



Report and Recommendation of the President to the Board of Directors

Project Number: 54156-001
June 2020

Proposed Countercyclical Support Facility Grant Republic of Tajikistan: COVID-19 Active Response and Expenditure Support Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 June 2020)

Currency unit – somoni (TJS)

TJS1.00 = \$0.0974

\$1.00 = TJS10.269

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CARES	–	COVID-19 Active Response and Expenditure Support
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MCH	–	maternal and child health
MOF	–	Ministry of Finance
MOHSP	–	Ministry of Health and Social Protection
MSMEs	–	micro, small, and medium-sized enterprises
NBT	–	National Bank of Tajikistan
SOE	–	state-owned enterprise
TA	–	technical assistance
TSA	–	targeted social assistance
VAT	–	value-added tax
WHO	–	World Health Organization

NOTE

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

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 54156-001	
Project Name	COVID-19 Active Response and Expenditure Support Program	Department/Division	CWRD/CWPF
Country	Tajikistan	Executing Agency	Ministry of Finance
Borrower	Republic of Tajikistan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=54156-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54156-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		25.00
	Social protection initiatives		12.50
Health	Disease control of communicable disease		12.50
		Total	50.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
✓ Fostering regional cooperation and integration			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.5, 1.a, 1.b		Effective gender mainstreaming (EGM)	✓
SDG 3.3, 3.8			
SDG 5.1, 5.c			
SDG 8.1, 8.8			
SDG 9.1			
SDG 10.4			
SDG 17.4			
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Low		
5. Safeguard Categorization	Environment: C	Involuntary Resettlement: C	Indigenous Peoples: C
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.00	
Sovereign COVID19 Pandemic Response Option: Asian Development Fund		50.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		50.00	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to the Republic of Tajikistan for the COVID-19 Active Response and Expenditure Support (CARES) Program, under the Countercyclical Support Facility–COVID-19 pandemic response option.¹

2. Tajikistan is experiencing significant adverse economic and social impacts from the coronavirus disease (COVID-19) pandemic, and a rapid increase in domestic cases and deaths. Preventative measures and external factors are causing economic growth to decelerate sharply, and unemployment and poverty to increase. To mitigate these impacts and protect the fragile health system, the government adopted urgent pro-poor countercyclical measures and expenditures, including (i) a health sector and social protection response package to assist poor and vulnerable groups, and (ii) measures to ensure food security and support to businesses prone to experiencing severe effects. The proposed Asian Development Bank (ADB) program will, in the short term, support the government's COVID-19 countercyclical responses and financing needs, to help mitigate the adverse health, social, and economic impacts of the crisis, while targeting poor and vulnerable groups and ensuring gender mainstreaming.² It will complement cooperation efforts to contain the pandemic in the Central Asia Regional Economic Cooperation (CAREC) region. The program, to be implemented during 2020, was developed in close coordination with the International Monetary Fund (IMF) and supports fiscal sustainability in the medium term as well as economic recovery.

3. Tajikistan meets all six access criteria of ADB's COVID-19 pandemic response option under the Countercyclical Support Facility (Table 1 and Appendix 3).

Table 1: Compliance with Access Criteria for COVID-19 Pandemic Response Option

Eligibility Criteria	ADB Assessment
1. Adverse impact of exogenous shock	The COVID-19 pandemic is causing significant socioeconomic shock to Tajikistan. From 30 April to 31 May 2020, the country reported 3,930 positive COVID-19 cases and 47 deaths. The IMF forecasts a recession in 2020, with GDP growth of –2%. Revenue shortfalls of 15% will expand the fiscal deficit to 7.7% of GDP, and the currency was devalued by 5%. Key transmission mechanisms include a sharp reduction in remittances, international trade, and foreign direct investment; and slowdowns in the transport, tourism, retail, and finance industries. The health sector is not sufficiently equipped to respond to a large-scale health crisis, and unemployment and poverty are expected to rise.
2. Countercyclical development expenditure	The government prepared a countercyclical package for COVID-19 response measures under the Tajikistan COVID-19 Country Preparedness and Response Plan, approved on 19 March 2020: (i) increased targeted social assistance for poor and vulnerable groups, (ii) health sector response measures to combat COVID-19, (iii) food security measures, and (iv) measures to support MSMEs and to safeguard employment. Estimated cost of the package is \$364 million.
3. Pre-shock record of generally sound	Pre-shock GDP growth was strong, averaging 7.1% over 2016–2019 and leading to poverty reduction. The fiscal deficit increased in 2017 to 6.0% of GDP as the government stepped up borrowing but narrowed to 2.8% in 2018 and 2.1% in 2019.

