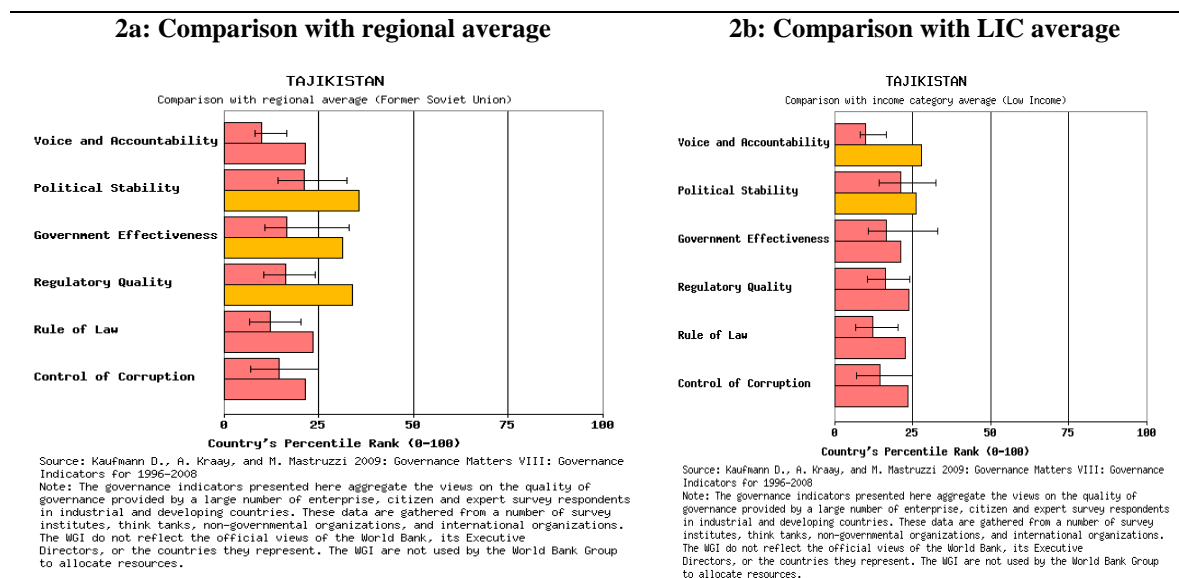


accountability, rule of law, and control of corruption, significantly below ECA and LIC averages (Figure 2).

Figure 2: Governance in Tajikistan, 2008



Note: Top bar = Tajikistan; Bottom bar = Former Soviet Union

Note: Top bar = Tajikistan; Bottom bar = Low-income countries

Source: Kaufmann, Kraay, and Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008.

III. TAJIKISTAN'S DEVELOPMENT AGENDA AND PRIORITIES

A. National Development Agenda

28. **In 2005, Tajikistan adopted the NDS for 2006-2015.** The NDS aims to support the creation of a democratic and prosperous state where the benefits of political and economic development are available to the population as a whole. Key priorities include improving public administration, developing the private sector and attracting investment, and developing human potential.

29. **A follow-up PRS III for 2010-2012 presented a medium-term program to implement the NDS vision, building on the lessons learned under PRS II.** It builds on the overarching objective and strategic building blocks of the PRS II. The PRS III's overarching objective is to promote sustainable improvements in living standards, particularly of vulnerable groups. It maintains the three strategic programming blocks spelled out in the PRS II: (i) a *functional* block on public administration reform, macroeconomics, investment climate, private sector, regional cooperation and global economic integration; (ii) a *production* block on food security, agriculture, infrastructure, energy and industry; and (iii) a *social* block on health, education, water and sanitation, housing, and social welfare. It recognizes several crosscutting issues, including institutional reforms, demographic change, environmental management, and gender equality.

