

FINANCIAL ANALYSIS

A. Introduction

1. The financial analysis of the proposed project was conducted with reference to the Asian Development Bank (ADB) Operations Manual Section G2/BP¹ and by assuming a life expectancy of 15 years.
2. The proposed project will support the Government of Tajikistan in managing the expected increased severity and frequency of disasters triggered by natural hazards in the country and reducing the socioeconomic vulnerability of the population to natural hazards. In particular, the project will (i) support the efforts of the government to mainstream disaster risk management (DRM) in development planning, and (ii) lay the foundation for the setup of a sustainable institutional and financial mechanism that enables Tajikistan to effectively deal with disasters in the long term.
3. The project will focus on pre-disaster risk management. Potential beneficiaries will include vulnerable populations in disaster-prone areas of the country. The project will develop a comprehensive national risk profile, disaster analysis and hazard mapping, vulnerability to natural hazards and risk assessments, inventory of assets at risk, as well as an integrated national early warning system. This will provide disaggregated data on vulnerable communities and the extent of natural hazards they are exposed to. By mainstreaming this information and analysis into development planning, targeted interventions can be designed to reduce disaster risks faced by poor communities and enhance preparedness measures. The results of these interventions can be monitored through the disaster management information system that the project will establish.
4. The executing agency under the project is Tajikistan's Committee of Emergency Situations and Civil Defense (CESCD), a unit of the government. A project implementation group to be established under the CESCD will be the implementing agency. The financial analysis includes the following:
 - (i) projection of incremental recurrent costs, including operating and maintenance expenditures, required to ensure the sustainability of project assets; and
 - (ii) assessment of the capacity of the CESCD to fund recurrent costs.
5. The project does not seek to recover costs and does not have any income-generating components.

B. Incremental Recurrent Costs

6. **Project costs.** The project cost stream includes both capital and operational expenditures. The capital expenditures include all components, totaling \$9.3 million, but exclude price contingencies and financial charges during implementation.² The operational expenditures include annual maintenance expenditures (\$220,000 in annual maintenance costs) related to the project's capital investments and covering a period of 15 years (2024–2038).
7. **Machinery and equipment maintenance.** For machinery and equipment procured under the project, a budget allocation from the beneficiary (CESCD) will be used for maintenance expenditures after project implementation. The annual maintenance budget was calculated based on 7% of the purchase price of equipment and machinery, as per government cost norms.

C. Assessment of the Executing Agency's Capacity to Fund Recurrent Costs

¹ Issued on 14 March 2014.

² Project capital costs include the costs of contracts and consultant services, equipment, machinery, office setup, and staff expenditures.

8. Tajikistan's fiscal policy aims to contain current spending, although higher infrastructure outlays and weak revenues widened the budget deficit in 2017 to the equivalent of 2.5% of gross domestic product (GDP) (or \$178.6 million), from 1.7% (or \$118.2 million) in 2016. Revenues in 2017 equaled 31.0% of GDP, down from 32.1% in 2016, as further declines in imports caused shortfalls in collections of value-added tax, excises, and customs duties—despite better tax administration. Expenditure in 2017 equaled 33.5% of GDP, near the 33.8% recorded in 2016, despite fiscal consolidation and efforts to control costs while maintaining social programs and using foreign finance to expand capital spending. The fiscal policy is expected to remain tight, and the budget deficit is projected to remain at 2.5% of GDP in 2018 and 2019, consistent with the approved fiscal strategy for 2017–2020. Slower growth and constrained imports are projected to limit revenues to 30.2% of GDP in 2018 and to 30.9% in 2019. Expenditure is forecast to equal 32.7% of GDP in 2018 and 33.4% in 2019, as accelerated debt repayment and demands for public spending are expected to raise outlays. Budget expenditures since 2014 have been increasing by an annual 7% on average in line with robust economic growth rates. Despite the budget deficit, government spending on disaster preparedness (through budget allocations to the CESCDC) has been increasing.

9. The project's outputs will be maintained through ongoing annual state budget allocation following the project's completion. This will include the costs for maintaining equipment and machinery procured under the project. The current budget allocation for the CESCDC has increased in line with an increasing overall state budget driven by robust average annual growth rates of 7.2%. For 2018, the budget allocation for the CESCDC is about \$3.3 million equivalent, out of which about \$1.43 million is earmarked for salaries and \$1.90 million for post-disaster recovery, which includes maintenance of machinery and equipment. The expected \$220,000 annual maintenance cost for the project, to be shouldered from 2024, is feasible given the increasing trend of overall budget allocation for the CESCDC, even in a conservative scenario.

10. Since 2008, donors' support to the CESCDC totaled \$16.7 million, mainly through provision of machinery and equipment (no cash calls were observed). On top of this amount, the World Bank has a \$5 million project going, targeted at establishing the National Crisis Management Center, increasing awareness of CESCDC staff, and enhancing its capacity. Key donors are the Russian Federation (in partnership with the Russian Ministry of Emergency Situation), the United States, Japan, and Germany.

11. One of the outputs of the proposed ADB-assisted project involves the preparation of an investment plan for 10 years (2022–2032) for disaster risk management. It will also carry out a study for sustainable financing options for disaster risk reduction, preparedness, and response; and propose recommendations for establishing a sustainable financing mechanism. The government recognizes Tajikistan's vulnerability to natural hazards and their worsening trend under the impact of climate change. Development partners also are interested in supporting the country in managing these challenges. Therefore, sustainable financing options for disaster risk reduction, preparedness, and response will be ensured.

12. Until recently, government efforts in disaster risk management were limited to post-disaster response. But understanding and awareness of pre-disaster mitigation to reduce potential losses from natural hazard events have increased. For example, in June 2018, the government approved the CESCDC's national development program for 2018–2020, which envisages additional annual budget allocations of \$5 million to improve its internal structure, increase capacities, and raise staff awareness of DRM objectives. The development program is in line with Tajikistan's National Disaster Management Strategy 2018–2030.