

(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.

commitments at risk intensified from 5.6 percent in FY07 to 28.5 percent in FY09. The rising number of problem projects was largely attributed to difficulties in implementing project-related structural reforms and slow progress in building implementation capacity. Thanks to regular Country Portfolio Performance Reviews (CPPR), the 2008 Country Portfolio Fiduciary Review (CPFR) and close monitoring by the country team, problems have been addressed within 12 months and non-performing projects were restructured before the end of FY09.¹⁹

53. Since 2004, Country Portfolio Performance Reviews (CPPRs) have been carried out with the Asian Development Bank (ADB) and joint action plans have been implemented.²⁰

The most recent joint portfolio review (December 2009) focused mainly on improving the implementation of ongoing operations and ensuring development impact and sustainability of the Bank's operations. The review recommended the following: (i) strengthening the capacity of implementing agencies, especially procurement, financial management, and monitoring and evaluation; and (ii) ensuring retention of capacities in the implementing agencies with a view to enable line ministries to implement projects in the long term and ensure sustainability of the Bank's operations.

54. The 2008 CPFR revealed that the great majority of Bank-financed projects were being managed satisfactorily. However, a number of deficiencies were noted in physical inspections of civil works in nine projects, which is an area that has not received adequate attention during project supervision. The review also highlighted weaknesses in contract management, systems and procedures, staff capacity, and understanding of Bank requirements and procedures for procurement, disbursement, and financial management. It was noted that capacity in PIUs was generally stronger, as these units were able to attract better-qualified and more experienced staff. On the other hand, projects implemented directly by recipient agencies faced greater capacity constraints and lower performance standards. Addressing these weaknesses in project implementing agencies will be a priority during the CPS period. In addition, as Tajikistan's overall governance environment continues to pose risks to the effectiveness of Bank operations, the CPS program will work to manage country-level fiduciary risks and improve transparency in public financial management. At the project level, the Bank will mitigate these risks through implementation of the newly developed CGAC strategy (Annex 3), including through the use of a Governance Checklist to ensure that fiduciary and other governance considerations are integrated into program design and supervision.

55. IDA will regularly monitor its portfolio through follow-up fiduciary reviews, and procurement and financial management training will be provided to the PIUs. Efforts will also be made to manage fiduciary risks in trust-funded activities, including by better integrating PIUs and implementing agencies, strengthening supervision, and ensuring that these activities do not overwhelm limited administrative capacity.

¹⁹ The pro-activity index at the beginning of FY10 is 100 percent, which means that within 12 months after a project was rated unsatisfactory, appropriate action was taken. In FY2008, problem projects were Land Cadastre, Dushanbe Water Supply, and Cotton Sector Recovery. Potential problem projects were Avian Flu Risk Mitigation and Energy Emergency. The Dushanbe Water Supply, Land Cadastre projects, and Avian Flu were restructured in June, July, and December 2009, respectively. The Cotton Sector Recovery was restructured in March 2010.

²⁰ Implementation of the detailed action plan developed jointly by the Government of Tajikistan, ADB and WB (approved in December 2008) is being monitored closely and serves as the basis for tracking performance of the ongoing portfolio.

56. **IFC's investment and advisory services portfolio has continued to expand, with strong results.** In FY05-09, IFC invested a total of US\$32.0 million in ten projects. Of this amount, US\$23.0 million was in 8 projects in the financial sector, including US\$6.3 million for microfinance. In addition, IFC approved US\$2.5 million trade finance to Eskhata Bank under its Global Trade Finance Facility. In the real sectors, IFC invested US\$9 million in two projects in the energy and hotel sectors. IFC commitments grew strongly in recent years, reaching around US\$16 million in both FY08 and FY09 (from less than US\$1 million in previous years). Investment projects have provided access to finance for micro, small and medium enterprises (MSMEs); strengthened access to electricity in remote areas; and created jobs. Advisory Services (AS) spending has grown to nearly US\$3 million annually, with demonstrable results in the financial sector and policy arenas. The Tajikistan leasing portfolio across all financial institutions grew by 860 percent from 2006 to 2008, reaching US\$21.7 million. AS projects made significant contributions to the passage of the Inspections Law, Mortgage Law, and Credit History Law, and implementation of simplified taxation mechanisms. IFC manages US\$11.8 million in active trust fund commitments, focusing on the business enabling environment, SMEs, banking, microfinance, and agricultural finance.

57. **IFC's engagement in Tajikistan is limited by the size of potential investments and high levels of public ownership and control of private sector enterprises, but combining investment and AS is addressing these challenges.** IFC's global expertise, together with a significant local and regional presence, is a strong formula for results in an IDA country such as Tajikistan. Business environment reforms take several years of advisory and implementation assistance to show results. For example, after many years of working on inspection reforms, the Business Enabling Environment Bank (BEE) project is finally beginning to produce concrete results for businesses. Similarly, success on the Leasing and Mortgage Laws has or is expected to pave the way for expansion of these markets. On the other hand, with a relatively undeveloped manufacturing and industrial base, investment and AS in the real sectors is a continuing challenge.

ii. Implementation of the last CPS

58. **Implementation of the CPS program for FY06-09 has proceeded largely on track, albeit with some delays.** The mix of investment and development policy operations has been consistent with the CPS, though the program has been modified at the margin based on government requests and emerging needs. For example, given strong progress on poverty reduction, the government felt that another poverty alleviation operation was unnecessary and Poverty Alleviation III was cancelled. Instead, additional financing was provided to three existing operations (Community and Basic Health Project (CBHP), Pamir Private Energy, and Dushanbe Water Supply). In 2008 three new emergency projects were launched in response to the energy and food crises: the Energy Emergency Recovery financed out of unallocated IDA14 and the Emergency Food Security and Seed Imports and additional financing to CBHP financed by the Food Price Crisis Trust Fund. Preparation and delivery of some operations (treasury modernization, sector-wide approach (SWAp) for education) took longer than expected due to operational complexities, donor coordination delays, and government capacity limitations. The Health SWAp under preparation was postponed due to limited IDA funding, and half the allocation envisioned in the previous CPS was reallocated as additional financing for the CBHP in 2009.

59. **A series of Programmatic Development Policy Grants (PDPG) drove policy dialogue with the government and helped coordinate implementation of the CPS program.** As such, the PDPG contributed to the achievement of a significant share of CPS results in coordination with IDA sector departments, IFC, and other development partners. Its agenda was broad, touching on all of the core areas of the CPS, including private sector development, agriculture, energy, education and health services, public sector reform, and public financial management. PDPG implementation was most successful in areas that benefited from strong government ownership, complementary technical assistance, consensus among development partners on the way forward and long-term engagement on the part of the Bank Group.²¹ Drawing from this experience, continued PDPG implementation is expected to help deepen progress on the country's ongoing reform agenda and to support reforms in emerging areas.

60. **Analytical and advisory activities (AAA) have helped understand and demonstrate the benefits of reform in areas where there is limited buy-in from the authorities.** A policy note on aviation paved the way for Bank Group engagement on removing constraints to accessing Tajikistan by air. The 2007 and 2008 Programmatic Public Expenditure Reviews (PPERs) have underpinned coordination with other donors working in the social sectors (education, health, and social protection) and thus helped improve public service delivery by strengthening linkages between sector policies and budgeting. A Poverty Assessment and subsequent update, based on the 2007 TLSS, have shed light on the nature and extent of poverty in Tajikistan, helping to target assistance programs to those most in need—particularly in the context of the ongoing crisis. The effectiveness of some AAA has been constrained, however, by delays in delivery and uptake due to weak planning on the part of the Bank team.