¹ ADB. 2020. Policy Paper: ADB's Comprehensive Response to the COVID-19 Pandemic. Manila.

² ADB received a formal request from the President of Tajikistan for budget support to respond to the pandemic emergency on 16 March 2020. An initial draft of the design and monitoring framework is in Appendix 1, and the list of linked documents is in Appendix 2. Transaction technical assistance will not be provided for program preparation.

Eligibility Criteria	ADB Assessment
macroeconomic management	Before the shock, the government had reduced total public debt from 50% in 2017 to 45% of GDP in 2019 and aimed to maintain strong growth and a stable budget deficit in 2020. The government was implementing structural reforms pre-shock supported by development partners to improve macro-fiscal management. Inflation had been dampened by improved monetary operations and remained within NBT's target range of 6% (+/- 2%).
4. Structural reforms (health sector response)	The government implemented rapid COVID-19 responses such as travel restrictions, set up a task force for interministerial and development partner coordination, and requested development assistance (main text, Table 2). The proposed program supports the government's countercyclical and health response measures to prevent, prepare for, and combat the spread of COVID-19. This includes expanding the capacity of the health sector, increasing the salaries of health workers, and obtaining additional medical supplies and personal protective equipment.
5. Debt sustainability	Pre-shock, the IMF had assessed Tajikistan to be at high risk of debt distress. The updated ADB debt sustainability analysis projects that public debt will increase from 45.4% of GDP in 2019 to 47.6% of GDP in 2020 in the base scenario, from additional concessional borrowing, and will stabilize in the medium term. The proposed \$50 million ADB grant will create fiscal space and help improve debt sustainability. Expected financing from other international financial institutions in 2020 is on concessional terms and will not significantly affect debt sustainability, and the IMF has granted debt relief of \$28.49 million. To improve debt sustainability, the government committed to (i) avoid nonconcessional external borrowing, (ii) pursue medium-term fiscal consolidation including reprioritization of public spending, and (iii) strengthen public debt management.
6. IMF coordination	ADB maintained close and strong coordination and collaboration with IMF staff in Tajikistan and at headquarters to prepare the program, including frequent discussions and information sharing on the impact of the crisis and the response. On 6 May 2020, IMF approved a rapid credit facility for Tajikistan of \$189.5 million and issued an updated macro-fiscal assessment to reflect the change in the macro-fiscal environment. The IMF supports the ADB program.

ADB = Asian Development Bank; COVID-19 = coronavirus disease; GDP = gross domestic product; IMF = International Monetary Fund; MSMEs = micro, small, and medium-sized enterprises; NBT = National Bank of Tajikistan.
Source: Asian Development Bank.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

4. **COVID-19 pandemic.** COVID-19 rapidly accelerated into a global pandemic, as declared by the World Health Organization (WHO) on 11 March 2020. The number of cases grew exponentially across countries and continents, resulting in closed borders, travel restrictions, lockdowns, and national health crises. Tajikistan confirmed its first 15 cases of COVID-19 on 30 April 2020, and by 31 May 2020, that number had risen to 3,930. It also confirmed 47 deaths.³ The country has a fragile health system, which is facing increasing pressure and remains highly vulnerable to the COVID-19 pandemic. Limited testing capacity, and absence of strict social distancing and self-isolation measures has given rise to the rapid growth of cases.⁴ Only 7,700 tests were completed in Tajikistan up to 12 May 2020, indicating a high probability of undetected

³ Ministry of Health and Social Protection's daily reports. <http://moh.tj/> (accessed 1 June 2020).

⁴ Tajikistan's technology infrastructure and employment profile are not well suited to work-from-home measures.

cases. The government implemented rapid measures at the start of the global outbreak to prevent the spread of the virus and protect the health system (Table 2).

Table 2: Summary of Government Measures to Control the COVID-19 Pandemic

Measure	Description
Travel restrictions	Border with the PRC closed in January 2020, and citizens from five high-risk countries prohibited from entering Tajikistan from February 2020. All flights suspended and airports closed from 20 March 2020.
Quarantine	More than 12,500 people quarantined, including those arriving from overseas as of 5 May 2020 (World Health Organization statistics update).
Medical supplies and test kits	Government received 46,000 test kits and medical supplies, largely from the PRC, the Russian Federation, and Germany from February to May 2020.
Task force	Task force established, chaired by the Prime Minister, to determine measures to mitigate the COVID-19 pandemic and address its impacts.
Preparedness plan	Government approved the Tajikistan COVID-19 Country Preparedness and Response Plan on 19 March 2020.
Social distancing	In March 2020, sports, cultural events, and some businesses closed, including hotels, theaters, and travel companies (suspension of business activity). Meetings and gatherings cancelled. In April 2020, Dushanbe City celebrations cancelled and mosques closed; and nonfood markets and schools closed from 27 April 2020. Wearing of masks made compulsory from 30 April 2020. On 5 May 2020, summer vacation declared for schools and universities (until 17 August 2020).