30. **The PRS III updates key reforms to support economic growth and poverty reduction.** Measures to improve governance in public administration and SOEs include reducing corruption at all levels of government, strengthening public procurement and financial management systems, and reducing involvement of the state in economic activities in order to promote private sector development. Strengthening Tajikistan's investment climate is seen as the key to stimulating growth, and the PRS III aims to achieve this goal by simplifying complex and non-transparent business regulations, strengthening property rights, and improving infrastructure services. Under the PRS III, the government plans to increase public spending on education and health in order to promote attainment of the MDGs. Financing reforms aim to improve the efficiency and equity of public spending, while structural reforms (targeting institutions, human resource management, and infrastructure) are expected to improve the quality of and access to public services over the medium- to long-term.

31. **The PRS III reflects lessons learned from implementation of the PRS II.** It presents a comprehensive description of how poverty analysis and monitoring will be strengthened over time. It responds to the need for post-crisis recovery and growth and outlines the measures being taken to accelerate structural reforms, including securing property rights and enhancing the business environment. It also discusses actions to improve public sector governance and public sector management, especially through reform of the public administration and pay system. The PRS II presents a clear process for costing, prioritizing and sequencing interventions, and aims to enhance the coordination of development partner support. Therefore, it is better prioritized by focusing on the energy sector and sustainable agricultural development.

32. **The Joint Staff Advisory Note (JSAN) suggests areas of improvement and notes that PRS III program remains ambitious in light of unidentified financing sources.** The JSAN suggests that the PRS III specify the priority programs that promote rural livelihoods and improve access of the poor to social services, thus reducing poverty. To ensure sustained economic growth over the medium-term, the PRS III should deepen structural reforms to improve the business climate and strengthen property rights. The JSAN notes that the energy sector strategy should provide an integrated framework that links energy development challenges with other critical poverty and growth challenges. It suggests that the government continued focus on human capital development to build on the gains of the past decade, improve mechanisms to protect vulnerable groups, and strengthen governance to ensure that resources are used to achieve lasting development results. Finally, the staffs recommend that the authorities either need to identify additional financing sources for their ambitious program or reprioritize further across different objectives.

33. **The PRS III provides an adequate framework for CPS support.** The ongoing global financial crisis has prompted the government to better prioritize the agenda in the context of an anti-crisis action plan. The plan aims to reinforce macroeconomic stability, maintain delivery of essential public services, and address vulnerabilities faced by the population. This action plan, combined with the unfinished PRS II agenda, form the basis for the PRS III. The CPS aligns its strategic objectives with those of the PRS III and will support the implementation of this action plan, monitoring the process and adjusting support as needed. IDA will focus on areas where it has a comparative advantage, complements activities carried out by other development partners, or involvement is requested by the government.

B. Key Economic and Social Priorities

34. **Tajikistan faces the economic crisis from a weak position, but amid the significant challenges ahead lie important opportunities to advance the development agenda during the next CPS period.** In order to unleash the potential of key assets such as land, water, and human capital, Tajikistan needs to deepen structural reforms and spur much needed private investment. As discussed above, however, the fiscal space available for such reforms is limited in the wake of falling remittances and revenues, and an increasing public debt burden. Macroeconomic management capacity is limited, and government credibility has suffered in the wake of governance missteps such as the NBT's misreporting of data to the IMF. In this context, the government will need to refocus its efforts on addressing critical near-term challenges: mitigating the negative impact of the crisis on poverty and vulnerability, and reducing the medium-term constraints to reaping the full benefits of a sustainable post-crisis recovery.

i. Reducing the negative impact of the crisis on poverty and vulnerability

35. **Building on its anti-crisis action plan, the government formulated a program for immediate economic stabilization and rationalization of public expenditure in April 2009.**¹¹ Maintaining prudent monetary and fiscal policies will be essential for macroeconomic stability, and these efforts will be guided by the macroeconomic framework agreed with the IMF under the ECF arrangement. Monetary policy will aim to maintain a competitive exchange rate and stabilize inflation to offer greater incentives for private investment. In particular, the authorities have committed to a flexible exchange rate while aiming to rebuild international reserves. On the fiscal side, while still committed to the deficit target of 0.5 percent of GDP, the government revised its budget in May 2009 to reflect downgraded revenue estimates. The revised budget followed three main principles: (i) ring-fencing social expenditure to maintain delivery of key public services such as education and health; (ii) prioritizing social assistance to vulnerable groups; and (iii) scaling back non-essential expenditure items including operation and maintenance spending. The capital spending on the rehabilitation of the construction site of a large hydropower plant at Rogun has been kept at the original budget level (US\$120 million) as it is considered a strategic development priority to achieve energy independence and provide a basis for growth and develop regional trade through hydroenergy exports within Central Asia and with South Asia.¹² Given that revenue collections and funding for budget support were better than expected, the macro-fiscal targets agreed with the IMF were met nearly fully with a small deficit in 2009.