61. **Though many of the results anticipated in the CPS have been achieved, it has become clear that some objectives were somewhat ambitious given limited capacity and weak government commitment to structural reforms in Tajikistan.** The impact of the first pillar—fostering broad-based growth in urban and rural areas—has been moderate, with some progress in improving the business climate and enhancing access to finance. The gains that have been made are at risk due to the global crisis and the government's policy of financing the cotton sector through banks. Agricultural reforms remain incomplete, though cotton-grading standards have been introduced and the practice of cotton exports licensing by the NBT has been eliminated. Objectives under the second pillar—preserving and enhancing the quality of health and education—have been met for the most part. School attendance and completion rates, and provision of health services have improved in regions where the Bank has provided support. In the health sector, however, high out-of-pocket payments, combined with increasing hardship as a result of the economic crisis, have caused utilization of health services in project areas to decline. Access to clean water has improved in Dushanbe, but preliminary data suggest that overall access has not changed since 2003. Objectives under the third pillar—improving delivery of energy services and exploiting the country's hydropower potential—were partially achieved. The poor quality of energy supplies for the domestic market and weak corporate governance in the energy and water sectors continues to constrain production. Though good progress has been

²¹ An Implementation Completion and Results Report (ICRR) for the Tajikistan PDPG is under preparation and will provide a thorough assessment of the program's contribution to the country's reform agenda in a difficult environment.

made in developing a regional energy market, further large hydropower investments will be required together with regional diplomatic initiatives to address geopolitical concerns.

62. CPS interventions to improve governance and state capacity were below expectations. The CPS emphasized governance and capacity building as crosscutting themes, but interventions were limited to working with the central government. Some progress has been made, in particular on civil service wage reform and recruitment, adoption of a public financial management strategy, and promulgation of a new procurement law. Progress on public sector restructuring has been less noticeable given the lack of an appropriate counterpart for the overhaul that was envisaged. In general, the impact of the CPS program on the broader governance picture in Tajikistan has been minimal.

63. The main lesson learned from CPS implementation is not to overburden an administration that suffers from poor capacity in planning, coordination, and execution with an ambitious agenda. Moderate realism in program design, combined with strict prioritization, can go a long way in ensuring the prompt delivery of results. A selective approach helps to scale down overambitious goals, manage expectations, identify sources of risk, and provide effective, appropriate capacity building support. While additional legal amendments in selected areas will continue to be necessary, the next strategy should focus on implementing the laws and strategies already in place, and, when trying to arrive at new institutional frameworks, draw first on experimentation and dialogue rather than imposing new designs before attaining sufficient understanding and buy-in from the authorities.

64. The CPS Completion Report (Annex 5) completed in October 2009 provides strategic and operational recommendations for the preparation of a new CPS. While both the CPS agenda and the government's 2007 PRS remain valid, the current global crisis has added new urgencies that must be addressed within a long-term framework to prevent the recurrence of slippages that took place over the last four years. Strategically, the CPSCR recommends that the new CPS review the relevance and adequacy of ongoing operations and focus on achieving realistic results in the context of current economic challenges and the country's capacity to meet them. The new CPS should thus aim to help Tajikistan develop the capacity to address shocks, rebuild credibility and strengthen governance, increase energy potential, enable private sector development, and consolidate fragile gains in health and education by further strengthening the relevant ministries and scaling up successful pilot initiatives. Operationally, the CPSCR recommends that the new CPS pursue greater selectivity; embed the capacity development and governance agendas fully into sector work and, where necessary, assess ownership and commitment capacity through political economy analysis; retain the mix of budget support and investment operations; disseminate the results of AAA to generate broad public understanding of and support for reforms; and adopt a gradual approach to harmonization among development partners in order to improve implementation performance and reduce costs. The CPS experience shows that reforms can be achieved under a program that is well targeted with well-defined outcomes, and that is underpinned by solid AAA, TA, and sufficient time and resources dedicated to policy dialogue and capacity development.

B. Proposed WBG Strategy

i. CPS objectives

65. **In line with government priorities and the lessons learned through past implementation, the CPS is designed to focus on two objectives:** (i) *reducing the negative impact of the crisis on poverty and vulnerability*; and (ii) *paving the way for post-crisis recovery and sustained development*. In order to support sustainable progress toward these objectives, efforts to improve core governance will be tackled directly and also mainstreamed across the CPS program within the context of the CGAC strategy (Annex 3). Attention to capacity development and gender equality will be mainstreamed across sectors and projects.

66. **The CPS will rely on a mix of instruments, including the continuation of the PDPG series, investment activities, and targeted AAA.** Selectivity within and across sectors, and according to the Bank Group's comparative advantage in relation to other development partners, will be critical given the limited resources available. The indicative IDA15 allocation for Tajikistan is projected to be about US\$86.6 million (SDR 55.9 million), about 13 percent lower, in absolute terms, than under IDA14 (SDR 64.6 million). About US\$30 million of the IDA15 envelope was allocated in FY09 to implementation of the CPS for FY06-09. The remaining allocation (about US\$57 million) will finance the first two years of the CPS. More than half the IDA15 allocation will support the PDPG, and the remainder will be distributed across investment activities. Trust funds, which will almost match the IDA allocation in FY10-11, will continue to play an important role in supporting the CPS program. In addition to these resources, Tajikistan will receive additional funding equivalent to US\$23.4 million (SDR 15.3 million) in FY10 from the IDA Crisis Window to address the impacts of the global crisis and it may be eligible to access IDA regional funds and IBRD enclave loans for economically viable infrastructure.

ii. Expected CPS results

67. **The expected results of the proposed CPS program are listed in Table 3 below.**

Table 3: Summary of Expected Results from CPS Implementation

CPS Objectives	Expected Results
Reduce the negative impact of the crisis on poverty and vulnerability	1. Maintain fiscal stability 2. Maintain access to critical public services 3. Reduce risk for vulnerable groups through enhanced social protection
Pave the way for post-crisis recovery and sustained development	4. Strengthen the business-enabling environment 5. Improve conditions for a sustainable increase in agricultural productivity 6. Improve reliability and efficiency of electricity and gas services and increase energy export potential 7. Improve the provision of safe water in Dushanbe and selected municipalities 8. Strengthen the quality of public services to enhance human capital potential
Mainstream core governance reforms	9. Strengthen incentives for better performance of civil servants 10. Improve transparency and accountability in public financial management

68. **Governance reforms cut across the entire CPS program.** The Bank Group’s governance interventions will take three forms: (i) transparency and accountability measures; (ii) capacity development; and (iii) supporting demand for good governance. These interventions will be carried out at the country, sector, and project levels. This approach to “mainstreaming” governance reform has been developed in response to lessons learned under the previous CPS, where efforts to address governance were restricted to the central government level and not well integrated into sector approaches or individual program design. Mainstreaming does not mean abandoning central-level governance reforms, but complementing them with an equal emphasis on sector- and project-level interventions. While core governance initiatives such as public sector reform and public financial management will be tackled directly at the country level, Bank support to governance reforms at the sector level will be mainstreamed across all expected CPS results with heightened attention to priority areas (private and financial sector development, agriculture, and energy). At the project level, the Bank will apply a Governance Checklist to all new projects and additional financing throughout the project cycle in order to ensure that project design helps strengthen transparency, accountability, capacity, and demand for good governance, while safeguarding against political economy and fiduciary risks.