COVID-19 = coronavirus disease, PRC = People's Republic of China.

Source: Asian Development Bank.

5. Pre-shock record of generally sound macroeconomic management. Gross domestic product (GDP) growth averaged 7.1% during 2016–2019, driven mainly by remittance-funded consumption, service sector growth, high public investment, and state led industrialization, despite low private investment. The fiscal deficit spiked in 2017 to 6.0% of GDP as the government increased borrowing to fund the recapitalization of two state-owned banks left insolvent by the 2015 financial crisis, and boosted capital expenditure for the Rogun Hydropower Project.⁵ Subsequently the government was able to bring the fiscal deficit under control, which narrowed to 2.8% of GDP in 2018 and 2.1% in 2019, partly because expenditure on the Rogun Project was contained. Before the COVID-19 shock, the fiscal deficit was projected to rise to 5.2% of GDP in 2020 and then stabilize to an average 4% in 2021–2022. The growth rate rose from 7.3% in 2018 to 7.5% in 2019, and public debt was on a downward trend from a peak of 50.4% of GDP in 2017 to 44.6% in 2019. The current account deficit also narrowed from 5.0% of GDP in 2018 to 2.3% in 2019, but was on course to increase to 5.2% in 2020.⁶ The ratio of tax to GDP remained rather high at an average 21% of GDP during 2017–2019.⁷ Inflation was dampened by improved monetary operations and stayed within the National Bank of Tajikistan (NBT) target range of 6% (+/-2%), although exchange rate policy remained restrictive. The government also took positive steps to improve the supervision and regulation of banks. Nonperforming loans fell from 47.6% in 2016 to 26.1% in 2019, and profitability had improved since 2015, although two large state-owned

⁵ The Rogun hydropower plant has a planned capacity of 3,600 megawatts and an estimated cost of \$4.9 billion (exceeding 50% of GDP). Construction is ongoing and has accelerated since improved relations with Uzbekistan in 2018. The government views the project as critical to resolving Tajikistan's winter electricity deficit and establishing the country as a regional energy supplier. The launch of the first two of six units (in November 2018 and September 2019) boosted Tajikistan's electricity exports to Afghanistan and Uzbekistan.

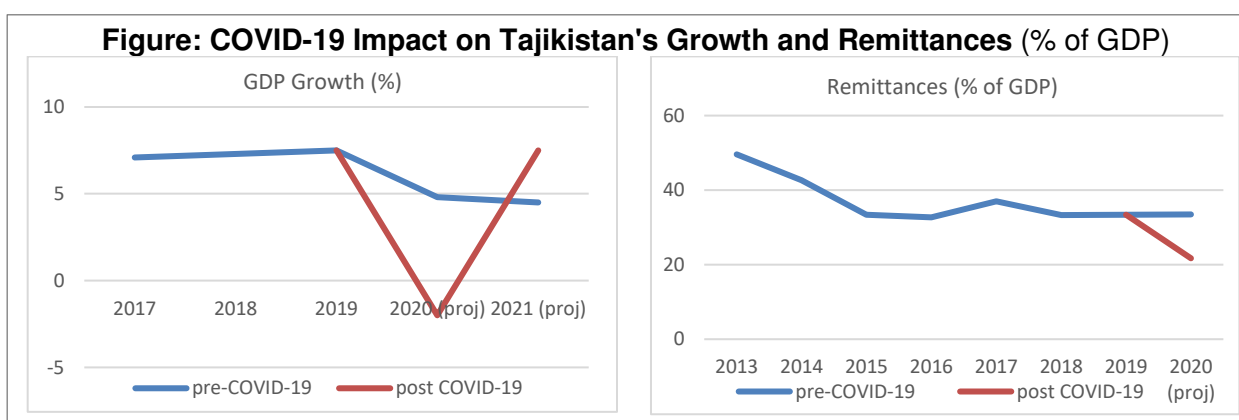
⁶ IMF. 2020. Republic of Tajikistan: Request for Disbursement under the Rapid Credit Facility – Press Release; Staff Report; and Statement by the Executive Director for the Republic of Tajikistan. Washington, DC.

