and another by a private company (Pamir Energy). The gradual approach to phasing out PIUs has been necessary to avoid potentially sharp drops in performance.
- A recent fiduciary review of Bank operations in Tajikistan did not find any evidence of fraud, but did find ample room for improvement. Physical inspection of the works undertaken showed that 67 percent had deficiencies due to poor quality of materials and workmanship, use of second hand materials in construction, and lack of proper maintenance. Only 37 percent of procurement was rated fully satisfactory, while only 16 percent was unsatisfactory. The review identified the following: (a) the need for tighter adherence to agreed procurement procedures, (b) inadequate competition from inside and outside Tajikistan, and (c) weak Borrower's contract administration procedures. As to financial management, the review rated 39 percent as fully satisfactory with 17 percent either fully or highly unsatisfactory. The review found that competitive and adequate salaries strengthen implementation by attracting better qualified and experienced financial management and disbursement staff.
- Since the 2006 CPPR, efforts to improve the monitoring and evaluation of projects has produced gains but monitoring & evaluation (M&E) remains weak with several projects still lacking them on account of limited in-country capacity and training opportunities. The consequence is that the government and development partners lack information for a timely assessment of performance and the needed corrections to avoid delays and deliver on results.

80. *Coordination among development partners is improving.* At the beginning of the CPS, partners faced a large number of fragmented operations that increased the cost of delivering assistance and, at times, provided contradictory advice. Partners are now working on developing joint project implementation units and co-financing interventions around common agendas. Examples include an FTI grant; co-financing for the Basic Community Health Project from the Swedish Agency for Development Cooperation (SIDA) and the Swiss Development Corporation (SDC); co-financing of the National Statistical Capacity Building Project by SIDA and DFID; work on public expenditure management with DFID, Swiss SECO; and cooperation with UNICEF. IDA has led the way for the establishment of the Donor Coordination Council in Dushanbe.

81. The CPS identified the risks well, but the country and partners could have done a better job of developing and implementing remedies. While the CPS foresaw the risk to the country associated with a global slowdown, the authorities did not take advantage of the four good years for building up reserves. Nor did the country take advantage of the favorable climate to implement reform to improve supply conditions and generate income opportunities; instead, it relied on exporting labor to release the political and economic pressures emanating from a growing population. The energy crisis, not foreseen in the CPS, evidenced the vulnerability of the economy to external shocks. Despite all of this, the country has maintained political stability.

## **V. LESSONS AND RECOMMENDATIONS**

82. The implementation of the CPS teaches that ambitious reform agendas in weak institutional environments can easily overburden the authorities. Acknowledging the lack of capacity is not enough; the program should also embed this awareness in a credible way. In this CPS, the strategy of building the capacity of the central government represented a long-term approach, which was not fully relevant to the challenges that the authorities faced. As a result, despite high growth and improvement in social indicators, governance failures became even more evident. Today, the country faces several crises: a drop in remittances, low world prices for cotton and aluminum, a drop in public revenues, a frail financial system, returning migrants, weak capacity, and tarnished credibility.

83. CPS implementation teaches that progress comes when programs target well-defined outcomes and factor in capacity constraints through intensive AAA, and allow adequate time and dedication for policy dialogue and technical assistance, all characteristics of the PDPG operation. Therefore, this review calls for realism in program design and adherence to strict prioritization. Such an approach will assure prompt delivery of results that generate a virtuous cycle, rather than disperse and lead to incomplete efforts that harm the credibility of the initiatives. A more realistic approach requires scaling-down overambitious goals, identifying risk sources, and providing capacity-building support according to needs. The next strategy may focus on implementing the laws and strategies currently in place; and when trying to arrive at “new institutional frameworks,” it should consider using experimentation and dialogue rather than imposing the design on the client and thereby risking limited understanding and buy-in.

## A. Strategic Recommendations: Sharpening the Results Agenda

84. The CPS agenda remains valid as does the 2007 PRSP, but the crisis adds new urgencies that must be addressed within a vision that acknowledges that the favorable events of the last four years are not likely to recur over the medium to long-term. In facing this new reality, the team must review the relevance and adequacy of the operations in place and then focus the next strategy on realistic results concomitant with the capacity of the country and the emergency of the situation.

85. *Building credibility and addressing the current emergencies.* The loss of credibility from the various governance failures handicaps the ability of the country to deal with the current crisis. Reportedly, under IMF guidance, the authorities will be taking corrective measures at the NBT, but the authorities have yet to address issues of accountability. The extent and enthusiasm of development partners' support will depend on assurances of a proper use of resources that help the poor and preserve the gains made thus far. The credibility of the government will hinge on decisions made about the allocation of resources, their use in the budget, and impact on the ground. Over the longer haul, credibility based on better governance will help bring in the international partners that Tajikistan needs to carry out its vision of development, especially in the energy sector.