Objective I: Reduce the negative impact of the crisis on poverty and vulnerability

69. **Result 1: Maintain macroeconomic stability.** Macroeconomic stability is a prerequisite for both short-term economic viability and medium-term recovery. The CPS program, jointly with the IMF’s ECF, will help Tajikistan develop and maintain a positive track record of stable macroeconomic management to bolster investor confidence in the economy’s potential. The CPS will provide financial support and TA on fiscal and expenditure management to help the country address the ongoing economic crisis in the context of limited fiscal space and without harming its debt sustainability. This will contribute to strengthening governance by supporting the development of central government capacity to transparently manage its finances. IFC will contribute to macroeconomic stability through direct investment in the real economy, as well as through investments in financial institutions to expand access to finance for MSMEs in order to help maintain and create jobs, support trade finance, and attract further foreign investment, thus creating demonstration effects for other investors.

70. **Result 2: Maintain access to critical public services.** There is an urgent need to ensure that access to education and health services is preserved during the economic crisis, especially for the poorest segments of the population. Through the PDPG, IDA will provide budget support to help the government protect pro-poor spending in the education and health sectors, focusing resources on the most critical areas of basic and general education and primary health care (PHC). The Education Modernization project and the Education for All-Fast Track Initiative Catalytic Fund (EFA-FTI CF) are helping to maintain access to education through the rehabilitation of school infrastructure, provision of higher-quality equipment and textbooks, upgrading of personnel capacity, improvement of management capacity, and strengthening of education spending efficiency. Additional financing provided to the CBHP will scale up efforts to introduce capitation and output-based payments for PHC, building on reforms financed by the United States Agency for International Development (USAID). In addition, the project will rehabilitate PHC facilities in selected areas and expand training of doctors and nurses. Efforts to

improve the efficiency and transparency of spending on education and health will also support the governance agenda.

71. **Result 3: Reduce risk for vulnerable groups through enhanced social protection.** To mitigate the vulnerability of poor people during the crisis, the CPS will support efforts to reduce food insecurity, create short-term employment opportunities, and strengthen management of the social protection system. To support the immediate food security of the poorest farmers and female-headed households and help these groups recover production losses, IDA will allocate additional financing to the Food Security and Seed Import project to provide inputs needed for agricultural production and livestock management. The Second Community Agriculture and Watershed Management project will help provide rural people in uplands (non-cotton growing) areas with investment capital and skills needed to increase agricultural yields. The CPS will also support activities to generate jobs and income, especially in rural areas. Additional financing provided to the Ferghana Valley Water Resources Management project and a new Emergency Employment program, financed by the EC and administered by IDA, will support rehabilitation of irrigation and drainage systems, thus creating short-term employment in key areas of the country. In addition, it will support the development, adoption, and implementation of an integrated policy and institutional reforms necessary for the effective management of the country's water resources through strengthening the linkages between the agriculture development and water resource management strategies to ensure sustainable and environmentally friendly development. Finally, IDA will provide TA to improve targeting and administration of the safety net system as a whole, and to strengthen administration and capacity for pension policymaking. The TA will be designed to complement PDPG support for the development of a methodology for effectively targeting social assistance. IDA will also collaborate with the EC to assist the government in developing and implementing a social protection strategy. Efforts to increase coverage and reduce leakage in social protection benefits will bolster governance reforms.

Objective II: Pave the way for post-crisis recovery and sustained development

72. **Result 4: Strengthen the business-enabling environment.** The Bank Group will continue to support government initiatives to improve Tajikistan's *Doing Business* ranking. The IFC's BEE project seeks to reduce administrative barriers in inspections and permits and to lower tax compliance costs by simplifying tax administration. The IFC BEE project is working with the government to significantly reduce the number of permits applied to businesses through a quick review methodology, generating cost savings for the private sector and setting the groundwork for Regulatory Impact Assessment in Tajikistan. Through its Agri-Finance and Business Environment program, IFC will help strengthen the regulatory framework for private investment, improve access to finance for agri-business via investments in financial institutions (banks and microfinance institutions), and support leasing development. The project will work with financial institutions to build capacity to evaluate credit for medium-term leasing and equipment finance products, resulting in improved access to finance and equipment for agribusiness to improve productivity. Governance reforms related to private sector regulation are critical to fostering private sector growth and employment creation. The IFC infrastructure advisory service's assistance in conducting an international tender for the exploration and development of the Bolshoi Konimansur silver deposits is intended to have demonstration effects

for the transparency of the broader international tender process, thus helping to attract the foreign investment needed for large infrastructure projects. IDA will work with other development partners to strengthen the capacity of the State Property and Investment Committee through ongoing TA. IDA will also work - in collaboration with the UK DFID and the Doing Business Reform Advisory Team - with the relevant Tajik institutions to simplify business start-up, construction permits, property registration, and border trading procedures that are instrumental for private sector development in Tajikistan. IDA will also work with the relevant institutions to simplify construction permits, property registration, and border trading procedures that are instrumental for private sector development in Tajikistan. The multi-year PDPG will provide the framework for policy dialogue to push these reforms forward.²² IDA will also explore the growth potential of the mining sector, conducting a mining institutional assessment through a grant from the Institutional Development Fund, reviewing the mining law, and undertaking in-depth mining sector reforms under the PDPG.

73. **In the financial sector, the immediate priority is to strengthen governance of the NBT by increasing its capacity and restoring its credibility in full.** Through a grant from the Financial Sector Reform and Strengthening (FIRST) Initiative, IDA will continue to provide TA to help improve financial stability and strengthen access to financial services; IDA may also support a project on strengthening access to finance, if warranted on the basis of a planned rural investment climate assessment (RICA).²³ IDA will help the authorities finalize and implement a medium-term financial sector development strategy and action plan, drawing upon the recommendations of the 2008 FSAP and focusing on sustained improvements in the legal and institutional framework. IFC will provide investment funds, including debt, equity, and trade finance to financial and microfinance institutions. IFC will provide AS on financial risk management, credit management, and development of a private credit bureau. Over the medium term, IFC will work with the government to expand secure access to finance for individual consumers and MSMEs under the Azerbaijan and Central Asia Financial Markets Infrastructure project and Microfinance Transformation project. The Azerbaijan and Central Asia Financial Markets Infrastructure Project will increase the availability and use of credit information for financial institutions to evaluate borrowers; the Microfinance Transformation Project works with microfinance institutions that are existing or potential IFC investment clients to expand deposits and the range of financial services, leading to increased ability of microfinance institutions to raise funds in the market.

74. **Result 5: Improve conditions for a sustainable increase in agricultural productivity.** The recent government resolution to resolve the outstanding cotton debt and enhance freedom to farm will help enable the realization of agricultural sector potential. These initiatives will also support efforts to lower rural poverty because cotton producers—particularly in the Khatlon and Sogd regions—are the poorest and most food insecure people in rural areas. The CPS will support efforts to develop a sustainable solution for rural finance, as the new cotton financing mechanism of on-lending budgetary funds to the agricultural sector through commercial banks poses considerable risks to the banking system and to agricultural sustainability. IDA will

²² Key partners in this area include the EC, Swiss Economic Cooperation (SECO), United Kingdom Department for International Development (DFID), and USAID.