⁷ IMF. 2020. Press Release No. 20/12, 17 January 2020. Washington, DC.
<https://www.imf.org/en/News/Articles/2020/01/17/pr2012-tajikistan-imf-executive-board-concludes-2019-article-iv-consultation-with-the-republic>

banks remained insolvent.⁸ Supported by ADB and other development partners, the government has been implementing public financial management reforms to improve fiscal management, and reforms to state-owned enterprises (SOEs) in the energy sector to improve their performance and corporate governance, and reduce losses and fiscal risks. Overall, Tajikistan's record of macroeconomic management was generally sound and had been improving before the shock.

6. **Economic impact.** COVID-19 significantly weakens Tajikistan's economy as prevention measures and external factors slow domestic consumption and the output of firms, including MSMEs. The main economic transmission mechanisms are a sharp reduction in remittances, international trade, and foreign direct investment; and slowdowns in the transport, tourism, retail, and finance industries. Tajikistan is vulnerable to external shocks, as experienced during the 2015 plunge in oil prices, when falling remittances and exchange rate depreciation triggered a long-lasting financial crisis. The COVID-19 pandemic will lead to a recession in the Middle East and Central Asia region, with negative growth of -2.8% forecast for 2020.⁹ Consequently, Tajikistan's economic growth is expected to decelerate sharply from 7.5% of GDP in 2019 to -2% in 2020 based on IMF estimates (Figure), as a direct result of COVID-19. The IMF previously forecasted that growth would slow down to 4.8% of GDP in 2020. The sharpest contraction is expected in the service industry, which contributes 50% of GDP and employs about 28% of the workforce.

7. **Remittances.** Tajikistan is heavily dependent on remittance income, 95% of which comes from about 1 million migrant workers in the Russian Federation.¹⁰ The rapid fall in oil prices in the first quarter of 2020 and the negative impact of COVID-19 on the Russian economy left an estimated 500,000 migrant workers (5.2% of Tajikistan's population) unable to return to work at the start of the 2020 migrant work season. Migrant workers still abroad (about 500,000) faced job losses or were isolated abroad. The depreciation of the ruble against the somoni by 18% in the first quarter of 2020 also lowered the value of remittances received. Consequently, remittances are expected to fall by at least 35% in 2020 (Figure), equivalent to about \$1 billion. This will have a significant social impact since more than 50% of households (about 735,000) rely primarily on remittances for the consumption of food and basic necessities and are mostly located in the poorest regions and districts of the country.¹¹



COVID-19 = coronavirus disease, GDP = gross domestic product, proj = projected.

Sources: International Monetary Fund, National Bank of Tajikistan, and Asian Development Bank.

⁸ NBT. 2020. Financial Soundness Indicators. <https://nbt.tj/files/suboti-moliyavi/2019/Pokazатели%20финансовой%20устойчивости%20декабрь%202019%20eng.pdf>

⁹ IMF. 2020. *World Economic Outlook*. Washington, DC.

¹⁰ Migration data sourced from Russian Ministry of the Interior. (accessed 1 June 2020). https://mvd.ru/upload/site1/document_news/temp/_1579685901_8322/SAYT_2_RD_19kv4_na_otpravku.xlsx

¹¹ World Bank. 2020. Project Appraisal Document: Tajikistan Emergency COVID-19 Project. Washington, DC.

8. **Trade and investment.** The COVID-19 pandemic has led to economic uncertainty, a drop in commodity prices, disruption to trade and supply chains, and lower tourism income. It significantly reduced foreign investment flows to Tajikistan from the People's Republic of China and the Russian Federation. The value of exports fell 16.1% in the first quarter as trade slowed with neighboring countries, which receive 38% of Tajikistan's total exports.¹² Domestic businesses that rely on imported raw materials and intermediate goods are facing supply constraints; this is particularly apparent for MSMEs, although they account for a small share of total trade. Falling exports and remittances will widen the current account deficit in 2020 from 5.2% to 7.7% of GDP (footnote 9), and are putting downward pressure on the somoni exchange rate and international reserves (equal to \$1.47 billion or 5.3 months of imports as of year-end 2019). In March 2020, the somoni was devalued by 5%, increasing the prices of imported food items. Headline inflation averaged 10.6% by the end of April 2020 (up from 8.3% in the same period in 2019), which is above the NBT's target range.

