



Project Readiness Financing Report

Project Number: 53242-001
November 2019

Republic of Tajikistan: Tourism Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 18 October 2019)

Currency unit – somoni (TJS)

TJS1.00 = \$0.103168

\$1.00 = TJS9.6929

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
CTD	–	Committee of Tourism Development
PRF	–	project readiness financing
TSA	–	tourism satellite account
UNWTO	–	UN World Tourism Organization

NOTE

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

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 53242-001	
Project Name	Tourism Development Project	Department/Division	CWRD/TJRM
Country	Tajikistan	Executing Agency	Committee of Tourism Development under the Government of the Republic of Tajikistan
Modality	Project Readiness Financing (Grant)		
Borrower	Government of Tajikistan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=53242-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53242-001-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Water and other urban infrastructure and services	Other urban services	ADB Financing (\$ million)	2.00
Industry and trade	Renovation and protection of cultural heritage		2.00
Transport	Trade and services		2.00
	Multimodal logistics		4.00
		Total	10.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Making cities more livable			
✓ Strengthening governance and institutional capacity			
✓ Fostering regional cooperation and integration			
Sustainable Development Goals		Poverty Targeting	
SDG 8.9		General Intervention on Poverty	✓
SDG 9.1			
SDG 11.4, 11.7			
SDG 12.2			
4. Risk Categorization:	Low		
5. Safeguard Categorization	Not Applicable.		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		10.00	
Sovereign Project grant: Asian Development Fund		10.00	
Cofinancing		0.00	
None		0.00	
Counterpart		1.00	
Government		1.00	
Total		11.00	
Currency of ADB Financing: US Dollar			

I. PROJECT READINESS FINANCING

A. Rationale

1. Almost three decades since becoming independent, Tajikistan remains one of the poorest of the former Soviet republics with a gross national income per capita of \$1,010 (Atlas method).¹ Nonetheless the country has made important strides in developing its economy, sustaining political stability, and reducing national poverty² (from 81% in 1999 to 29.5%).³ Although starting from a small base, the country's gross domestic product (GDP) has shown robust growth, exceeding 7% per annum from 2008 to 2018. These achievements are impressive considering that 93% of the country comprises mountainous terrain—one of highest percentages in the world—leaving only 7% suitable for agriculture, which employs 44.8% of the population.⁴ Manufacturing comprises only 17.3% of Tajikistan's GDP, reflecting both the country's economic distance from potential markets and its past as a controlled economy lacking dynamic market-based institutions (footnote 4).

2. Tajikistan's lack of economic diversification manifests itself in two ways. First, the country's exports are concentrated in two commodities that together account for 29.3% of its total exports—raw cotton and unwrought aluminum.⁵ Second, currently the country imports most of the products it consumes from basic manufactured items for household consumption to processed foods and industrial goods. The negative balance of trade that this creates is mitigated by large-scale remittances. At their peak in 2013, overseas foreign workers accounted for more than 10% of the population and remittances accounted for nearly 49.6% of GDP.⁶ Tajikistan urgently needs to explore other avenues for producing growth-enhancing exports over the medium term, and tourism is a natural choice.

3. According to the United Nations World Tourism Organization (UNWTO), tourism has been one of the fastest-growing industries globally in recent decades. From 2001 to 2017, the value of the global tourism industry more than doubled to \$1.4 trillion from \$680 billion, and 2017 saw the highest growth in international tourist arrivals globally since 2009.⁷ Tourism can contribute to several Sustainable Development Goals, boost entrepreneurship and private sector development, create jobs, promote gender equality and women's participation in economic growth, and if designed well can help support the sustainable use and conservation of natural and ecological resources. Tajikistan is recognized as a potential tourism hotspot because of its mountainous topography, natural assets, culture, and history as an important link along the old Silk Road. However, this potential remains largely untapped for various reasons, including poor connectivity, inadequate infrastructure, the absence of a comprehensive tourism ecosystem to ensure quality service delivery, weak institutional and regulatory capacity, and a poor business environment.

¹ World Bank. Atlas Method.

<https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=TJ>

² The thresholds of the national poverty line on monthly consumption are less than TJS162 for poor, less than TJS230 for vulnerable, and less than TJS294 for middle class.

³ Agency on Statistics under the President of the Republic of Tajikistan. 2018. *Food Security and Poverty, #4*. Dushanbe.

⁴ Government of Tajikistan, Agency on Statistics. 2019. *Socio-economic Situation in the Republic of Tajikistan January–December 2018*. Dushanbe.

⁵ National Bank of Tajikistan. 2018. https://nbt.tj/en/payments_balance/.

⁶ ADB. 2017. *Asian Development Outlook 2017*. Manila.

⁷ United Nations World Tourism Organization. 2018. *Tourism Highlights 2018*. Geneva. <https://www.e-unwto.org/doi/pdf/10.18111/9789284419876>.