36. **To ensure continued delivery of basic public services necessary for the poor during the crisis, the government is committed to protect social spending.** As agreed with the IMF, the ECF program includes an indicative target on the level of social spending. Towards this end, budgetary allocation for the education and health sectors were kept at the same level as that of 2008. This ensured that provisioning of public services by schools and health facilities are

¹¹ The Government of the Republic of Tajikistan. 2009. *Macroeconomic Policy Response to Financial Crisis*. Resolution #232 April.

¹² The hydropower plant at Rogun was started during Soviet times in the 1980s, but construction stalled in the early 1990s due to the breakup of the Soviet Union and the Tajik civil war. In 1993, the half-finished works were severely damaged by a major flood, causing serious loss of built assets. Since 2008, the government has been financing construction activities to restore the site to its pre-1993 status.

sustained during the crisis. Education and health personnel can continue serving the population as sufficient budgetary funds will be allocated for wages and salaries as well as some relevant recurrent expenditure. The government also agreed to track these expenditures and monitor their performance through the introduction of a Virtual Poverty Fund (VPF) with assistance from donors. However, actual spending on the social sectors increased in 2009 (43.6 percent of the total state budget excluding PIP and extra-budgetary fund, as compared to approved spending of 42 percent). The 2010 budget envisages an increase in social expenditures due in part to increased public sector wage for education and health personnel.

37. The government plans to strengthen the social protection system to reduce the vulnerability of the poor to future domestic and external shocks. Though poor people are especially at risk during social downturns, the social protection measures currently in place in Tajikistan are not adequate for effective crisis response as they are inefficiently designed, targeted, and administered. Implementation is fragmented and institutional capacity is limited. The anti-crisis program provides a small fiscal stimulus to generate employment, including priority measures such as unemployment benefits, skills training, micro-credit, and public works programs. Those unable to find employment following training can receive employment benefits for up to six months provided they have a recent employment history. Public works programs include mainly mini-hydropower and small road maintenance projects. The government is also working with donors to scale up food programs and to provide high quality wheat seeds and fertilizer to farmers in order to mitigate food insecurity. Quarterly surveys indicate that the economic crisis, coupled with recent increases in food prices, has had a visible impact on rural households in Tajikistan.¹³ More unemployment, fewer remittances, and even bankruptcies of small businesses have reduced access to food. Finally, the government is working with the European Commission (EC) and IDA to develop a social protection strategy encompassing: (i) a labor market and migrant strategy; (ii) targeting of social benefits and privileges; (iii) expansion and physical upgrading of care institutions; and (iv) capacity building in relevant public institutions.

38. The anti-crisis action plan aims to maintain the stability of the financial system by reducing its vulnerability to further deterioration of economic fundamentals. While Tajikistan's financial sector, primarily commercial banks, has not been affected directly by the global financial crisis, it has become more vulnerable on account of indirect linkages (for example, through trade credits). First, there has been an increase in the number of non-performing loans to cotton farmers,¹⁴ impairing banks' asset quality and lowering their capital and liquidity. Widespread loan defaults could turn into a banking crisis given low capital levels at the NBT, which limits its ability to implement effective monetary policy. Second, the rate of growth of foreign and local currency deposits have declined due to the slowdown in remittances and lower deposits from large corporate clients such as the Tajik Aluminum Company

¹³ World Food Program and Department for International Development, Food Security Bulletin, May 2009 and September 2009.