9. **Health sector.** Tajikistan's fragile health sector is ill-prepared to deal with a large-scale health crisis such as COVID-19 and the accompanying surge in demand for medical services, as indicated by its ranking of 130th out of 195 countries in the Global Health Security Index.¹³ The sector has insufficient resources, and government spending on health is low at 7.0% of general government spending, compared with 12.0% in the Kyrgyz Republic and a regional average of 16.0%.¹⁴ Out-of-pocket spending accounts for 60% of combined health expenditure, and total health expenditure (public and private) per capita is the lowest in the region at \$170.¹⁵ Tajikistan health sector capacity is limited, physical health infrastructure is inadequate, and there is a lack of trained medical personnel to respond to the COVID-19 pandemic. Its ratio of 20.9 doctors per 10,000 people is below the Central Asia average of 34 doctors per 10,000 people.¹⁶ The supply and productive capacity for personal protective equipment in the country—such as masks, gloves, overalls, disinfectants—is insufficient to meet demand. In terms of intensive care units, the total capacity for treating the most severely ill patients with ventilators was estimated to be only 510 at the start of the outbreak. Only one laboratory in the country fully meets international standards for testing, and there is a lack of qualified technicians to analyze coronavirus tests. Limited test kits are available and are being used only for patients showing symptoms (46,000 test kits have been received as of May 2020, and their quality and accuracy have given rise to concerns).

10. **Poverty impact of COVID-19.** Tajikistan remains one of the lowest income economies in Central Asia, with gross national income per capita of \$1,010 (Atlas method) in 2018. The national poverty rate is 27.4%, 12% of the population is extremely poor, and an additional 46% of the population is classified as vulnerable and at risk of falling into poverty.¹⁷ According to the 2016 Tajikistan Labor Force Survey, about 29.4% of the labor force was informally employed, and high youth unemployment (21%) is particularly problematic.¹⁸ Also, 73% of the population is based in rural areas, and agriculture absorbs 58% of the workforce, many of whom have low incomes and comprise vulnerable groups close to the poverty line. Accelerating inflation combined with labor market impacts and lower remittances will significantly affect poor and vulnerable households.¹⁹

¹² National Bank of Tajikistan. Balance of Payments. http://nbt.tj/en/payments_balance/analytical_table.php

¹³ Global Health Security Index. 2019. Country Profile for Tajikistan. <https://www.ghsindex.org/country/tajikistan/>

¹⁴ World Bank. [World Development Indicators](#) (accessed 15 May 2020).

¹⁵ WHO. 2016. [Tajikistan: Health System Review](#). Copenhagen.

¹⁶ Tajikistan has 490 hospitals with 40,400 beds (44.3 beds per 10,000 people), 19,100 doctors (20.9 per 10,000 people) and 54,000 paramedical (nursing) personnel (59.2 per 10,000 people) (Tajikistan Statistics Agency).

¹⁷ Poverty figures are sourced from the Tajikistan Statistics Agency 2018 Household Budget Survey.

¹⁸ International Labor Organization estimate. <https://www.statista.com/statistics/813092/youth-unemployment-rate-in-tajikistan/> (accessed 1 June 2020).

¹⁹ Tajikistan has 1,469,856 households, of which about 402,000 are poor and 676,000 are vulnerable (Tajikistan Statistics Agency).

As a result, ADB estimates unemployment to increase from 2.4% (official figures) to more than 7.0%, while the poverty incidence could worsen from 27.4% to more than 30.0% as a result of COVID-19, equivalent to about 250,000 people falling below the national poverty line.²⁰

11. **Gender impact of COVID-19.** Women are among those most vulnerable to the fallout from the COVID-19 pandemic. They are heavily represented in the health sector (84% of the total workforce, including 39% of doctors and 99% of nurses) and are disproportionately at risk of exposure to infected patients. While the government has shifted much of its resources to combat COVID-19, it has ensured that other health programs, such as maternal and child health (MCH) programs, remain a priority. For example, MCH protocols will be adjusted to ensure that pregnant women and young children can continue to have health check-ups without risk of infection. New protocols will also be developed to ensure women's safety from COVID-19 infection during labor. Women make up around 50% of workers in the service industry and agriculture, and 24% of MSMEs in Tajikistan are owned by women, so COVID-19's negative impact on these economic sectors has displaced many of them. Of the businesses owned by women, 99% are classified as small and are disproportionately more vulnerable to falls in consumer demand and risk of closure. Purchasing food and essential goods is becoming less affordable, particularly for households headed by women, which suffer from the sharp fall in remittances.²¹ The number of women experiencing regular physical, psychological, or sexual violence may increase during the economic downturn. While COVID-19 measures are in place, responsible local government units will be closely monitoring a potential increase in the cases of domestic violence.

