

REPUBLIC OF TAJIKISTAN
COUNTRY PARTNERSHIP STRATEGY FY2010-2013

EXECUTIVE SUMMARY

i. **Tajikistan has enjoyed relative political stability and strong economic growth since its civil war ended in 1997, but these impressive gains are at risk in the face of an ongoing global financial and economic crisis.** The return to peace at home and a favorable external environment drove average growth rates of 8.6 percent during 2000-2008, coupled with declining inflation, fiscal surpluses, and a manageable external deficit. Since then, a recession in Russia has brought about a substantial drop in remittances to Tajikistan which, combined with a fall in aluminum and cotton exports, has constrained the fiscal space available to meet the country's development challenges. Tajikistan faces energy shortages for 5-6 months in a year and periodically faces food security problem.

ii. **Tajikistan faces the economic crisis from a weak position.** Structural reforms have been undertaken in areas such as agriculture, energy, transport, and private and financial sector development. However, there is a need to speed up these reforms. The country's remote, landlocked location, together with deteriorating infrastructure, high input costs, and weak regulation, poses barriers to international trade, connectivity and investment. Macroeconomic stability is fragile and government credibility was undermined by recent National Bank of Tajikistan's (NBT)'s misreporting of data to the International Monetary Fund (IMF). Though over a million Tajik citizens have escaped poverty in recent years and social indicators have improved, the significant drop in remittances, low agricultural productivity, and rudimentary safety nets have left those living in or near poverty with few means to cope with shocks. Access to services remains limited, especially in rural areas, and there is little scope for achieving the Millennium Development Goals (MDGs).

iii. **The government has taken steps to address both short-term challenges and the medium-term reform agenda.** With support from the IMF, the Staff Monitored Program (SMP) was completed in December 2008, and implementation of the subsequent Extended Credit Facility (ECF) for 2009-2012 is on track. The ECF and other donor initiatives have also supporting execution of the government's May 2009 anti-crisis action plan. The government has recognized the need to step up progress on the medium-term reform agenda in critical areas, especially agriculture, energy, and private and financial sector development.

iv. **To unleash the potential of assets such as land, water, hydropower, and human capital, Tajikistan will need to mitigate the effects of the crisis while working to build capacity towards post-crisis recovery and sustained development.** Addressing the near-term challenges posed by the crisis will require sound macroeconomic management, including ECF stabilization measures and efforts to protect spending on priority social services. An effective crisis response will also involve actions to manage economic and social risks, including strengthening financial sector stability, investing in human capital, and protecting the most vulnerable segments of the population through improved social assistance. Over the medium-term, successful post-crisis recovery will depend on enhancing the productivity of the country's physical and human assets. Key initiatives will include strengthening the business environment and access to finance, boosting agricultural productivity and resolving the outstanding cotton

debt, improving the reliability of electricity and water supply, expanding the country's energy production and export potential, and enhancing human capital through higher-quality education and health services.

v. **The World Bank Group's (WBG's) Country Partnership Strategy (CPS) seeks to address these challenges through a constructive partnership with Tajikistan's government, people, and donors.** The CPS is anchored in the government's own national development priorities as expressed in the National Development Strategy (NDS) and PRS3. Recognizing the critical importance of private sector development to Tajikistan's future growth and poverty alleviation goals, the CPS has been prepared jointly by the World Bank (WB) and International Finance Corporation (IFC). The strategy has also benefited from the Bank Group's participation in a multi-donor effort to outline a Joint Country Partnership Strategy (JCPS) for coordinated donor support to Tajikistan.

vi. **Building on lessons learned, the current strategy focuses on deepening the reform agenda launched under the previous CPS while strengthening mechanisms to foster good governance and sustainable capacity development.** The objectives of the CPS are two-fold: (i) *reducing the negative impact of the crisis on poverty and vulnerability*; and (ii) *paving the way for post-crisis recovery and sustained development*. To help achieve these two objectives and rebuild government credibility, the Bank will work to build capacity in the context of Tajikistan's Country Governance and Anti Corruption (CGAC) strategy (Annex 4). Implementation of the CPS will be guided by four principles of engagement: (i) *frontloading* resources to facilitate a timely, effective crisis response; (ii) *flexibility* in programming given the uncertainties surrounding the global recession; (iii) *selectivity* of interventions to avoid overstressing limited capacity and resources in both the government and the Bank Group; and (iv) *leveraging* the Bank Group's global knowledge and expertise to attract co-financing.