86. *Generating an elastic domestic supply of goods and services is critical to handling the short, medium and long-term challenges.* Constraints to domestic supply remain high. The analytical work either completed or nearing completion (2008 BEEPS, CEM, LSS, etc.) can inform partners on the immediate priorities to generate a healthy supply response. Attention will have to be paid to energy availability, which ranks as one of the highest constraints, and access to finance. The Bank needs to think of alternative forms of engagement in agriculture, such as reallocating efforts away from cotton to agricultural diversification, rural finance and institutional building. Expansion of the non-cotton economy offers considerable opportunities. Developing regional energy markets remains relevant, but the partners must face the hurdles in place systematically and promptly. These include improving drastically the governance in Barki-Tajik, addressing the concerns of the neighboring countries on the impact on water supply downstream, and developing solid contractual schemes for energy export.

87. A priority in health and education should be consolidating the gains by further strengthening the ministries, scaling up the pilot experiences, and addressing skill shortages. A short-term priority should be maintaining the gains by protecting expenditure, including salaries of teachers and health workers. The forward agenda could consider strengthening the social assistance system to help the needy through the crisis. Over the longer-term, the scaling-up of pilot experiences will require resources and selecting adequate technologies—not necessarily those used at the pilot scale—that give maximum impact. Improving the quality of water will need massive resources, which requires the engagement of the broader donor community and improvements in sector governance. The crisis should not hinder continuation of key initiatives, such as per-capita allocation of budget resources in education and primary health care and the basic package of health services.

## **B. Operational Recommendations**

88. *Embrace a selectivity policy.* The previous strategy announced a policy of selectivity but did not deliver on it. The new strategy has to. Managing a large number of small operations consumes valuable budget resources that could be used for strengthening supervision, AAA and policy dialogue. Besides reducing the number of operations, a policy of selectivity must also be applied at the sector level as part of a strategy to avoid an overambitious agenda. For instance, it is not only about remaining engaged in agriculture but about whether to engage a broad agenda or rather a few, select, and targeted interventions at a lower scale.

89. *Continue a mix of DPO and investment.* As noted, the DPO was affected by an overambitious CPS design in a difficult environment. The DPO did not achieve much, but the few results of the CPS (except for health and education) were achieved with the DPO. The success of DPO in aviation was due to its focus and a lot of effort. To make the DPO more effective, its design should be more focused, and the crisis provides that opportunity. Continued DPO will help the government finance the fiscal gap that has emerged with the crisis (even after government's corrective actions to rationalize expenditure). It has proven to be an effective instrument for policy dialogue with the government. The theme and prior actions to be included in the DPO must benefit from the lessons learned of past experience, new analytical works, and emerging realities. The past teaches that DPO works best when it is well focused on concrete outcomes and is complemented by intensive technical assistance, given the limited capacity of government. It is important that the DPO agenda align with the CPS and be based on analytical work, especially the forthcoming CEM. This will help sharpen insights on constraints to growth, especially in agriculture. The emerging circumstances call for a focus on the crisis by maintaining or protecting the mid-term agenda. The DPO can help organize the Bank support as well as cooperation with other development partners. As to investment, priority should be placed on completing the ongoing agenda through additional financing.

90. *Utilize AAA to open new vistas where the issues are unclear or a common view has not yet emerged.* AAA needs to be used more aggressively as an advocacy instrument in areas where there is limited buy-in from the authorities and to raise the relevant issues nationally. Hence, greater attention should be placed on dissemination.

91. *Continue efforts to harmonize development partners' support.* Harmonization of development partners' activities can help improve implementation performance, but care should be taken that the costs of harmonization and coordination do not outweigh its gains. The partners can heed the lessons from the 2008 ADB and WB PCPR that advises working under well developed sector agendas that include: (a) fully cost activities, strengthening of capacity (planning, budget execution, procurement, tracking and reporting, etc.) at the level of the ministries and other executing bodies, (b) the gradual absorption of PIU's into the administrative structures, (c) realistic result frameworks, and (d) agenda or time table to move towards the use of country systems. Because it takes time to field such an agenda, the partners may want to proceed gradually with a focus first on operational aspects.