12. **Food security.** The prevalence of moderate or severe food insecurity in the total population for 2016–2018 stands at 29.6%, almost double the 15.8% average for Central Asia.²² Tajikistan is a net food importer, and food security is at risk from the impact of COVID-19. The prices of essential food items in the market, mostly those imported and subject to exchange rate fluctuations, increased in the first quarter of 2020, affecting the poor in particular.²³ Kazakhstan is a key source of wheat but has decreased its food exports to Tajikistan since the COVID-19 outbreak. The Eurasian Economic Union introduced restrictions on exports of food items to non-union members such as Tajikistan, and on 26 April 2020 the Russian Federation embargoed wheat exports.²⁴ Besides being internally food-insecure, Tajikistan is mostly a price-taker in both import and export markets, and the domestic supply chain is fragmented. Falling remittances and alternative income sources are in turn depriving farmers of the ability to purchase agricultural inputs such as seeds and fertilizer, which will lead to a reduction in agricultural production and food supply.

13. **Fiscal impact of COVID-19.** The COVID-19 effects are leading to a decline in domestic consumption and imports, lowering value-added tax (VAT) and customs revenue (which contributes 47% to total tax revenues), while a decline in firms' output will lower income tax revenue. Total tax revenue projections have fallen 15.1% as a result, narrowing fiscal space. The budget deficit is expected to expand from 5.2% to 7.7% of GDP in 2020 (Table 3). The government rationalized capital expenditures and re-allocated budget expenditure to its urgent COVID-19

²⁰ The thresholds of the national poverty line based on monthly consumption are less than TJS162 for the poor, less than TJS230 for the vulnerable, and less than TJS294 for middle income receivers.

²¹ Tajikistan has 307,200 households headed by women (20.9%), which includes widowed or divorced women or those whose husbands are working overseas (Tajikistan Statistics Agency).

²² Food and Agriculture Organization. 2019. *State of Food Security and Nutrition in the World*. Rome.

²³ The average cost of food products increased by 4% during January–March 2020, including increases in the price of potatoes (34%), onions (37%), apples (25%), flour (5%), and cabbage (17%) (Tajikistan Statistics Agency).

²⁴ Eurasian Economic Union member states: Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and the Russian Federation.

countercyclical measures in the revised 2020 budget. A supplementary budget will be issued in June 2020.

Table 3: Impact of COVID-19 on the State Budget

Indicator	(TJS million)		Change (%)
	2020 (original budget)	2020 (revised budget)	
Total budget revenue	23,727	20,520	-13.5
<i>Of which tax revenue</i>	17,912	15,203	-15.1
Total budget expenditures	27,910	26,709	-4.3
<i>Of which current expenditures</i>	16,308	15,876	-2.6
<i>Of which capital expenditures</i>	11,602	10,836	-6.6
Budget balance	-4,183	-6,189	
Budget balance (% of GDP)	-5.2	-7.7	

GDP = gross domestic product.

Source: Government of Tajikistan, Ministry of Finance.

B. ADB Support Through COVID-19 Pandemic Response Option

14. **Government countercyclical response to COVID-19.** To mitigate the adverse impacts of COVID-19, the government approved the COVID-19 Country Preparedness and Response Plan and countercyclical measures totaling an estimated \$364 million (Table 4). This includes (i) a health sector and social protection response package to assist the poor and vulnerable (\$176 million), and (ii) a package of economic measures to ensure food security and to safeguard MSMEs prone to being severely affected (\$188 million). The countercyclical measures to prevent and mitigate the impact of COVID-19 in Tajikistan were prepared in close consultation with key development partners, including ADB, the World Bank, WHO, the United Nations Development Programme, and the United Nations Children's Fund (UNICEF). The government established a COVID-19 interagency task force in February 2020 to mitigate the impacts of the pandemic and coordinate the response, with daily meetings and reporting to the President. The task force is chaired by the Prime Minister and consists of representatives from the Ministry of Health and Social Protection (MOHSP), Ministry of Economic Development and Trade, Ministry of Education and Science, Committee of Emergency Situations and Civil Defense, and Committee of Tourism Development.

Table 4: Countercyclical Measures – Cost Estimates

Measure	Cost (\$ million)
1. Health sector and social protection response package	176
<i>Additional salary to medical personnel working with COVID-19 patients</i>	2
<i>Medical equipment and supplies (including personal protective equipment, medicines, food, ventilators, and ambulances)</i>	103
<i>Expansion of hospital capacity</i>	37
<i>Additional targeted social assistance for poor households</i>	34
2. Package of economic measures to ensure food security and safeguard businesses	188
<i>Food security measures (including agricultural inputs for farmers)</i>	28
<i>Support to businesses affected by COVID-19; targeting micro, small, and medium-sized enterprises (including tax breaks and concessional loans)</i>	160
Total	364

Source: Ministry of Finance.