vii. **The CPS will rely on a mix of instruments.** The indicative IDA15 allocation for Tajikistan is projected to be about US\$86.6 million (SDR 55.9 million), US\$30 million of which has been used to finance the final year of the previous CPS for FY06-09. The remaining allocation (about US\$57 million) will finance the first two years of the proposed CPS. As a result of this limited financial envelope, selectivity will be critical—within and across sectors, and according to the Bank Group's comparative advantage. The CPS will place greater emphasis on budget support through a new three-year series of Programmatic Development Policy Grants (PDPGs). The PDPG will serve to advance structural reforms needed to enhance the country's growth potential, while providing the fiscal space needed to maintain critical social spending. Investment activities will rely largely on additional financing to support programs with a proven track record and respond quickly to the crisis. New investment operations will be limited to one to two per year. Operational design will be informed by targeted analytical work, and technical assistance will be provided to assist the government in implementing identified reforms. The Bank and IFC will also access various trust funds to extend the reach of the International Development Association (IDA)-financed activities, subject to the country's absorptive capacity and Bank staff resources. In addition, IFC will provide direct investments to the private sector. Tajikistan will also receive additional resource of SDR 15.3 million (about US\$23.4 million) in FY10 to address the impact of the global crisis from the IDA Crisis Response Window.

viii. **Progress toward expected CPS outcomes will be monitored in the context of a realistic and measurable results framework** (Annex 1). 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. Outer-year programming will be defined through a mid-term CPS Progress Report in order to maintain program flexibility in an uncertain environment.

ix. **The CPS supports the government in responsibly developing hydropower to secure the country's energy supply and gradually generate electricity export revenues.** The Bank is supporting the preparation of comprehensive techno-economical, social and environmental assessments of a large hydropower programs such as Rogun. Subject to confirmation of the project's technical soundness, economic viability and compliance with all relevant environmental and social safeguards, the Bank would consider leading the consortium to implement the Rogun project. The Bank will work with the Government of Tajikistan and regionally recognized institutions through a regional program on energy and water to strengthen the technical and institutional basis for cooperation in these sectors with the aim of ensuring mutual economic, environmental and social benefits.

x. **The CPS program has been designed in the context of strong and growing partnerships among Tajikistan's donors.** CPS activities have been selected with other development partners' activities in mind, focusing on sectors where the Bank Group has a long-standing engagement, comparative advantage, and/or complementary global knowledge. These parameters have guided the selection of agriculture, energy, private sector development, water and sanitation, and social services as the Bank Group's primary areas of concentration. The Bank Group will also continue to participate in joint donor efforts to implement a recently developed joint aid coordination strategy in line with the Paris Declaration on Aid Effectiveness and in the context of the ongoing JCPS for Tajikistan. Under the CPS, the Bank Group will seek to expand collaboration with new bilateral development partners such as China and Russia, and to strengthen engagement with Tajikistan's parliament, civil society, and private sector.

xi. **The effectiveness of the proposed CPS program and attainment of expected outcomes is subject to a number of risks.** Implementation of the CPS could be delayed by a protracted recession mainly in Russia, which would continue to have a chilling effect on growth in Tajikistan. Progress in implementing the CPS program may also be slowed by weak government commitment to deeper post-crisis reforms in productive sectors or by limited institutional and human capacity. The deteriorating security situation in Afghanistan and Pakistan could result in an unprecedented influx of refugees to Tajikistan, placing additional strain on economic and social services during a time of crisis. The CPS is designed to mitigate these risks to the extent possible, both through its dual focus on mitigating the negative impact of the crisis and building the foundations of post-crisis recovery, and through its principles of engagement.

i. The following issues are proposed for Board discussion:

- Do the Directors endorse the approach proposed in the presented CPS as appropriate for supporting the country in meeting its short-term challenges while strengthening a medium-term governance agenda, and build capacity to achieve medium to long term growth?
- Is the mix of instruments and activities consistent with the objectives, flexible approach and feasible within the available resource envelope?
- Does the CPS program successfully leverage the activities of other development partners in light of limited IDA resources?