



Initial Poverty and Social Analysis

December 2019

Tajikistan: Financial Sector and Fiscal Management Improvement Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 December 2019)

Currency unit	–	somoni (TJS)
TJS1.00	=	\$0.1032
\$1.00	=	TJS9.692

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
NDS	–	national development strategy
TA	–	technical assistance

NOTE

In this report, "\$" refers to United States dollars.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Tajikistan	Project Title:	Financial Sector and Fiscal Management Improvement Program
Lending/Financing Modality:	Policy Based Financing (Grant)	Department/Division:	Central and West Asia Department, Public Management, Financial Sector and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Government of Tajikistan's national development strategy (NDS) for 2016–2030 seeks to reduce the poverty rate from 29.5% in 2018 to 15% (2030) and eradicate extreme poverty by 2030 (from 15.7% in 2015).^a The NDS sets the creation of jobs through increased private investment, economic diversification, and competitiveness as one of its priorities. To achieve its economic growth and poverty reduction targets, Tajikistan needs to strengthen the financial sector and fiscal management. The NDS outlines implementation of the following financial sector reforms: (i) financial institutions' capacity building and development of effective financial sector infrastructure; (ii) diversification of the channels of the long-term financing to economy; (iii) expansion of financial products' range and introduction of innovative financial services; (iv) improvement of human resource quality in the financial sector; and (v) deepening of institutional reforms. The expected results target increased credit availability with the ratio of bank loans to gross domestic product (GDP) reaching 48–50% by 2030 (from 23.2% in 2015); better access to finance, with at least 50% of the households actively using financial services (from less than 5% in 2015); and country-wide implementation of the national financial literacy program. The NDS expected results also includes an improved public finance management system and an effective system of budget planning.

The Asian Development Bank (ADB) country partnership strategy for Tajikistan, 2016–2020 is closely aligned with the goals of the NDS. The country partnership strategy focuses on supporting the government to achieve sustained and inclusive growth that is less susceptible to external shocks and creates higher-paying jobs.

B. Poverty Targeting:

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)

C. Poverty and Social Analysis

1. Key issues and beneficiaries. Sustained growth in Tajikistan since 1997 led poverty levels to drop from 81% in 1999 to 29.5% in 2018. Nevertheless, poverty remains high and its reduction remains a key priority for the Government of Tajikistan. Addressing this challenge requires a deepening of Tajikistan's financial system, which is currently underdeveloped.

Tajikistan lags behind its regional peers in terms of financial sector penetration. Tajikistan is the third lowest country in the world in financial depth: only 2.5% of adults have an account with at least one formal financial institution, 4.8% of adults have a bank loan, 0.3% of adults have formal savings, and only 0.8% of adults have paid for health insurance.^b The number of bank branches and ATMs per person is lower than in all regional peer countries.^c Credit to the private sector fell from 23% of GDP in 2015 to 12% of GDP in 2018, and lending costs in Tajikistan are the highest in the region, with the average weighted rate of 26% per year.

Lack of access to affordable loans and the limited range of financial services constrain the ability of the poor to improve their socioeconomic situation. With limited access to finance through formal financial institutions, many households and businesses still use their own capital to finance their operations or seek informal loans. High interest rates, cumbersome procedures, and lack of collateral acceptable to the banks are some key reasons why many households still do not access bank loans.

Direct beneficiaries of the program include the Ministry of Finance, the financial services regulator (National Bank of Tajikistan), and Individuals' Deposit Insurance Fund (IDIF). The indirect beneficiaries of the program include financial institutions and private borrowers (small and medium-sized enterprises, farmers, and vulnerable households), who will benefit from access to a broader range of financial products and a more stable financial sector that should support investments and job creation. The program supports strengthening regulatory structures for financial stability, financial market deepening, and enhanced financial inclusion.

2. Impact channels and systemic changes. Empirical studies have documented a strong correlation between financial sector development and poverty reduction, which are linked through three transmission channels:

- (i) Better access to finance is an effective mechanism for investment, job creation and poverty reduction. Financial sector development allows more entrepreneurs, especially those who are less well off, to obtain affordable credit to expand and grow their business. Meanwhile, the government's increased focus on financial literacy has the potential to empower consumers, especially those less well off, to increase savings and use financial services.