15. **Health sector measures.** The health sector response, prepared in close consultation with WHO and the United Nations Children's Fund, covers 10 key areas: (i) country-level coordination, (ii) risk communications and community engagement, (iii) surveillance, (iv) points of entry, (v) case investigation and rapid response, (vi) national laboratory system, (vii) infection prevention and control, (viii) case management, (ix) multisector action to mitigate social and economic consequences, and (x) logistics and supply management. Specific health measures include the procurement of personal protective equipment and medicines (\$4 million), ventilators (\$14 million), and ambulances (\$6 million); and the provision of additional salaries (100% top-up) to medical staff working in medical facilities with infected patients, starting from 1 May 2020 and lasting at least 3 months (\$2 million). The task force also coordinates efforts to (i) strengthen the isolation facilities in 14 existing hospitals nationwide for COVID-19 treatment and care (\$3.5 million), (ii) train and equip rapid response teams for case investigation and contact tracing (\$1 million), and (iii) strengthen national COVID-19 testing labs and train additional technicians (\$2.5 million). The health response aims to lower the rate of transmission.

16. **Social protection measures.** Social assistance transfers will be expanded to provide poor households affected by the COVID-19 pandemic with additional social protection. This will be distributed through the government's Targeted Social Assistance (TSA) program, a cash transfer mechanism for eligible poor households of TJS440 per beneficiary household per year (in quarterly payments). The TSA was initiated in 2014 with support from a World Bank program, is administered by MOHSP, and currently covers about 100,000 poor households in 40 districts,²⁵ of which about 30,000 are headed by women. For the COVID-19 response, the TSA is being expanded to an additional 107,000 households in the remaining 28 districts (on a permanent basis). The 207,000 poor households in total (of which at least 30% are headed by women) will benefit from a one-off additional transfer of TJS500 to be rolled out during June–August 2020. The eligible beneficiaries are identified using the MOHSP household database and income levels.

17. **Food security measures.** Food security measures (\$28 million) include supply-side activities to boost domestic production and the distribution of staple foods, including government imports and stockpiles of agricultural produce (potato, wheat, and oil crops). Agricultural inputs, including seeds and fertilizer, will be provided in kind, targeted to poor and vulnerable farmers in June–July 2020 for growing agricultural crops during the next season. The objective is to increase food availability and generate production surpluses that can go toward restocking. From 30 March 2020, the Ministry of Agriculture placed quotas on exports of wheat and flour. From 1 April 2020, the government introduced exemptions of VAT (previously 18%) on imported basic food products such as sugar, vegetable oil, wheat, and rice, to lower the net price. From 25 April 2020, the government imposed a ban on the export of food products such as rice, lentils, mung beans, beans, potato, eggs, and meat, until the end of the year. The government is closely monitoring market food prices and prepares to put in place price controls for basic food items and medication, should price increases become critical.

18. **Business stabilization and employment support measures.** The government's package of stabilization measures (\$160 million) aims to support the business continuity of MSMEs and employment. MSMEs contribute about 15% of GDP and are being disproportionately impacted by COVID-19. Key support measures include temporary tax concessions and relief to domestic producers and entrepreneurs. Tax holidays and tax relief measures will be targeted at entrepreneurs and businesses engaged in the production and/or import of food products and

²⁵ Proxy means testing is used to target the poorest 15%–20% of the population, and MOHSP maintains a centralized database of beneficiaries compiled from local municipalities' data. Funds are transferred to registered beneficiary accounts at branches of Amonatbank (a state bank). Amounts not withdrawn after six months are returned.

medical supplies, and sectors most affected by the COVID-19 pandemic. The scope and volume of assistance to such entrepreneurs and businesses will be prepared and approved by the government. These measures are expected to cost TJS600.6 million in forgone tax revenue. The government has provided VAT exemptions for imports of basic food items on top of existing exemptions for medical items. Additional concessional loans (\$9 million) will be targeted at MSMEs in need of urgent financing as a result of the COVID-19 pandemic, including businesses producing or importing food and medical products. The concessional loans will be provided through the Entrepreneurship Support Fund, and loan applications from MSMEs will be reviewed by the Supervisory Board.²⁶ A moratorium on business inspections by government agencies, including tax inspections and audits, will be extended to all businesses. As of 1 May 2020, NBT reduced the policy interest rate from 12.75% to 11.75% to support businesses. Previously, on 1 April 2020, NBT had reduced the compulsory reserve requirements for financial institutions—in dollars from 9% to 5% and in somoni from 3% to 1%—until the end of 2020, which will increase liquidity by about \$24 million equivalent.

