



Tajikistan: Strengthening the Investment Climate in the Republic of Tajikistan

Project Name	Strengthening the Investment Climate in the Republic of Tajikistan	
Project Number	52315-001	
Country	Tajikistan	
Project Status	Active	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 9643-TAJ: Strengthening the Investment Climate in the Republic of Tajikistan	
	Technical Assistance Special Fund	US\$ 150,000.00
Strategic Agendas	Inclusive economic growth Regional integration	
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development	
Sector / Subsector	Finance - Money and capital markets Public sector management - Economic affairs management	
Gender Equity and Mainstreaming	Some gender elements	
Description		

Project Rationale and Linkage to Country/Regional Strategy

1. Robust growth but narrow economic base. Tajikistan's economy has grown at more than 7% per annum over the past two decades. The growth contributed to substantial declines in poverty but has been on a small base and Tajikistan remains one of the least well-off countries of the former Soviet Union. Tajikistan's per capita gross national income (Atlas method) in 2017 was \$990, with 29.3% (2017) of the population living below the national poverty line. The country's narrow economic base reflects overwhelming reliance on two export commodities, aluminum and cotton, and an import basket that includes most of the country's consumption of food and household items of general use. Remittances, mainly from workers in Russia, have been a major source of foreign exchange, peaking at nearly half the value of GDP in 2013 before declining to 35.8% in 2017. The country has substantial potential for exporting hydro-power, boosted by the recent thaw in relations with neighboring Uzbekistan that may enable future export revenues.

2. Severe development and macroeconomic challenges. Economic growth is constrained by landlocked and mountainous geography, low population density and a legacy of Soviet-era institutions and bureaucratic practices misaligned with a modern market economy. In recent years the government has used fiscal deficits to finance public investments and mitigate adverse shocks such as drop in remittances following sanctions against Russia. The public debt GDP ratio increased from 27.8% in 2015 to 54.7% in 2017 and is expected to further increase as the fiscal cost of further banking system restructuring along with clearing of arrears of state-owned enterprise borrowing materializes. The construction of the \$3.9 billion Rogun hydroelectric project (almost 50% of GDP) will add further pressure to external debt. The government recognizes that fiscal consolidation is necessary in the medium term, emphasizing strict expenditure prioritization and better management of scarce resources. However previous government efforts to increase revenues have also led to excessive taxes, regulations and inspections for businesses that have deteriorated the business environment and deterred private investment. The investment climate is also adversely affected by a financial sector that is underdeveloped and recovering from crisis. The proposed TA focuses on improvement of the investment climate conducive to both foreign and local investment and fostering growth of private business. The TA supports government priorities for promoting economic diversification and creating new productive jobs.

3. Ease of doing business: some progress but lot more needed. Tajikistan has made efforts to improve the business environment and its ranking in the World Bank's Doing Business surveys. The country signed the New York Arbitration Convention and joined the World Trade Organization (WTO) in 2013. These moves were matched by some progress in easing business regulatory burdens and curtailing government intervention in several sectors of the economy. In the 2018 Doing Business report, the country achieved some progress in Starting a business (+3.93 in Distance to Frontier on Doing Business Topics), Registering Property (+1.50), and Paying taxes (+3.82) compared to previous report. In Doing Business 2018, Tajikistan ranks 57 out of 190 economies on the ease of starting a business indicator. While this progress is noteworthy, a lot more needs to be done with Tajikistan still overall ranked 127 out of 190 in the 2018 Doing Business report. Tajikistan ranks 77 (out of 137 countries) based on the Global Competitiveness Index 2017-2018.

4. Financial sector deepening remains priority. The financial sector in Tajikistan is at an early stage of development. Two of the largest banks were recapitalized in 2016 and are again in financial distress. High levels of non-performing loans (32.6% as of end June 2018) are reported across the banking sector. Further recapitalization of banks would have significant fiscal costs: the previous recapitalization equaled almost 5% of the GDP. Several microfinance institutions are operational, though their lending rates are high, and loans are short-term (similar to banks). It is also not clear whether they are reaching the smallest borrowers or operating at the higher end of the size distribution of small firms. With its large and growing public debt, and its commitment to shift monetary policy to inflation targeting, the country needs to further develop domestic money and debt markets and strengthen institutions for public debt management. Other financial sub-sectors, such as insurance and mortgages are also at early stages of development. While some applications of digital technology are being introduced in the financial sector, formulation of more comprehensive possibilities and identifying constraints to enhancing fintech, e-banking, e-commerce and e-governance would be useful inputs to guide future ADB engagement with the sector.

Impact	Private investment and economic diversification increased.
Project Outcome	
Description of Outcome	Opportunities and interventions identified by 2020.
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	Investment climate assessed Applications of digital technology to financial sector assessed Roadmap for selected future ADB financial sector-programs to include capital markets, public debt management insurance and microfinance formulated
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer	Boboev, Muhammadi
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Tajikistan Resident Mission
Executing Agencies	<i>Asian Development Bank 6 ADB Avenue, Mandaluyong City 1550, Philippines</i>

Timetable

Concept Clearance	-
Fact Finding	12 Oct 2018 to 12 Oct 2018
MRM	-
Approval	19 Nov 2018
Last Review Mission	-
Last PDS Update	19 Nov 2018

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Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
150,000.00	0.00	0.00	0.00	0.00	0.00	150,000.00	-	0.00

Project Page <https://www.adb.org/projects/52315-001/main>

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