¹⁴ In 2008, the government extended TJS 140 million (US\$41 million) to selected commercial banks to on-lend to cotton farmers at capped interest rates (the credit represented 17 percent of total outstanding loans in 2008), with the banks bearing the credit risk. In 2009, the government allocated another TJS 180 million (US\$40 million) to the cotton sector. However, the cotton sector historically has a poor repayment record due to poor governance, which is now being exacerbated by lowered world demand and falling cotton prices.

(TALCO). A number of banks have experienced liquidity problems and have used the NBT's liquidity facility (with a lending volume of about Tajik somoni (TJS) 2 million (US\$0.4 million) for up to three months). Finally, a high degree of dollarization¹⁵ has increased the banking system's vulnerability to somoni depreciation, as many businesses that have borrowed in dollars have local currency revenues. To address these issues, the NBT has intensified banking supervision and developed contingency plans to deal with a potential collapse in confidence.

39. **The NBT's internal transparency, accountability, and banking supervision capacity will be improved to maintain the public's confidence in the banking system.** In December 2008, the NBT ceased its financing of the cotton sector and abolished cotton export licenses. In June 2009, the NBT approved an action plan in response to the findings of the special audit carried out under the SMP, and posted it on its webpage. During May-August 2009, with technical assistance (TA) from the WB, amendments to the Law on the National Bank of Tajikistan and a new Law on Banking Activities were passed by Parliament and signed into law by the President. The amended laws prohibit the NBT from engaging in direct lending, strengthen the independence of the Board of Directors, and will lead to stronger and more predictable supervision of banks. The NBT will require banks to apply modern governance and transparency principles, including the obligation to disclose beneficial shareholders. The role of the NBT's internal audit function is also being strengthened.

ii. Reducing constraints to a post-crisis recovery and sustained economic growth

40. **To achieve a post-crisis recovery and sustained growth, Tajikistan needs to expand the productive capacity of physical assets including land, water, and human capital.** Strong growth during the past decade has pushed Tajikistan close to its production possibility frontier. Without expanding this boundary, a post-crisis economic recovery may not be sustained over the medium-term. The solution is to reduce constraints to growth, an undertaking that will require Tajikistan to renew its commitment to deepening structural reforms that have been initiated. Private investment will follow once improvements have taken hold in the business environment at both the macroeconomic and business levels. The productive capacity of arable land, water, and labor—the main sources of growth in Tajikistan—must be significantly enhanced to increase the benefit from the country's comparative advantages. Fortunately, the country's water resources can be harnessed to provide hydropower for domestic use and for export to rapidly growing neighboring economies (such as Afghanistan, Pakistan, the Kyrgyz Republic and Uzbekistan). Human capital must not only be preserved but also enhanced in order to supply the private sector with healthy and skilled workers.

41. **A sound business environment will stimulate the private investment necessary to sustain growth over the medium term.** The government has recently taken steps to improve business and investment climate, as reflected in its place among the world's top ten reforming countries in *Doing Business 2010*.¹⁶ In July 2008, a presidential decree placed a two-year

¹⁵ At end-2008, deposits and loans denominated in dollars accounted for 67 and 56 percent of total deposits and loans of Tajik commercial banks.

¹⁶ Tajikistan ranked 152 out of 183 countries in the *Doing Business 2010*, up from 159 out of 181 countries in the 2009 survey. Areas of concern include starting a business (143rd), dealing with construction permits (177th), getting credit (176th), paying taxes (162nd), and trading across borders (179th). See: *Doing Business 2010: Reforming through Difficult Times*.

moratorium on inspections regulating SMEs, with some exceptions. In July 2009 the government launched the “200 days of reform” program, with the aim of improving the business environment and making the country more attractive to investors. With support from the EC, the government has introduced One-Stop Shop in 50 out of 68 tax inspectorates to simplify business registration process. The inadequate protection of property rights and inconsistent application of laws and regulations discourage private investment in Tajikistan. It should be noted that some external factors beyond the government’s control also hinder trade and growth in Tajikistan including difficulties in importing electricity and transit of goods through neighboring countries. Costs are high due to the unreliable supply of electricity, fragmented and poorly maintained infrastructure, time-consuming customs procedures, and labor skill shortages in some sectors. The cost of doing business is further increased by corruption and bribery. As a result of the poor investment climate combined with a low level of migrants’ income, remittances—a major source of incoming finance in Tajikistan—are generally spent on consumption or real estate rather than on private sector investment.