²³ The RICA will be carried out with support from DFID.

support implementation of the government's action plan to secure land use rights, eliminate government intervention in cotton production, and resolve farm debt.

75. Policy dialogue on these issues will be underpinned by AAA (including the RICA), PDPG, and existing investment operations on the Land Cadastre Registration System and Cotton Sector Recovery.²⁴ The Bank Group will also increase its support to non-cotton areas. The Community Agriculture and Watershed Management project is working to reduce land degradation, soil erosion and water pollution.²⁵ Additional financing will be provided to the Ferghana Valley Water Resources Management project to support the rehabilitation of irrigation and drainage systems, and a new Emergency Employment program will support government efforts to rehabilitate irrigation systems in Soghd and Khatlon oblasts. IFC's Agri-Finance and Business Environment project will continue to improve agricultural finance in the cotton sector, helping to support the governance agenda. IFC will also seek investments in private agri-business companies.

76. The improvement of agricultural productivity will depend in part on efforts to prevent, mitigate and adapt to disaster and climate change risks under the newly launched regional disaster risk mitigation (DRM) program. Tajikistan has been selected as one of nine pilot countries taking part in the Pilot Program on Climate Resilience (PPCR), which is expected to bring an additional fund about US\$35 million in grant resources to support initiatives such as drought-proofing agricultural activities, strengthening resilience to climate change among vulnerable rural populations, modernizing hydromet services, developing a water adaptation plan for the Amu Darya river basin, and reducing financial vulnerability (among households and in the broader economy) to the adverse impacts of disasters and climate change. Tajikistan is also one of three countries benefiting from a regional project, funded by the Global Facility for Disaster Risk Reduction (GFDRR), on improving weather and climate service delivery in high-risk, low-income countries. CPS support for the elimination of hazardous Persistent Organic Pollutants (POPs) will help reduce the risk of land pollution and help Tajikistan meet obligations under the Stockholm Convention on POPs.

77. **Result 6. Improve the reliability of electricity and gas services and increase energy support potential.** In the short run, IDA will continue to support government efforts to urgently increase the volume and reliability of energy supply through an additional financing to the Energy Emergency Recovery Assistance Project by pooling \$15 million IDA funds with government budget and other donor resources to ensure reliable gas supply to the Dushanbe combined heat power (CHP) plant, electricity supply from commercial hydropower entities and electricity imports for the 2009-2010 and the 2010-2011 winters. IDA will continue supporting loss reduction in the power system through a follow up to the Energy Loss Reduction Project which will also strengthen Barki Tajik's planning, financial management and operational functions.

²⁴ IDA's Cotton Sector Recovery Project is being restructured to provide a credit line for post harvest finance and support to farmers to raise production through reputable commercial banks.

²⁵ These represent the three environmental issues with the most detrimental impact on GDP. See World Bank. 2008. *Country Environmental Analysis*.

78. **Developing hydropower in a responsible way will secure the country's energy supply and gradually generate electricity export revenues.** The World Bank recognizes the unique value hydropower brings to the Central Asia region. It also recognizes the close connections to difficult issues of water management, connections that are even more important in the context of climate change. As part of a regional program on energy and water, the World Bank will work with the Government of Tajikistan and regionally recognized institutions to strengthen the technical and institutional basis for cooperation on energy and water and, over time, for mutual economic, environmental and social benefits. In addition to regional benefits, this work will increase attractiveness of hydropower investments in Tajikistan and reduce risks related to water management. IFC will be examining hydropower investments in Tajikistan for potential investment.

79. **The Bank and the government agreed to join efforts to revise and refine the 2007 energy strategy and align it with the government's long term objectives.** The management of the isolated power system requires the development of stronger planning, engineering and operation functions in addition of reinforcement of commercial functions. The Bank has already incorporated capacity building in the projects under implementation at the country level and these efforts will be amplified in follow up projects under consideration. Complementary needs will be identified during the preparation of the energy strategy under preparation by the World Bank in cooperation with Tajik authorities and energy institutions. The World Bank Group and the Government of Tajikistan energy partnership will focus on: (a) electricity loss reduction, (b) improving energy system efficiency and security, and (c) development of hydropower resources of the country, including for the purpose of export.

80. **In terms of engagement in large hydropower programs such as Rogun, the Bank is supporting the preparation of comprehensive technical, social and environmental assessments.** Subject to confirmation of the project's technical soundness, economic viability and compliance with all relevant environmental and social safeguards – the World Bank would consider leading the consortium to implement the Rogun project. Tajikistan has a significant potential to achieve increased production from the rehabilitation of existing hydropower facilities, such as Nurek and Karaikkum, and these programs will be evaluated further. Regional transmission programs for power exchange, such as CASA1000 and other transmission linkages would be evaluated and implemented. The World Bank Group is committed to ensuring that regional projects are proven to be economically, socially and environmentally sustainable at the regional level. To meet the funding requirements of many of these projects, the Bank would consider IBRD enclave loans, partial risk guarantees for projects that increase exports to reliable power off-takers in the region which could lead to sufficient credit enhancement for loan repayment. Hydropower projects with private sector participation and sufficient credit quality will be considered for IFC loans and equity participation. IFC also remains willing to support regional transmission projects with private sector participation, subject to their feasibility. The Bank plans to access Regional IDA resources for projects that strengthen regional cooperation and increase power exchange/trade leading to optimal use of resources.

81. **Result 7: Improve the provision of safe water in Dushanbe and selected municipalities.** Under the CPS, IDA will continue to improve access to safe water in the capital city (with a population of 600,000, one-quarter of Tajikistan's urban population) through a repeater project, Dushanbe Water Supply. This operation will help reduce poverty through the

provision of continuous safe water. The program will also support governance improvements by reducing wastage and improving efficiency and transparency through extended metering of households, public institutions, and industries, and by strengthening the corporate governance of SOEs through the corporatization of the Dushanbe Municipal Vodokanal. Should the central government and Dushanbe municipal governments wish, the additional financing could also be used to strengthen the role of the private sector through outsourcing of selected functions to specialized private companies. These efforts will also help mitigate the economic crisis through employment generation. IDA will also provide additional financing to the ongoing Municipalities Development project to increase access to safe water in eight other municipalities.

82. Result 8: Strengthen the quality of public services to enhance human capital potential. In education, the government's National Strategy for Education Development (NSED) for 2006-2015 and its associated action plan provide a common framework for a SWAp to be supported by development partners. In addition, IDA's Education Modernization project will continue to support the institutionalization of fair and transparent student assessments, upgraded training modules for teachers, improved monitoring and evaluation, and policy reform. In parallel, the FTI CF²⁶ will help scale up reform efforts supported by the previous CPS in education financing, school infrastructure rehabilitation, and education management. Key governance reforms in the education sector include increasing transparency and accountability through per capita financing, and improving fairness and transparency in university admissions through unified university entrance examination. Finally, the Bank is cooperating with Russia to implement a program to Improve Central Asian Migrants' Life Skills, including improving their understanding of Russian labor regulations and procedures and building financial literacy. This initiative will give Tajikistan's migrant workers a stronger understanding of their rights and raise their bargaining power and marketability abroad.