**Table 1: Tajikistan – Planned Lending Program and Actual Deliveries**

**FY2006-FY2009**

| <b>FY</b> | <b>CPS PLANS (October 3, 2005)</b>                   | <b>IDA US\$(M)</b> | <b>COMPLETION REPORT (June ,2009)</b>  | <b>IDA US\$(M)</b>  |
|-----------|--|--------------------|--|---------------------|
| 2006      | Policy-Based Credit                                  | 10                 | Approved (July 2006)   | 10                  |
| 2006/07   | Rapid Response TA: Treasury; Procurement; Statistics | 10                 | National Statistical Capacity Building (Approved 5/31/2006)  | 1                   |
| 2006      | Municipal Infrastructure                             | 15                 | Approved 1/19/2006   | 15                  |
| 2006      | Community Basic Health                               | 10                 | Approved 12/15/2005  | 10                  |
| 2006      | Ferghana Valley                                      | 13                 | Approved 7/26/2005   | 13                  |
|           |  |                    | <b>Additional Actual Projects:</b>   |                     |
|           | <i>Subtotal</i>                                      | 58                 | - Avian Influenza<br><i>Subtotal</i>   | 5<br>54             |
| 2007      | Central Asia Aid Control                             | 2                  | Approved 3/15/2005   |                     |
| 2007      | Cotton Development                                   | 15                 | Approved 5/30/2007   | 7.2                 |
| 2007      | Poverty Alleviation III                              | 5                  | Dropped  | ..                  |
|           |  |                    | <b>Additional Actual Projects:</b>   |                     |
|           | <i>Subtotal</i>                                      | 22                 | - Public Sector Reform (Approved 7/06/2006)  | 5                   |
| 2008      | Policy-Based Credit                                  | 10                 | <i>Subtotal</i><br>PDPG2 Approved (7/19/2007)  | 12.7<br>10          |
|           |  |                    | <b>Additional Actual Projects:</b>   |                     |
|           | <i>Subtotal</i>                                      | 10                 | - Energy Emergency (Approved 11/26/2008)<br>- Additional Financing Community Basic Health (6/13/2008)<br>- Emergency Food Security and Seed Import (Approved 6/13/2008)              | 6.5<br>4<br>5       |
| 2009      | Education SWAp                                       | 15                 | <i>Subtotal</i><br>Not delivered in the CPS  | 25.5<br>..          |
| 2009      | Health SWAp  | 15                 | Not delivered in the CPS   | ..                  |
|           |  |                    | <b>Additional Actual Projects:</b>   |                     |
|           |  |                    | - Pamir Private Power – Additional Financing<br>- PDPG3 – Approved 3/2/2009<br>- Community and Basic Health - AF<br>- Public Financial Management Modernization (Approved 3/18/2009) | 2.5<br>20<br>5<br>5 |
|           | <b>Subtotal</b>                                      | <b>30</b>          | <b>Subtotal</b>  | <b>32.5</b>         |

**Table 2: Planned Versus Actual Non-Lending Deliverables**

| <b>FY</b>      | <b>PRODUCT PLANNED IN CPS</b>   | <b>CURRENT STATUS</b>  |
|----------------|---|--|
| FY06-07        | Private Sector Policy Note<br>Farm Debt Resolution <b>TA</b><br>Institutional and fiduciary review of the MOH<br>Participation of Tajikistan in the Education for All Fast Track Initiative<br>Energy Sector <b>TA</b><br>Programmatic PER<br>Programmatic Poverty Policy Notes | Completed FY07<br><br>Completed FY08<br><br>Ongoing<br><br>FY07<br>Completed FY07/FY08<br>Completed FY08 |
| <b>PRODUCT</b> | <b>PRODUCT NOT PLANNED IN CPS BUT DELIVERED</b>   | <b>YEAR OF DELIVERY</b>  |
| ESW            | Social Dimensions of Regional Differences   | FY06   |
| ESW            | Agriculture Sector Review   | FY06   |
| ESW            | Pension System Review   | FY08   |
| ESW            | Education Sector Fiduciary Capacity Assessment  | FY07   |
| ESW            | Education IFA   | FY09   |
| ESW            | Public Sector Pay Reform  | FY08   |
| ESW            | ROSC  | FY09   |
| ESW            | Poverty Assessment  | FY09   |
| TA             | Banking Sector TA   | FY06   |
| TA             | Poverty Dialogue TA   | FY08   |
| TA             | Financial Sector Policy Dialogue TA   | FY08   |
| TA             | PSD Policy Dialogue TA  | FY08/FY09  |
| TA             | FSAP Follow-up  | FY09   |
| TA             | Water Sector Support Strategy   | FYY09  |