42. **Private sector growth and investment would also benefit from increased access to finance at a lower cost.** Tajikistan’s financial system is underdeveloped and has limited capacity to serve the investment needs of business. Weak governance, low transparency, and poor service quality in banks lower public confidence and limit deposits, thus raising the cost of funding. The legal framework is inadequate, and the capacity to implement and enforce applicable laws is weak. Legal and institutional arrangements for secured lending are particularly problematic, restricting the range of collateral that can be used to secure loans. The availability of diverse financial products and services catering to specific business needs is limited, especially in rural areas. Further, high interest rate spreads, short loan duration, widespread reliance on insider/related lending, and low branch density discourage the private sector from seeking financing from the banking sector. The insurance sector is undeveloped and operates within a weak regulatory and supervisory framework. To address some of these weaknesses, the government has begun to implement the recommendations of the Financial Sector Assessment Program (FSAP) with support from the Bank Group and IMF. Measures undertaken include adoption of new legislation and development of a financial sector strategy.

43. **Agriculture reform will be critical to enhancing Tajikistan’s productive capacity and reducing poverty in rural areas.** Good progress has been made in wheat production following the government’s use of IDA support to import and supply drought-tolerant and rust-resistant varieties of wheat seeds to compensate for the limited capacity of the domestic seed industry. Recently, the government has taken concrete actions to reduce its intervention in production as well as to resolve the cotton farm debt that hinders agricultural growth. In the wake of the crisis, the government has been working steadily with donors to develop a broad-based reform program and measures to remove policy distortions, strengthen land rights, and increase competition among ginners and investors. A Presidential Decree for cotton debt resolution was promulgated and a government resolution and an action plan to resolve the cotton debt and reform the agriculture sector was approved (Box 2). The action plan will serve as the platform for developing and implementing agrarian reforms to ensure freedom to farm, accelerate efforts to ensure proper land titling, improve farmers’ access to finance and collateral practices, and increase returns to farmers and cotton sector recovery. The government is also committed to supporting sustainable agricultural development in the non-cotton sub-sector, including irrigation and drainage infrastructure and institutions, rural finance services, and farm

input markets. This is because non-cotton sector products from household plots, especially staple food commodities (cereals, meat, milk, vegetables, and potatoes) have recently emerged as a main driver of agricultural growth for the immediate future. They are relatively low cost commodities to produce, have significant potential to raise the current level of productivity, and can be readily sold in domestic markets. Going forward, the Bank will support the government in the implementation of the action plan together with the strategy to strengthen the non-cotton sub-sector.

44. **The government is planning to take on a new agenda to strengthen natural disaster risk management, weather forecasting, and climate change adaptation to reduce vulnerability and thus increase agricultural output.** Because of its geography, topography and climate, Tajikistan is regularly affected by natural disasters such as floods, mudflows, landslides, avalanches, earthquakes, droughts and epidemics. Climate change is expected to exacerbate natural disasters associated with hydro-meteorological conditions, with associated damages affecting the rural economy disproportionately. The government recognizes that reducing environmental disaster risks is key to mitigating macroeconomic risks and improving welfare.

Box 2: Progress in Addressing Constraints to Expanding Agricultural Capacity in Tajikistan

The agriculture sector is composed of two sub-sectors, each of which is regulated by its own policy framework. The cotton sector accounts for 65 percent of arable land and 75 percent of irrigated arable land but only about 9 percent of agriculture value added. The policy framework for the non-cotton sector is more open, but government support is minimal. Recent trends are instructive: the cotton sector has performed poorly and cotton producers are the poorest and most food-insecure people in rural areas, while the non-cotton sector has grown steadily. The government is working to expand agricultural capacity by resolving the cotton farm debt, reducing government intervention, encouraging financing decision by farmers, and improving the security of land tenure.