83. In health, the CPS will scale up ongoing efforts to improve the equitable allocation of resources and efficiency in health service provision, thus improving quality of care. Priorities include scaling up per capita financing for PHC, introducing output-based financing for hospitals, reforming payment systems in PHC centers and hospitals, rehabilitating infrastructure, and training medical and fiduciary staff in the Ministry of Health (MoH). These initiatives will help strengthen governance in the health sector through improved transparency and fiduciary capacity.

²⁶ In December 2005, the ECA-FTI CF agreed to grant US\$18.4 million to Tajikistan in support of the NSED. The first-year allocation (FTI-1) of US\$9.2 million was made available in mid-2006. The Ministry of Education (MoE) is implementing the second-year allocation (FTI-2) and is preparing an application package for the third year to be considered by the FTI-CF in October 2009.

Crosscutting Initiatives to Support CPS Objectives

84. **To achieve the above objectives, the CPS will place governance at center stage.** Strengthening governance systems is crucial for ensuring long-term development effectiveness. In addition to direct, country-level work on public sector reform and public financial management (Results 9 and 10), governance will be mainstreamed in sectors and projects—especially in agriculture, energy, and private and financial sector development—to support achievement of the objectives in the context of the CGAC strategy (Annex 3). Moreover, there is a need to better understand governance at all levels in Tajikistan. In this context, the CPS will carry out an Institutional and Governance Review (IGR) with a focus on national-subnational government relations, exploring the relationships between the institutional structure and governance outcomes, such as service delivery at the local level. The key sectors to explore the structure of national-subnational relations are energy, rural development, health and education. The CPS will also explore the potential for Tajikistan’s participation in the Extractive Industries Transparency Initiative (EITI), which promotes the publication and verification of company payments and government revenues from resource extraction. These initiatives represent critical steps along the long-term path to strengthening governance in Tajikistan. As shown in other countries with governance weaknesses, progress on governance reforms in Tajikistan will require patience and perseverance.

85. **Result 9: Strengthen incentives for better performance of civil servants.** The government is working to develop a new Law on the Organization of Public Administration, which will establish the hierarchy, competences, and accountability of public entities in Tajikistan. Functional reviews are planned in seven ministries, followed by the preparation of detailed institutional development plans by the end of 2010. The Bank will support these efforts through the ongoing Public Sector Reform project, though it is anticipated that progress will remain slow in the absence of a dedicated unit within central government that is responsible for leading and coordinating the reform effort. Under this CPS, the Bank will work with the government to achieve greater synergy between central public administration reforms and sector reforms aimed at strengthening the efficiency and effectiveness of social service delivery. This will be achieved through targeted institutional restructuring in the sectors, improved planning and budgeting, introduction of merit-based recruitment and performance appraisal systems linked to pay and career progression, and support for capacity building and accountability in the civil service. The PDPG will support policy actions in this area.

86. **Result 10: Strengthen transparency and accountability in public financial management.** To help ensure that scarce public resources are used for their intended purposes, the Public Financial Management Modernization project will support reforms outlined in the action plan for the government’s Public Financial Management Reform Strategy. In collaboration with development partners, this project will focus on improving the basic building blocks of public financial management (budget preparation, budget execution, public accounting, and fiscal reporting); reforming business processes and institutional arrangements; and strengthening capacity. The PDPG will support the government’s ongoing efforts to strengthen transparency and accountability through the establishment of an independent external audit agency. IDA will work with the government to develop an information and communication technology (ICT) or “e-government” strategy to improve efficiency in public service provisioning using limited public resources. IDA’s work on public financial management and

SOE corporate governance will be undertaken in collaboration with the IMF's ongoing ECF. A multi-donor trust fund on Public Finance Voice and Accountability (PFVA) will help create visible citizen demand for efficient and effective use of state finances to upgrade essential public services by strengthening Parliamentary oversight, media communication and citizen involvement in public finance and service delivery.

87. Recognizing the significant capacity constraints faced by the government, and their potential role in slowing implementation of the CPS program, the Bank Group will focus on capacity development and human capital formation across interventions. The CPS will continue existing efforts to build capacity in key ministries involved in the execution of CPS programs, focusing on both institutional reforms and skills training. Ongoing TA on macroeconomic management will be underpinned by training for civil servants on fiscal and expenditure management. Programs in the education sector will focus on strengthening policy development and management capacity within the Ministry of Education, together with training programs for teachers and migrant workers. Health sector initiatives will strengthen capacity to administer a basic package of health services at central and local levels. Work in the agriculture sectors will support training for communities on productive farming techniques, farmland restructuring, and micro-credit principles. Infrastructure development programs in energy and water will focus on strengthening technical and financial management capacity of relevant SOEs. Support for public sector reform and public financial management modernization will include substantial capacity development components, including development of new training modules on organizational management and human resources management, knowledge transfer and change management workshops, and in-service training to help improve the effectiveness and efficiency of public financial management in the public administration. Across the program, application of the Governance Checklist will ensure that the design and review of individual projects takes into account capacity development needs and opportunities. The World Bank Institute (WBI) will buttress the country team's efforts to build capacity development into the design of specific projects and programs (paragraph 103). The CGAC strategy will review capacity development experience during the last CPS and provide recommendations for improved project-based capacity development results framework.

88. The CPS will also mainstream efforts to address gender disparity in Tajikistan, recognizing the important contribution that gender equality can make to economic growth and poverty reduction, and thereby the achievement of the MDGs. Gender disparities in Tajikistan are significant, despite existing legal frameworks intended to manage them. The ratio of female-headed households is high in Tajikistan as a result of the civil war, the migration of young men to other countries in search of work, and the lower life expectancy of male workers. Nearly 35 percent of Tajikistan's migrant households and 17 percent of non-migrant households are headed by women. Female-headed households are highly dependent on remittances and thus more vulnerable to shocks. Though women account for half of the country's active labor force, their participation is low and their earnings are lower than those of male workers, especially in agriculture where women are predominantly employed. Women's access to land and finance is limited. In view of these obstacles, the CPS will seek to mainstream gender initiatives across elements of the program where gender disparities exist, including access to primary education, labor force participation and remuneration, and access to land and credit. Gender-related support will be included explicitly in relevant programs, and results will be measured through the collection and use of gender-disaggregated data where appropriate.

iii. CPS results framework

89. **The results expected from CPS implementation will be influenced significantly by the ongoing investment portfolio.** Seventeen projects are currently under implementation, with about US\$62 million still to be disbursed as of March 31, 2010. New commitments under the CPS from regular IDA resources amount to US\$ 140.4 million and from trust funds amount to US\$57 million. New interventions will support the achievement of results in selected areas, including reducing vulnerability in the face of limited economic diversification and difficult geography.

90. **The results matrix (Annex 1) is designed around clear principles:** selectivity and measurability of indicators based on the availability and reliability of baseline data; and realism about the role of the Bank Group in contributing to the achievement of results. Anticipated results are closely linked to national strategies to demonstrate the proposed CPS program's contribution to country development objectives. Where possible, results indicators have been clearly defined on the basis of monitoring exercises already being undertaken or planned by the Bank Group and other development partners. The PDPG will support regular monitoring of a subset of CPS results, and the remainder will be addressed through sector dialogue.