**Table 3: Summary Table CPS Completion Report  
TAJIKISTAN**

| Long Term Goals   | Status at the CPS Design   | Status at Completion   | Lessons Learned   |
|---|--|--|---|
| <b>Pillar I: Foster broad based growth in urban and rural areas</b> |  |  |   |
| <b>Foster Growth in rural and urban areas</b>                       | Business regulations and inspections are excessive and cumbersome.   | Laws on inspections and licensing adopted. Despite efforts, Tajikistan continues to lag most of the rest of the world on the quality of the business environment. The 2008 BEEPS survey found a wide range of constraints to growth.   | Providing the needed business environment to generate an elastic response and help address the crisis needs a concerted effort, moving beyond the selected interventions of the past.   |
|   | A backlog exists of inefficient public enterprises.  | Implementation of the 2004 Privatization Program led to the sale of around 500 large and medium enterprises. However, state continues to own the largest and most strategic enterprises in the country.  | Tajikistan has reached the limits of privatization as privatization of the large enterprises seems unlikely; priority should now go to improve public enterprise corporate governance.  |
|   | The banking sector remains small and fragile; medium-to-long-term finance of the SME sector remains inadequate   | The Banking sector has grown but it remains fragile, in part because the government's channeling of cotton finance.  | The frailty of the banking sector could amplify the crisis if unattended.   |
|   | Slow growth in agriculture due to (i) incomplete restructuring and privatization of farms; (ii) the urgent need to rehabilitate the irrigation infrastructure; (iii) the unresolved cotton farm debt problem; and (iv) the limited competition in input and output markets for cotton. | Non-cotton agriculture is taking off, not so cotton areas where poverty is on the increase. Restructuring and privatization of farms continues at a slow pace, especially titling of the land, which fell below expectations and affected negatively progress on irrigation. The so-called "cotton farm debt problem" led to a serious governance failure carrying a high fiscal cost as the central government absorbs the bulk of the debt. The government introduced competition in the input and output markets towards the end of the period (2008/2009.) | Rapid transformation of agriculture requires certainty of property rights and freedom to farm, including the cotton areas, which are the most fertile in the country. Clear property rights will speed improvements in irrigation. Likewise, given the high fiscal cost of direct lending to cotton, the state should minimize its intervention and markets work. |
|   | State monopoly in aviation maintained Tajikistan isolated from the region and the world at large.  | Deregulation of the aviation sector has brought in new players improving the connection of Tajikistan to the rest of the world.  | The experience in aviation is an example of the gains Tajikistan can achieve through deregulation.  |

| Long Term Goals  | Status at the CPS Design   | Status at Completion   | Lessons Learned   |
|--|--|--|---|
| <b>Pillar II: Preserve and enhance the quality of health and education</b>   |  |  |   |
| <p>Improve health of the population</p> <ul style="list-style-type: none"> <li>Reduced infant mortality from current level of 87 per 1000 live births</li> <li>Reduce maternal mortality from current level of 100 deaths per 100,000 live births</li> <li>Reduce prevalence of infectious diseases</li> </ul> | The poor have little access to health care; often of poor quality.   | The percentage of households that cannot access health services because they cannot afford them dropped from 57% in 2007 to 29% and 37% in Sogd and Khatlon oblasts where IDA project is working.  | The pilot approach to health reform has proven an effective way to deal with the severe capacity constraints. The challenge now is to maintain the gains, despite of the crisis, and to scale up nationally. In addition, an effort should be made to maintain the drive to provide separate finance for primary health care and to right-size the basic health care package. |
|  | The number of trained family doctors is severely limited, especially in rural areas.   | Likewise, the number of trained doctors in these areas has increased.  |   |
|  | Public spending in primary health care is the lowest in Europe and Central Asia  | Public spending in primary health is higher now (2008) than in 2004.   |   |
|  | Household contribution to healthcare/treatment is very high (9% of household expenditure according to survey evidence from 2003.)    | The share of household expenditure has dropped to 4.8% and 3.1% in Sogd and Khatlon oblasts where IDA project is working.  |   |
|  | High risks of rapid spread of HIV/AIDS and TB  | Surveys show that knowledge of HIV prevention increased to 57.5% in 2007 from 45% in 2005.   |   |
|  | High incidence of water borne diseases due to consumption of unsafe and untreated water  | The availability of safe and treated water has increased in Dushanbe.  |   |
| <p><b>Improve education of the population</b></p> <ul style="list-style-type: none"> <li>Increase school completion rates</li> <li>Improve learning achievements</li> </ul>  | Declining enrollment and attendance in primary schools   | Primary enrollment is at 100% and completion rates at 99.85% in the areas with IDA support. Nationwide the enrollment rate is at 95%.  | <p>Like in health, the pilot approach has helped address capacity constraints. In addition, the education strategy is perhaps the most advanced in the country. The crisis calls for attention to preserving gains and scaling up, primarily the nationwide implementation of per capita financing, the training of teachers and the modernization of the curriculum.</p>     |
|  | Deficient learning achievements due to: inadequate curriculum; lack of appropriate learning materials; and poor teaching techniques. | At the pilot level, teachers with secondary education have been trained, textbooks provided, assessments tested and parent and teacher associations created (416.) At national level, new curricula for two subjects have been introduced. |   |