The government is actively implementing policy reform to address the underlying structural problems in the cotton sector. A small group of powerful cotton financiers had required farmers' to provide raw cotton at low prices in return for financing. Local government authorities facilitated this system by coercing farmers to grow cotton rather than other crops, and by minimizing the competition faced by favored cotton investors. The local and regional monopsonies thus created have stifled competition in the sector, decreased farm profitability, reduced producer incentives to raise output, inhibited the growth of alternative sources of rural finance, and slowed the development of alternative markets for farm inputs and cotton output. As a result, cotton production has declined markedly since 2004, and returns to farmers have fallen. Overdue (internal) farmer debt to investors has grown to an alleged US\$ 435 million. The government's attempt to sustain this system by facilitating investor access to external credit through the NBT culminated in the current "external" debt crisis. The government and donors are working steadily to remove policy distortions, strengthen land rights, and increase competition among ginners and investors - as the basis for increasing returns to farmers and fostering cotton sector recovery.

The farm debt write-off will enable farmers to borrow from commercial banks as they would no longer be indebted to investors. In line with the commitments made under the IMF's new Extended Credit Facility (ECF) program, the government has recently approved an action plan to write off the debt owed by farmers to cotton ginners ("investors") and commercial banks. Investors who obtained finance through the government-backed scheme will be obliged to take this loss in full. Non-cotton loans made by investors will be repaid to the NBT at concessional rates. The farm debt owed by farmers to cotton ginners ("investors") and commercial banks will be assumed by the government after debt-restructuring. Within the next six months each individual farmer will be issued a certificate that states that he is free from any debt.

The disclosure of the IMF misreporting sheds light on the unsustainability of existing state financing of the cotton sector, underscoring the need for alternative financing mechanisms. The NBT ceased to fund private sector cotton investors in 2008, and cotton export licensing was abolished. The government introduced a temporary and *ad hoc* cotton financing mechanism through which it extends domestic credit financed by the budget to commercial banks to on-lend to cotton farmers. These credits amounted to 140 and 180 million *somoni* in 2008 and 2009, respectively. The new mechanism raises concerns about fiscal burden and risk to the banking system, so the government with donor support is now implementing a private financing mechanism through which commercial banks extend credit to farmers based on their profitability (Tajikistan's Agricultural Finance Facility) as supported by EBRD and the Bank Group.

The government's cotton sector interventions have declined gradually and competition has increased. The government traditionally intervened in agricultural production by enforcing cotton production targets and confiscating land that was used "irrationally." These restrictions made it difficult for farmers to switch production out of cotton into more profitable agricultural activities, thus inhibiting agricultural growth. In response, has begun implementing a Cotton Farm Debt Resolution and Action Plan (Decree 111 and Decree 312) to assure the right of farmers to use their land as they choose ("freedom to farm") and has established open competition among the processors and exporters who buy the harvest. Competition has increased, with the market share of the largest five cotton investors falling dramatically and 75 investors exporting about 60 percent of cotton fiber. A 2009 farm survey found that local government intervention in cropping decisions has decreased steadily, especially in the Khatlon region.

Land certificates are being issued at a faster pace to increase farmers' access to land. Since the beginning of 2009, the number of properly registered collective *dehqon* farms has grown to 41,093, almost double the number in 2005 (23,322). Land use choices are still constrained, however, as is the transfer of land through sale. Lease and mortgage practices are underdeveloped and convoluted. Together, these factors prevent farmers from choosing crops based on market forces and managing land sustainably. Farm restructuring is needed to strengthen farmer independence, but this has been delayed by political and technical constraints, especially in cotton-growing areas.