91. **Progress in achieving expected CPS results will be reviewed mid-stream.** A CPSPR will be prepared in early FY12 to evaluate the relevance of the strategy outlined in the CPS, review progress toward achieving CPS objectives and outcomes, and lay out proposed program adjustments over the remainder of the CPS period. In particular, the CPSPR will serve as the platform to further define activities for the last two years of the CPS period (FY12-13).

C. Implementing the CPS

i. Principles of engagement

92. **Frontloading.** In order to provide a timely and effective response to the ongoing crisis and any subsequent economic deterioration that may occur, the Bank Group will frontload some IDA resources. This will be achieved by channeling more IDA resources through the PDPG.

93. **Flexibility.** Given uncertainties regarding the duration of the global recession and its impact on Tajikistan, the CPS program is designed to be flexible. A specific program is outlined only for FY10 and FY11. IDA activities for the remaining CPS period (FY12-13) are indicative and will only be laid out in detail following completion of the mid-stream CPSPR. This flexibility will enable the CPS to adapt to changing circumstances as the crisis plays out and its impact on Tajikistan is measured.

94. **Selectivity.** The CPS will take a selective approach, recognizing the limitations in IDA resources and administrative budgets, and the need to intensify supervision of individual programs to mitigate fiduciary risks. The Bank Group will focus its advisory services in areas that are expected to enhance the effectiveness of its programs and the development impact on its client. Selectivity will be achieved by: (i) focusing the bulk of new investments on a few sectors (e.g., agriculture, energy, urban water supply, and social services) where it has a long-standing engagement and a comparative advantage vis-à-vis other donors; (ii) scaling up only successful pilot investment projects through additional financing; and (iii) limiting the number of new IDA

investment projects to only one to two projects per year in order to increase the resources devoted to program supervision. Where government ownership and reform progress are considered weak and uncertain, the Bank Group will withdraw its interventions. In sectors where the presence of other donors is significant, the Bank Group will complement their efforts with advisory services and global knowledge, and only if necessary.

95. **Leveraging.** The Bank Group will leverage its global knowledge and expertise to attract co-financing from traditional and non-traditional development partners. Under the CPS, the Bank will also seek to leverage multi-door trust funds to finance investment in global public goods (e.g., public participation, climate change and disaster management) while ensuring that these activities do not detract from the Bank's capacity to implement the core IDA program. The JCPS recently developed by key development partners in Tajikistan, including the Bank Group will also help attract additional financing from donors based on the agreed framework.

ii. Instruments of support

96. **The proposed CPS program will maintain a mix between budget support and investment activities.** Budget support will be programmatic and will serve as an important instrument for policy reform and dialogue with the government, in combination with investment projects and TA. Investment activities will support government implementation of priority reforms. The design of these initiatives will be informed by targeted AAA, which will include analysis and TA to assist the government in implementing identified reforms. The Bank and IFC can also access various trust funds to extend the reach of AAA and investments, subject to the country's absorptive capacity and Bank staff resources. In addition, IFC will provide direct investments to the private sector.

97. **A new PDPG series is proposed for fiscal years 2010, 2011, and 2012.** This programmatic operation will focus on addressing the impact of the economic crisis and deepening reforms that were initiated under the previous PDPG series. While the specific objectives and reform actions are still to be agreed with the government, the PDPG is expected to support reforms in several areas critical to Tajikistan's growth and development: (i) maintaining macroeconomic stability; (ii) strengthening the private and financial sectors; (iii) enhancing the transparency of energy SOEs; (iv) diversifying agriculture; and (v) improving the social safety net. The PDPG may also cover regulatory reform and public service delivery improvements. The operation will include only core areas where there is strong government ownership, where underlying TA resources can readily be mobilized from the Bank or other development partners, and where there is a strong analytical basis for moving forward. The Bank will take the lead in coordinating development partners' budget support under the PDPG. Budget support will be disbursed upon confirmation by the IMF that the ECF is on track.

98. **In the short term, the PDPG will provide fiscal space to allow the authorities to reduce vulnerabilities.** Interventions will be designed and sequenced not only to help the government cope with the pressing consequences of the global economic crisis, but also to support medium-term reforms to ensure a sustained recovery and continued development of the country's human capital. With additional budget support, the government will be able to protect critical expenditures from budget cuts due to revenue shortfalls. To assess the performance of

PDPG support, a virtual poverty fund will be created to ring-fence expenditures in pro-poor areas. A tracking mechanism will be established to monitor spending and impact in these areas.

99. **The indicative CPS program for FY10-13 is laid out in Table 4.** As mentioned above, the strategy relies largely on additional financing for ongoing programs with a proven track record, allowing for shortened preparation time and accelerated implementation. Where appropriate, ongoing operations have been or will be realigned to conform to the objectives of the new CPS. New investment operations will address the impact of the crisis and contribute to achievement of the medium-term objectives. To ensure that scarce IDA resources are utilized fully and effectively, in case the government undermines macroeconomic stability objective and PGP program is delayed, the CPS will accelerate planned additional financing that will have direct impact on the livelihoods of poor people in Tajikistan. In a fragile state such as Tajikistan, continued IDA engagement is necessary to help keep the country from falling deeper into crisis. Specific CPS activities for FY12-13 will be more specifically laid out following the completion of a mid-term CPSPR and after the indicative IDA16 funding envelope is known. Only the FY10 allocation is firm while estimates for FY11, 12 and 13 are indicative only and can change. Actual allocations in these years will depend on: (i) total IDA resources available; (ii) the country's performance rating; (iii) the performance and assistance terms of other IDA borrowers; (iv) the terms of IDA's assistance to Tajikistan (grants or credits); and (v) the number of IDA-eligible countries. FY12 and FY13 indicative allocation assumes a similar level of replenishment in IDA16 as in IDA15. IDA allocations are made in SDRs based on performance, and the US\$ equivalent is dependent upon the prevailing exchange rate. Finally, the terms of the assistance (i.e., grants, credits or a mix of the two) will depend on Tajikistan's debt sustainability position. In addition to IDA performance-based allocation, Tajikistan benefits from funding under the IDA Crisis Window in the amount of SDR 15.3 million (about US\$23.4 million) in FY10.

100. **AAA will focus on “just in time” TA driven by client demand and selected analytical work to address knowledge gaps.** Table 5 presents AAA planned during the CPS period. Macroeconomic monitoring will help the government manage the crisis budget during the next few years. A poverty assessment update will analyze the impact of the crisis on poor households by geographical location. IDA will also work with the government to develop a comprehensive energy sector strategy to ensure that energy investments are prioritized and integrated in a holistic approach. An Institutional Governance Review (IGR) is proposed to deepen understanding about political economy at the local level. Finally, follow-up activities will be undertaken to ensure progress in implementing the recommendations of previously completed diagnostic work, such as the CPF, PEFA, and the Accounting and Auditing Report on the Observance of Standards and Codes (A&A ROSC).