Tajikistan placed 107th out of 136 countries in the World Economic Forum's 2017 ranking of travel and tourism competitiveness.⁸

4. The government of Tajikistan has designated 2019–2021 as the “Period of Rural Development, Tourism and Folk Crafts.” The government adopted its National Development Strategy for Tourism in August 2018.⁹ The strategy identifies a range of tourism categories (e.g., ecotourism, extreme tourism, mountain tourism, religious tourism, health tourism, historical tourism, cultural tourism, and hunting tourism) but fails to strategically prioritize the categories, identify investment needs, or adopt financing plans. This reflects an absence of information on the status of tourism activities in the economy and on the market's demand for Tajikistan's tourism products.

5. The government has adopted modest measures to promote tourism, including the introduction of an e-visa system and the provision of tax exemptions for investments in tourism-related facilities such as small hotels and motels, hunting and fishing facilities, and mountaineering infrastructure. However, it has yet to formulate a tourism satellite account (TSA), which is a strategic prerequisite for developing and monitoring the tourism industry in the country that provides data on, for instance, tourism's share of GDP, national employment, and foreign direct investment; the relationship of tourism to net foreign exchange flows; or revenues and expenditures broken down by tourism category. Asian Development Bank (ADB) support is needed to move the government's development efforts to the next level. Priorities include the development of comprehensive market data for an industry that is essentially demand-driven; strategic prioritization of tourism categories and geographical regions; identification of an upstream project pipeline; and institutional and capacity development. It is expected that ADB will be the lead partner in the tourism subsector and will help coordinate other development partners' largely sporadic or one-off initiatives. The project readiness financing (PRF) is consistent with ADB's country partnership strategy that focus on diversifying the economy.¹⁰ It is listed in the ADB country operations business plan for Tajikistan, 2020–2022.¹¹

B. Outputs and Activities

6. **Output 1: Tourism development plan prepared.** This output will prepare a tourism development plan based on the following three subcomponents.

- (i) **Develop a tourism satellite account.** The PRF will help Tajikistan develop its first TSA as well as build capacity for the government to periodically develop future TSAs. The Committee of Tourism Development (CTD) under the Government of Tajikistan, the executing agency, will undertake this subcomponent in coordination with the Economic Research and Regional Cooperation Department, ADB and UNWTO, which has helped countries around the world adopt TSAs. CTD will establish a destination management organization and will also draft tourism plans for heritage sites with the support of UNWTO.
- (ii) **Characterize market demand and undertake skills mapping for the tourism ecosystem.** This subcomponent will address data deficiencies related to strategic

⁸ World Economic Forum. 2017. Geneva.

http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf. 2017.

⁹ Republic of Tajikistan. 2018. *Tourism Development Strategy for the period until 2030*. Dushanbe.

¹⁰ ADB. 2016. *Country Partnership Strategy: Tajikistan, 2016–2020*. Manila.

¹¹ ADB. 2019. *Country Operations Business Plan: Tajikistan, 2020–2022*. Manila.

prioritization, namely, analysis of demand for Tajikistan's tourism attractions. It shall support assess needed skills versus available skills for the tourism ecosystem, assess training needs (in particular for women), and explore the potential for women to enter into tourism jobs that are not traditionally female-oriented.¹²

- (iii) **Institutional strengthening and creating an enabling environment.** This subcomponent will strengthen the structure, staff capacity, and business processes of the executing agency, the CTD; streamline interministerial and interagency coordination; improve interaction between public and private sector organizations; enhance capacity of the agencies directly linked to tourism (such as the Agency of Statistics under the President of the Republic of Tajikistan, and the ministries of transport, finance, and internal affairs) to collect and assess tourism-related information; and identify priority policy actions related to improving connectivity (air and land), airport and border procedures, and ease of doing tourism-related businesses. The PRF will facilitate increased coordination with Uzbekistan, which is the largest potential tourism market in the region and can provide a valuable boost to Tajikistan tourism through joint product development.¹³

7. **Output 2: Pipeline of investments developed.** The PRF will identify priority investments and policy actions to promote the targeted tourism categories and regions. An investment pipeline comprising at least two stand-alone and two multisector projects will be developed. The projects may comprise public sector, private sector and public-private partnership.

8. **Output 3: Investment projects prepared.** The CTD will firm up the investment pipeline by carrying out feasibility studies of the projects in the pipeline. These will comprise technical, economic, financial, social, and environmental due diligence; gender and safeguards assessment; categorization of subprojects in accordance with ADB's Safeguards Policy Statement (2009); and financial management and procurement capacity assessment of the executing and implementing agencies of ensuing projects. The CTD will coordinate completion of the detailed engineering design and procurement documents of all subprojects, and link and supplementary documents for report and recommendation of the president for ensuing projects, with the respective sector agencies. All ensuing projects will be procurement-ready.