45. **Improving energy sector performance is a priority for sustainable economic growth.** Tajikistan's hydropower potential is estimated at about 140 GW with an annual generation capacity of 527 TWh, of which only 5 percent is developed. The country's domestic energy consumption is therefore met quasi totally by hydropower which represents 97 percent of the electricity production. About one-third of the electricity is consumed by the aluminum company TALCO, which has key importance for socio-economic development of the country. The energy infrastructure inherited from the Soviet era is deteriorating rapidly and costly to maintain. Low tariffs and blanket subsidization of power prices contribute to waste of electricity and fail even to cover operation and maintenance costs further contributing to the deterioration of the antiquated assets. Moreover, the energy system is also affected by high technical losses. Corporate governance among energy SOEs (Barki Tajik and Tajiktransgas) has improved in the last few years but remains weak due to low institutional capacity and by slow progress in improving transparency and accountability in financial management and operation.

46. **The increased dependence on hydropower after the breakup of the Soviet Union led to increased vulnerability of the system owing to the seasonal variability of water flows.** Tajik authorities estimated that generation deficit during winter months is in the range of 2.5 to 3 TWh (about 20 to 23 percent of the total electricity consumption in 2008) and the generation in excess of domestic demand in the summer is about 2.5 TWh because reservoirs are managed to meet irrigation needs of downstream neighbors, according to water sharing agreements dating back to the Soviet era. The country faced severe energy shortages during the past few years due to the collapse of the previous working mechanism for water and energy exchange. The recent disconnection of the Tajik power system from the Central Asia Power System (CAPS) will likely increase the vulnerability of the fragile and now weakened power system.

47. **The 2007 power sector strategy developed by the Government of Tajikistan aims to ensure reliable electricity supply to meet the needs of the population and productive sectors to sustain growth and contribute to poverty reduction.** The target is to become self-reliant by the year 2017 and gradually develop power exports and strengthen regional cooperation to increase electricity export revenues and generate a new source of growth. The three pronged strategy focuses on:

- Reducing energy waste and rationalizing demand. Actions taken to date include significant tariff increases (an increase of about 250 percent from 2007 to late 2009) – even though sales prices remain well below costs of supply. Under the First Phase of the Energy Loss Reduction Project the following works have been performed: installation of electric meters, cabling, the replacement of transformers which resulted in significant increase of payments, and implementation of some measures to optimize and increase functionality of Dushanbe distribution network. There has also been extensive deployment of compact fluorescent lamps (CFLs) to reduce lighting peak loads.
- Rehabilitating and modernizing existing assets to increase electricity supply. After the completion of the Sangtuda I and II, several small hydropower plants are being constructed and planned, the rehabilitation of key hydropower facilities built during the Soviet era are being evaluated, and the rehabilitation of the underground work of the Rogun hydropower plant has been initiated.

- Attracting private and donor funding to develop hydropower and regional transmission infrastructure to develop export markets and generate stable revenues that would contribute sustained growth.
- Prioritizing construction of transmission lines for their connection to the national grid (about 300 km), including PTL 500 kV Dushanbe–Sangtuda I, enhancing the national dispatch center with SCADA, and construction of PTL 220 kV Khujand-Aini with substations.

48. **Rehabilitation of Rogun Hydro Power Plant has resumed since 2008.** The construction of the Rogun HPP is of the highest strategic importance to address Tajikistan’s energy deficit and thus lay the foundation for future growth and poverty reduction through employment generation. Work on the project, which was initiated in 1983 and substantially damaged by a flood in 1993, was resumed in 2008 with a view to rehabilitate the project site to its pre-1993 status and to commission the first two turbines by 2014. The government has recently established Rogun Open Joint Stock Company (Rogun OJSC) with an authorized capital of SM 6 billion that will be state owned for 75 percent. The remaining 25 percent of the shares (SM 1.5 billion) is currently being sold to the public that so far has contributed SM 800 million (USD 180 million). The government’s share will be paid for by budget transfers throughout the construction contingent to the preparation of a sound financial plan. Recently, the government has reached an agreement with the IMF in the context of the ongoing ECF to suspend public campaign for share sale to the population. Further share sale will be reassessed against the financing options of the country and the outcome of the WB economic and social and environmental studies. To ensure full transparency and a strong governance structure for the Rogun project, the government is planning to set up a supervisory board to oversee all financial aspects of the Rogun OJSC. It will publish regularly report to the public about the sources and uses of funds, including detailed information on the contractors hired by Rogun OJSC, their ownership structure, and the bidding process used to award all contracts.