| Long Term Goals   | Status at the CPS Design  | Status at Completion   | Lessons Learned   |
|---|---|--|---|
|   | Deteriorating physical infrastructure   | In the rayons with IDA support 132 school building have been rehabilitated. But, nationwide a wide deficit remains given the limited resources available for investment.   |   |
|   | Significant regional disparities in allocation of public resources  | With the adoption of per-capita financing, which has already been tested, regional disparities in the allocation of public resources are expected to decrease.   |   |
|   | Low level of public spending in education   | The budgetary allocation of resources to education has increased substantially.  |   |
| <b>Pillar III: Improve delivery of energy services and exploit the country's hydropower potential</b>   |   |  |   |
| <b>Improve living conditions of the population and the potential for economic growth through:</b> <ul style="list-style-type: none"> <li>• Infrastructure upgrades;</li> <li>• Production of reliable supply of energy in a market oriented and socially sustainable manner</li> <li>• Increased electricity exports</li> <li>• Improve delivery of municipal services (water, sewage, waste management)</li> </ul> | Energy and gas service delivery remains unreliable  | Electricity service delivery remains unreliable, partly during the winter, especially 2007/2008. Firms rate the availability and quality of electricity as one of the main constrains to operating a business (2008-BEEPS). Gas shortages continue due to (a) lack of fiscal resources and (b) unstable relations with Uzbekistan. | Progress in energy has come slow because of the size of complexity of the challenges and endemic governance constrains. The last four years showed that Tajikistan is vulnerable in the energy front. Efforts to reduce that vulnerability are on-going with the building of additional hydropower capacity and increasing interconnections domestically and with the region. This is an area of the highest priority for the government, which explains the progress. But not the same priority has been given to increasing capacity and improving governance and thus although the finances of public companies (electricity, gas, water) have improved through tariff increases and collection practices, but service reliability still lacks., due in part to slow project implementation. |
|   | Poor financial viability of the energy sector (gas and electricity) limits availability of resources for system maintenance and investments | Tariff increases and improved collections have reduced the quasi-fiscal deficit from 15% of GDP in 2004 to 12% in 2008. But, Bark-i-Tajik capacity to finance investments with its own resources remains limited.  |   |
|   | Hydropower potential not exploited  | Sangtuda I and II co-financed by Russia and Iran are under construction. Sangtuda I is near completion and will generate a surplus of electricity in the summer for export; In September 2008, Tajikistan signed Power Export Agreement with Afghanistan to export electricity surplus beginning the summer of 2010.               |   |
|   | Inefficient delivery of services through public water supply utilities is draining public resources   | Tariff increases and better collection practices have improved the financial stand of Dushanbe water operations. Limited progress in   |   |

| Long Term Goals  | Status at the CPS Design   | Status at Completion   | Lessons Learned   |
|--|--|--|---|
|  |  | improving corporate governance in the water and energy sector.   |   |
| <b>Underpinning the strategic objectives: Improve governance and state capacity</b>  |  |  |   |
| <p><b>Improved capacity of the state:</b></p> <ul style="list-style-type: none"> <li>• More efficient public administration</li> <li>• Better use of public resources</li> </ul> | <p>National objectives are not aligned to public expenditure allocation</p> <p>Budget execution and reporting systems are weak</p> | <p>The 2006-PRSP is now the single medium-term strategy in place, angle on the long-term vision given by National Development Strategy (NDS) for 2006-2015.</p> <p>Limited PFM progress; IDA has just approved an operation to advance the PFM agenda.</p> <p>A new law on public procurement is in place and under implementation.</p> <p>External Control remains very weak.</p> | <p>The CPS shows that improving the capacity of government is a long-term objective and substantive achievements over a 4-year period are limited especially when capacity is scarce. An alternative approach should combine a long-term view with efforts that yield results over the short to medium-term in critical areas, such as dealing with the current crisis.</p> <p>In addition, it is advisable to truly mainstream capacity building and governance concerns in various components of the program.</p> |