C. Ensuing Projects

9. Future projects will be agreed between ADB and the government, using the agreed selection criteria.¹⁴

D. Cost Estimates and Financing Arrangements

10. The project readiness financing is estimated to cost \$11.0 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹⁵

¹² This subcomponent will be coordinated with ADB's *Skills and Competitiveness Sector Investment Project*, proposed for approval in 2020.

¹³ On regional cooperation and integration, the PRF activities will coordinate closely with the Regional Knowledge and Support Technical Assistance: *Sustainable Tourism Development in the Central Asia Regional Economic Cooperation Region*, Project No. 53148-001.

¹⁴ The selection criteria for choosing such projects is accessible from the list of linked documents in the Appendix.

¹⁵ Project Administration Manual (accessible from the list of linked documents in the Appendix).

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1	2.20
2. Output 2	1.30
3. Output 3	6.50
Subtotal (A)	10.00
B. Contingencies	1.00
Total (A+B)	11.00

^a Includes taxes and duties of \$1.0 million. Such amount does not represent an excessive share of the project cost. The government will finance taxes and duties of \$1.0 million as exemption.

^b In mid-2019 prices as of 30 June 2019.

Source: Asian Development Bank.

11. The government has requested a grant not exceeding \$10,000,000 from ADB's Special Funds resources (Asian Development Fund) to help finance project preparation and design activities. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to consulting services, surveys and institutional strengthening.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (ADF grant)	10.0	90.9
Government	1.0	9.1
Total	11.0	100.0

ADF = Asian Development Fund.

Source: Asian Development Bank.

E. Implementation Arrangements

12. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 15). Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time) and its associated staff instructions.

Table 3: Implementation Arrangements for Project Readiness Financing

Aspects	Arrangements		
PRF implementation period	January 2020–December 2023		
Estimated PRF completion	31 December 2023		
Management			
(i) Executing agency	Committee of Tourism Development		
(ii) Key implementing agencies	Committee of Tourism Development		
Consulting services	ICS	172 person-months	\$1,773,700
	QCBS 90:10	person-months TBD	\$7,226,300
	FBS (NGOs)	2 contracts	\$350,000
	SSS (UNWTO)	lump sum	\$400,000
	Audit	block audit firm	\$50,000
Procurement (office equipment, furniture and supplies)	Request for quotation	multiple contracts	\$200,000
Advance contracting	Individual consultants, NGOs (2 contracts), UNWTO		

Aspects	Arrangements
Disbursement	Disbursements under PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.

ADB = Asian Development Bank, FBS = fixed budget selection, ICS = individual consultant selection, NGO = nongovernment organization, PRF = project readiness financing, QCBS = quality- and cost-based selection, SSS = single source selection, TBD = to be determined, UNWTO = United Nations World Tourism Organization.

Source: Asian Development Bank.

13. The CTD, as the executing agency, has delegated selection of consultants under advance contracting to ADB because it lacks experience in recruiting consultants for ADB-financed projects. The CTD will negotiate with the consultants and sign contracts. ADB will recruit two packages of nongovernment organizations, UNWTO, and three international individual consultants for implementing output 1. The CTD will recruit the consulting firm(s) using QCBS (90:10), four national individual consultants, and will procure small goods packages for institutional strengthening. The government will recruit an audit firm for block audit of all ADB financed projects and all projects will share the cost. The project will share \$50,000 in the cost of the block audit.

II. DUE DILIGENCE

14. **Governance.** A financial management assessment and a procurement capacity assessment of the executing agency were conducted in July 2019. The assessments show substantial risk for financial management and low risk for procurement. The CTD's Finance Division, which has four full-time accountants and one support staff, will handle finance matters and accounts for the project. To mitigate the risk, PRF will provide support for a national financial management specialist—an individual consultant with experience in projects financed by multilateral development banks (preferably ADB). ADB will provide training on ADB's grant disbursement procedures to the staff of CTD. The executing agency does not have experience in recruiting consulting services for projects financed by ADB or other multilateral development banks. ADB will recruit consulting services under advance contracting and the CTD will execute contracts to mitigate the risk.¹⁶ An international procurement specialist will be recruited to help the CTD in subsequent recruitments.

15. **Safeguards.** Since the proposed activities consist of consulting services only, activities have not been categorized in accordance with ADB's Safeguards Policy Statement (2009). Due diligence for social and environmental safeguards of the selected projects will be carried out during the feasibility studies and detailed engineering design that will be financed by the PRF.

III. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved the grant not exceeding \$10,000,000 to the Republic of Tajikistan from the Special Funds resources (Asian Development Fund) of the Asian Development Bank, for the Tourism Development Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement; and hereby reports this action to the Board.

¹⁶ ADB (Tajikistan Resident Mission). 2019. Signed Memorandum of Understanding of the Fact-Finding Mission. 15 July (internal).

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=53242-001-PRF>

1. Grant Agreement
2. Project Administration Manual
3. Project Selection Criteria

Supplementary Document

4. Financial Management Assessment