49. **As part of its efforts to meet health care MDGs, the government intends to improve access to safe water.** Evidence shows that a high rate of infant mortality is highly correlated with limited access to safe water.¹⁷ According to the 2007 TLSS, 38 percent of respondents rely mainly on lakes, streams, rivers, or unprotected wells for drinking water, especially in rural areas. Given high rates of contamination among these water sources, this situation compromises health outcomes through high risk of gastric illness, cholera, and typhoid. Coverage of water supply services is reported to be 59 percent nationwide (93 percent in urban areas and 47 percent in rural areas). Service hours in urban areas have declined, and bacteriological water quality is no longer safe. In rural areas, many systems are inoperative due to the lack of maintenance and trained operators. Piped wastewater collection reaches about 15 percent of the population (44 percent in urban areas and 3 percent in rural areas), reflecting very little improvement over the past two decades. Many wastewater treatment plants operate at reduced capacity, which lowers treatment efficiency. To meet its MDG targets by 2015, Tajikistan would need to increase coverage of safe water supply services to 79 percent of the total population—a target that is made even more difficult to reach by high population growth rates. With the support of the Bank and other development partners (the European Bank for Reconstruction and Development

¹⁷ The World Bank. May 2009. “Multi-sectoral Determinants of Child Mortality in Tajikistan.” Unpublished draft.

(EBRD) and the Kreditanstalt für Wiederaufbau – Entwicklungsbank (KfW Development Bank)), the government is in the process of rehabilitating the water supply and sewage system in the main urban areas.

50. **Strengthening Tajikistan’s stock of human capital will be a significant challenge with important implications for medium-term growth.** Insufficient and inequitable allocation of public resources to the education and health sectors, together with the exodus of workers overseas due to limited job opportunities and low wages, has contributed to an acute skill shortage in the country and thus to a lowering of productive capacity and support for private sector growth. The government’s anti-crisis action plan includes a small training program for returned migrants as well as a small public works program to create jobs. The government is committed to increasing social spending in order to maintain poor people’s access to basic social services in a time of crisis and to deepening institutional and policy reforms in the social sectors in order to strengthen human capital.

IV. WORLD BANK GROUP ENGAGEMENT

A. Bank Group Track Record

i. Portfolio performance

51. **The size of the Bank’s portfolio has remained stable over the last four years, with the agriculture, energy, and water supply infrastructure sectors receiving almost 70 percent of total financing.** During FY06-09, the portfolio included an average of 15 investment projects and one development policy operation (DPO) each year. At the end of FY09, the portfolio consisted of 16 investments, with commitments amounting to US\$187.5 million, of which about US\$102 million were grants (IDA, Global Environment Facility (GEF), and trust funds). About 60 percent of outstanding commitments have been disbursed. An Emergency Food Crisis Grant of US\$5 million and a DPO of US\$20 million were fully disbursed in FY09. The average portfolio age is 4.1 years. The largest share of the portfolio is in agriculture (31 percent), followed by energy and water supply infrastructure (20 percent each), education (16 percent), health (8 percent), and public sector (5 percent). Ongoing IDA operations in education and agriculture are complemented by two stand-alone projects financed out of Bank-administered trust funds for a total of US\$23.4 million.¹⁸ Trust funds form an important part of the Bank’s Tajikistan portfolio, amounting to US\$60.4 million in active commitments. Sectors of focus include health, education, food security, private and financial sector development, agriculture, and energy.

52. **The pace of IDA financing has picked up, and portfolio risks have been mitigated.** The financing of the previous CPS has included both grants and loans, as the debt sustainability outlook changed during the CPS period. The disbursement ratio increased from about 18 percent during FY07-08 to 40 percent at the end of FY09, the highest in the ECA region (for which the average is 16.6 percent). In tandem with the acceleration of project implementation,

¹⁸ These include the Education for All Fast-Track Initiative (EFA-FTI, US\$18.4 million) and the fully disbursed Food Security and Seeds Import Project (US\$5 million) financed out of the Food Price Crisis Trust Fund.