**Table 4: Indicative CPS Program Financed by IDA and Trust Funds
FY10-FY13**

Lending Activities	Sources of Financing (US\$ millions)		Reduce the negative impact of the crisis on poverty and vulnerability	Pave the way for sustained post-crisis recovery
	IDA	Other		
TOTAL FY10	55.4	32.8		
PDPG I	25.4*		X	X
Ferghana Valley Water Resource Management (AF)	10		X	X
Emergency Food Security Crisis and Seed Imports (AF)		7 (Russia)	X	
EFA-FTI		13	X	X
Emergency Employment Program		7.8 (EC)	X	X
Education Modernization (AF)	2	5 (READ)		X
Winter Energy Emergency Support Facility	15		X	
Community and Basic Health Project - AF	3			
TOTAL FY11	24.0	16.5		
PDPG II	10		X	X
Dushanbe Water Supply II	10		X	X
Social Protection Technical Assistance	2	2.5 (Rapid Social Response)		X
Regional Program for Disaster Management – Hydromet ^{1/}	2		X	
Persistent Organic Pollutants Management		4 (GEF)	X	X
Life Skills Development for Future Migrants		10 (Russia)		X
TOTAL FY12-13	61.0	12.7		
PDPG III	10			X
Regional Transmission Interconnection (CASA-1000) ^{1/}	3	10 (IDA Regional)		X
Second Upland Agricultural Livelihoods and Environmental Management Project (SUALEM)	10	2.7 (GEF)		X
Municipal Infrastructure Development (AF)	5			X
Health	10			X
Public Financial Management (APL2)	8			X
ELRP II	15			X

* Includes \$5.4 million from the Crisis Response Window – subject to re-allocation in case PDPG is presented to the Board in FY 11.

READ – Russian Education Assessment Development; AF – Additional Financing.

Note: The program is indicative. The actual size of the projects in the pipeline will be determined in line with available resources calculated using the IDA Performance-Based Allocation system.

Table 5: Analytical and Advisory Activities

I. Reduce the negative impacts on poverty and vulnerability
Macroeconomic Monitoring
Poverty Assessment Update and Social Protection Dialogue
Social Protection Strategy
Impacts of farmland restructuring and sustainable land management on rural vulnerability

II. Pave the way to post-crisis recovery and sustained development
Country Economic Memorandum
Private Sector Development Policy Dialogue
Post-Financial Sector Assistance Program
Energy Sector Strategy
Rogun Assessment Studies
Transmission Line Studies (CASA 1000 and northern interconnection)
Nurek HPP Modernization Feasibility Study
Improving Irrigation and Drainage Investment Planning and Management
Rural Investment Climate Assessment
Doing Business Reforms
Mainstreaming of Climate Resilience into Tajikistan's development programs and policies

III. Mainstreaming Core Governance
Institutional Governance Review
A&A ROSC Follow-up
Fiduciary Review Follow-up
CGAC Strategy
PEFA
Public Finance Voice and Accountability

iii. IDA-IFC collaboration

101. **Recognizing the critical role of private sector development in ensuring sustainable growth and poverty alleviation in Tajikistan, IDA and IFC will continue to collaborate closely.** The assistance programs of each organization will be coordinated to maximize the Bank Group's overall impact on the expected CPS results. IDA programs will target the Bank's comparative advantage in providing global knowledge and TA to underpin investment operations in support of the government's development agenda. IFC programs will support the private sector through advisory services and investments in the business environment, financial sector development, and in support of the agriculture and energy sectors. IFC and IDA will continue to work closely on fostering private investment; strengthening the soundness and stability of the financial sector; improving service reliability, governance, and export potential in the energy sector; and improving conditions for a sustainable increase in agricultural productivity.

iv. The Multilateral Investment Guarantee Agency (MIGA)

102. **MIGA is prepared to support foreign direct investment into Tajikistan through the provision of political risk guarantees.** However, MIGA's activity in Tajikistan in FY10-11 will be primarily driven by foreign investors' demand. MIGA will coordinate its potential involvement in support of foreign investments into Tajikistan with IDA and IFC.

v. WBI program

103. **WBI will continue to support capacity building efforts in the areas of public financial management (PFM), procurement, trade, health, climate change, and public-private partnerships.** WBI will focus on facilitating structured learning in partnership with regional and local institutions and practitioner networks, emphasizing just-in-time practitioner exchanges and South-South learning to address key capacity constraints to achieving development results, and focusing on the “how” of reform (practitioner knowledge, leadership and multi-stakeholder consensus building). WBI will provide support through the two of its new business lines - the Global Partner platform and the Practitioner Exchange platform. WBI will also help national institutions to connect globally and to draw on a range of relevant experiences. Activities will include upgrading skills, updating curriculum, sharing lessons learned and best practices, consensus-building workshops, and long-term TA to strengthen the capacity of key government staff.

vi. Regional cooperation

104. **During the CPS period, the Bank will continue to support a number of regional initiatives through the Central Asia Regional Economic Cooperation (CAREC) program.** Areas of CAREC support include energy, transport and trade facilitation, and communicable disease prevention and disaster management. The Bank Group will work with Tajikistan and other Central Asian countries to elaborate a Regional Energy-Water Development Framework covering existing and potential energy generation resources in the region, including hydropower, coal, thermal energy, and others. This framework would propose a sequence of actions to ensure a proper balance between the urgent domestic energy needs of the upstream countries during winter, and the environmental and hydrological needs of the downstream countries during summer. The proposed framework would also focus on maximizing energy export potential within the region during winter and beyond the region during summer. The latter would be supported by the establishment of a Central Asia-South Asia Regional Energy Market (CASAREM), a set of projects for enabling power trade within and between Central and South Asia. In addition, in the context of the elaboration of a Regional Energy-Water Development Framework, the Bank Group plans to contribute to the identification of immediate and medium-term investment priorities in the region for consideration by all Central Asian countries and potential investors to maximize gains from regional cooperation. In parallel, the Bank Group will review water resource development and water management issues with stakeholders and partners in Central Asia with a view to supporting the development of and access to these resources (Box 3). In transport and trade facilitation, the on-going Bank financed study on the performance of selected road transport corridors in Central Asia is now being complemented by a series of technical assistance activities (financed by a grant from the Trade Facilitation Facility) in the area of transport and logistics. Activities will include (i) logistics chain analysis for specific products and transport routes, as well as (ii) policy advice on issues pertinent to the development of logistics and transport.

Box 3: Regional Energy-Water Development Framework

The WB is working with the governments of the five Central Asian countries to develop a comprehensive, long-term program to increase regional cooperation, encourage efficient energy resource development, and address water management challenges. It is intended that this program will draw on Central Asian regional institutions—including the International Fund for Saving the Aral Sea (IFAS) and others—to conduct the analysis and coordinate stakeholder consultations on key development choices and trade-offs. Work on the Central Asia Energy-Water Development Framework (CAEWDF) aims to help Central Asian countries take advantage of their energy and water resource base in an environmentally and socially sustainable manner, while respecting national priorities and safeguarding regional stability. The Bank has initiated the development of this program in consultation with regional governments and international development agencies active in the region.

The program addresses three main themes: (a) balancing energy options to take advantage of the region's rich diversity in energy resources while addressing winter energy deficits, including new energy investments; (b) expanding energy trade within and outside the region by strengthening regional dispatch and investing in transmission infrastructure; and (c) working with regional organizations on energy-water linkages by securing strong analytical foundations, supporting dialogue among Central Asian countries, and (d) improving water use productivity in both the energy and agricultural sectors.