<p>(ii) Financial sector development generally increases financial sector stability, which indirectly benefits the poor, because poor households have fewer and less diversified assets and are thus more vulnerable to financial instability than the rich.</p> <p>(iii) Improved fiscal management and more efficient public expenditures on productive economic infrastructure and services can help to catalyze private investment and increase economic growth.</p> <p>3. Focus of (and resources allocated in) the transaction TA or due diligence. Poverty, gender, and social issues related to the financial sector and fiscal management will be carefully reviewed during program preparation and due diligence, including potential components and measures that should be considered. A summary poverty reduction and social strategy analysis will be undertaken during program preparation.</p> <p>4. Specific analysis for policy-based lending. The impact of the ADB policy intervention includes (i) improved stability, which will send positive signals to market; (ii) increased supply and demand for a broader range of financial services; and (iii) better public financial management leading to more productive public investments. Indirect beneficiaries will feel an impact that includes a broader range of financial services, increased use of financial services, greater financial inclusion, improved financial literacy, and better managed public investments in key economic infrastructure and services.</p>
II. GENDER AND DEVELOPMENT
<p>1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Tajikistan ranked 123rd out of 149 countries in the World Economic Forum's 2018 Global Gender Gap Index, with a score of 0.638, indicating limited progress from its 2007 score of 0.658. ^d Women have limited access to finance, with 9.1% of women holding an account at a financial institution compared to 13.9% of men. Enhancing financial inclusion is crucial to improving economic opportunities of women. Households headed by females are more at risk of poverty and are less likely to own valuable assets such as vehicles, land, and livestock, despite having equal legal rights as men to land, property, and contracts.</p> <p>2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>The program and transaction technical assistance (TA) will include a component on enhancing financial awareness; the TA explicitly helps enhance access to finance, including a focus on women and women-owned micro, small, and medium-sized enterprises. The reform areas for the program will explore including gender-related actions or measures, where possible, that are likely to narrow gender gaps or improve gender equality. Such areas include (i) introducing differential deposit insurance coverage for women-headed households, (ii) explicit targets and actions to improve women's access to finance and financial inclusion in the financial sector strategy and road map to be developed, and (iii) introducing gender responsive budgeting and analysis in the medium-term budget framework.</p> <p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <hr/> <p>4. Indicate the intended gender mainstreaming category:</p> <p><input type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input checked="" type="checkbox"/> SGE (some gender elements) <input type="checkbox"/> NGE (no gender elements)</p>
II. PARTICIPATION AND EMPOWERMENT
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.</p> <p>The program's stakeholders include the government, the National Bank of Tajikistan, the Ministry of Finance, IDIF, financial institutions, and consumers of the financial services. ADB will prepare the project design in close consultation with all stakeholders.</p> <p>2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded? As above.</p> <p>3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design?</p> <p><input type="checkbox"/> Information generation and sharing <input checked="" type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>ADB has conducted consultations with the National Association of Businesswomen of Tajikistan, Association of Microfinance Institutions of Tajikistan, Association of Banks, and the association of small and medium-sized enterprises. The level of civil society organization participation in the project design is expected to be medium.</p> <p>4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>

III. SOCIAL SAFEGUARDS	
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Resettlement framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
	<input checked="" type="checkbox"/> None
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI	
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
	<input checked="" type="checkbox"/> None
IV. OTHER SOCIAL ISSUES AND RISKS	
1. What other social issues and risks should be considered in the project design?	
<input type="checkbox"/> Creating decent jobs and employment	<input type="checkbox"/> Adhering to core labor standards
<input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS	<input type="checkbox"/> Labor retrenchment
<input type="checkbox"/> Increase in unplanned migration	<input type="checkbox"/> Increase in human trafficking
<input type="checkbox"/> Increase in vulnerability to natural disasters	<input type="checkbox"/> Affordability
<input type="checkbox"/> Creating internal social conflicts	<input type="checkbox"/> Creating political instability
<input type="checkbox"/> Others, please specify _____	
Not Applicable	
2. How are these additional social issues and risks going to be addressed in the project design?	
Not Applicable	
VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT	
1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?	
<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence?	
A gender consultant (national) will be engaged to (i) develop gender-related policy actions and (ii) ensure implementation of all social and gender activities across the reform areas, including gender-based budgeting.	
<p>^a Government of Tajikistan. 2017. National Development Strategy of the Republic of Tajikistan for the Period up to 2030. Dushanbe.</p> <p>^b ADB. 2016. Country Partnership Strategy: Tajikistan, 2016–2020. Manila.</p> <p>^c Only seven bank branches and nine ATMs per 100,000 adults versus, for example, 22 bank branches and 52 ATMs per 100,000 adults in Georgia (2012 Global Financial Inclusion (Findex) Database).</p> <p>^d World Economic Forum. 2012 The Global Gender Gap Report 2012. http://www3.weforum.org/docs/WEF_GGGR_2018.pdf.</p>	