D. Partnerships and Participation

105. **The Bank Group is developing strong partnerships with key development partners in Tajikistan in the context of the JCPS.** Two recent studies showed that the delivery of donor assistance in Tajikistan has been sub-optimal in the past due to weak donor coordination, limited government ownership, misalignment between donor and government programs, and a lack of predictability and timeliness in donor funding. In 2007, an initial group of development partners led by DFID came together to develop a JCPS with the aim of enhancing aid effectiveness through alignment and harmonization, in line with the 2005 Paris Club Declaration and the 2008 the Accra Agenda for Action. JCPS partners²⁷ decided in early 2009 that the strategy would be developed in two phases. The first phase, completed in September 2009, focused on developing a joint aid coordination strategy to improve aid effectiveness. The aid coordination strategy defines shared principles and a common basis for actions to improve aid effectiveness. The shared principles reflect the five underlying principles of the Paris Declaration and Accra Agenda that are applicable to circumstances in Tajikistan. These principles will guide the delivery of aid to Tajikistan and cooperation between the government and its development partners, both on a bilateral basis and in extended multi-donor partnerships (Annex 5). The shared principles will be applied through greater use of sector working groups, joint missions, and diagnostic reviews, and development of a common arrangement for planning, funding, disbursement, monitoring, evaluation, and reporting on development partner activities and aid flows. The overall goal is summarized as “One Strategy, One Coordination Mechanism, and One Monitoring and Evaluation and Results Framework.” The second phase of donor cooperation efforts will focus on identifying specific programs of joint donor assistance to support implementation of the government's PRS III.

²⁷ The JCPS group has expanded to include: ADB, DFID, EC, Sweden, Switzerland, UN organizations (UNICEF, UNDP, and WFP), USAID, and the WB. The Government of Tajikistan is represented by the Chairman of the State Committee on Investment and State Property Management (SCISPM).

106. **As mentioned above, the CPS has been designed with other development partners' activities in mind (Table 6) and focuses in the sectors where the Bank Group has a long-standing engagement, a comparative advantage, and/or complementary global knowledge and expertise.** Taking into account of existing and planned activities of the JCPS partners, the Bank Group will continue to focus on agriculture, energy, private sector development, water and sanitation, and the social sectors. In agriculture and energy sectors, the Bank Group's involvement will build on existing engagements in response to client demand. In the private and financial sectors, Bank Group activities will focus mostly on advisory services and technical assistance in coordination with other JCPS partners. Activities in the social sectors will be scaled up, as some JCPS partners have withdrawn interventions. In areas where other donors are highly active, such as ADB's strong engagement in the transport sector, the Bank Group's involvement will be limited.

107. **The Bank Group will expand collaboration with new bilateral development partners.** These partners, including China, Russia, Kazakhstan, Iran, and Saudi Arabia, have been increasing their development assistance to Tajikistan, thereby contributing to an overall growth in aid flows to the country. These investments, sometimes significant, prompt for better coordination and monitoring to ensure an efficient and effective division of labor. Specifically, China provided US\$281.2 million credit to finance the construction of the road connecting Dushanbe and the northern part of Tajikistan. Two loans were contracted for the construction of a North-South electricity transmission line (US\$267.2 million) and Lolazor-Khatlon electricity transmission lines (US\$58.1 million). Russia invested US\$480 million in hydropower (Sangtuda I). Iran invested about US\$200 million for construction of hydropower (Sangtuda II). Recently, Russia has contributed to Bank-administered trust funds to address the food price crisis and regional issues in Central Asia, especially education, migration, and blood safety.

Table 6: Key Donor Involvement in Tajikistan, by Sector

	Agri- culture	Energy	Trans- port	Private Sector	Financial Sector	Educa- tion	Health	Water	Social Protec- tion	Public Sector
Multilateral										
ADB	X	X	X	X	X	X				X
EBRD	X	X	X	X	X			X		
EC	X			X			X	X	X	X
IMF					X					X
IsDB	X	X	X					X		
UN Agencies	X	X		X	X	X	X	X	X	X
WBG	X	X		X	X	X	X	X	X	X
Bilateral (traditional)										
DFID	X			X		X	X			X
Germany	X	X		X	X	X				
JICA							X	X		X
SDC		X		X	X		X	X		X
SIDA	X			X			X			X
USAID	X			X	X	X	X			X
Bilateral (non- traditional)										
China		X	X							
Iran		X	X							
Russia		X				X	X		X	
Civil Society										
Aga Khan Foundation	X	X		X	X	X	X			
OSCE				X						X

108. **The Bank Group has sought to strengthen its engagement with parliament, civil society organizations (CSOs), the media, and the private sector.** The aim of these efforts has been to strengthen implementation effectiveness by involving a broad array of stakeholders with a direct interest in the outcome of reforms, as well as to build awareness of the Bank Group's role in Tajikistan. IDA has involved local community groups in rehabilitating rural infrastructure in their communities and CSOs in the monitoring of distribution of winter wheat seeds and fertilizer to poor households. Implementation of reforms to the business-enabling environment has been carried out in consultation with the private sector. The design of the CPS itself has benefited from the input of a wide range of development partners (Box 4).

Box 4: Consultations on the Tajikistan CPS

In preparing the Tajikistan CPS, the Bank Group country team conducted a series of consultations with key stakeholders in central and local government, parliament, the private sector, civil society organizations and the media. Consultations were held during September 8-17, 2009, in the capital, Dushanbe, as well as in Kurgan Tyube, Khujand, and Khorog. Due to postponement of the CPS Board date from November 2009 to May 25, 2010, the second round of consultations was held with the government on December 2009 and February 2010 (on the Bank's involvement in hydropower development and the use of IDA crisis window) and with CSOs on March 31, 2010 (on the revised CPS).

Overall, consulted groups expressed strong support for the CPS objectives, and the proposed program and instruments. Government appreciated the emphasis on short-term initiatives to reduce the impact of the crisis and endorsed the proposed program and instruments, especially during the first two years. Government stakeholders also agreed on the proposed prioritization of agriculture, energy, private and financial sectors, and social sectors over the medium term. Development partners agreed with the overall strategy and its approach to governance and stressed the need to continue strengthening donor cooperation in the context of the JCPS. Parliament called for improved collaboration even at the project level. Stakeholders in civil society and the media expressed a preference for stronger transparency and accountability in the implementation of Bank-financed projects and closer involvement of non-governmental organizations in implementation, monitoring and evaluation through greater dissemination of information on WB activities in Tajikistan using various communication channels. They raised concerns about the development of Rogun hydropower and requested the Bank to work close with the government to ensure transparency of government operations and to improve investment climate, and be (Annex 2).

V. MANAGING RISKS

109. **Macroeconomic. Implementation of the CPS could be delayed by a slow recovery in Russia and other developed countries as well as by violation of the commitment to scale down the financing campaign for Rogun rehabilitation.** Under this scenario, external demand for Tajikistan's exports and migrant workers would continue to weaken and further delay economic recovery. Macroeconomic stability would be jeopardized if the government were to adopt an inappropriate policy framework to deal with a deteriorating situation. According to the IMF latest assessment, continued sale of the Rogun shares would undermine macroeconomic stability through reducing disposable incomes and liquidity access, and increase quasi-fiscal deficit associated with SOEs' subscription of the Rogun's equity shares. The Bank Group's program, especially budget support under the PDPG, could be brought into question.

Response: The Bank Group will work closely with the IMF in the context of the ECF program to help maintain macroeconomic stability. In addition, the Bank will closely