19. **Debt sustainability.** The joint IMF–World Bank Debt Sustainability Analysis completed in December 2019, before the shock, found that Tajikistan remains at high risk of debt distress. The country’s debt-carrying capacity was assessed as *medium*, upgraded from *low*. External public debt accounts for 82% of total public debt, and 80% of external public debt is on concessional terms. ADB’s own updated debt sustainability analysis (available from the list of linked documents in Appendix 2) estimates that post-shock fiscal expansion and increased concessional borrowing as well as slower growth will increase total public debt from 45.4% of GDP in 2019 to 47.6% of GDP in 2020 in the baseline scenario, stabilizing in the medium term. In the shock scenario with lower growth projections, the debt–GDP ratio may increase to 48.4% by 2024, and debt is assessed to be sustainable based on fiscal projections. The proposed \$50 million ADB grant will create fiscal space and help improve debt sustainability. Loans under negotiation or already approved by other international financial institutions in 2020 are on concessional terms, jointly represent about 6.6% of the country’s public debt stock, and will not significantly increase the debt–GDP ratio or increase the annual debt service obligations of the government. The IMF, in March 2020, also approved total debt relief to Tajikistan of \$28.49 million through the Catastrophe Containment and Relief Trust, which had a positive effect on debt sustainability.²⁷ The government has committed to undertake medium-term fiscal consolidation including reprioritization of public spending, avoid nonconcessional external borrowing, and strengthen public debt management with technical support from development partners, to further improve debt sustainability.

20. **Development partner coordination.** ADB has a strong partnership with the IMF in Tajikistan, and the program team closely coordinated with IMF staff on aspects such as Tajikistan’s latest macroeconomic assessment and outlook, fiscal risks, debt sustainability, measures introduced for the government’s response to the COVID-19 pandemic, and preparation of ADB and IMF support programs. The World Bank approved a project for \$11.3 million (grant) in April 2020 to prepare for and respond to the COVID-19 pandemic. Close collaboration between ADB and key development partners on planned COVID-19 assistance is also ensured through the donor coordination council forum.²⁸

²⁶ The Entrepreneurship Support Fund is a government-administered and budgeted fund established in 2013. It provides concessional loans to small businesses and entrepreneurs. Loan decisions are made at the level of the Supervisory Board, and screening and underwriting functions are delegated to the State Savings Bank of Tajikistan.

²⁷ IMF. 2020. Press Release No.20/151. <https://www.imf.org/en/News/Articles/2020/04/13/pr20151-imf-executive-board-approves-immediate-debt-relief-for-25-countries>

²⁸ Additional details in Development Coordination (available from the list of linked documents in Appendix 2).

21. **Lessons.** The CARES program draws on the 2009 Crisis Recovery Support Program for Tajikistan, which yielded several lessons.²⁹ First, during crisis episodes, while policy reforms are important, the government needs to quickly stabilize the economy, i.e., provide urgent fiscal support to counteract the crisis. Crisis response operations should therefore focus on immediate response measures, such as maintaining or expanding critical social safety net expenditures. However, since crises open opportunities for reforms, policy dialogue may be initiated on follow-up operations. Second, the success of a crisis response program hinges on the government's ability to quickly formulate its own anti-crisis plan, to be financed by ADB after exercising due diligence and contributing to the plan. The government's readiness to implement it is also important. Third, since crisis response operations support the government's crisis mitigation measures, program monitoring and reporting can benefit from technical assistance (TA) where country systems have weaknesses. Such TA can also focus on expenditure-tracking mechanisms, internal controls, and external audits.

22. **ADB assistance.** The proposed CARES program is part of a comprehensive package of complementary ADB support to Tajikistan in response to COVID-19. ADB is currently implementing the Tajikistan Maternal and Child Health Integrated Care Project (\$32 million grant) to improve MCH care services, infrastructure, and equipment, which is on track.³⁰ In response to a request from MOHSP, ADB (i) reallocated \$100,000 from the Maternal and Child Health Integrated Care Project to finance COVID-19 prevention and mitigation, medical supplies, and equipment; and (ii) allocated a \$928,200 grant to Tajikistan from ADB regional TA to further procure urgently needed personal protective equipment.³¹ ADB is also preparing the Tajikistan Skills and Employability Enhancement Project (\$30 million grant), which will build three new job and migrant services centers, and provide skills training to youth, women, and migrant workers to improve their employability. These services will benefit migrant workers and other vulnerable groups affected by the impact of the COVID-19 pandemic, and will help reduce their dependence on remittances.

23. **ADB value addition.** In the medium term, ADB will continue policy dialogue with the government to improve the country's resilience to shocks through structural reforms. ADB previously supported the government with reforms through the Investment Climate Reforms Program, to increase private investment, economic diversification, and inclusive growth.³² Through the CARES program, ADB's policy advice and contributions to the government's COVID-19 countercyclical response plans ensured targeting of the vulnerable segments of the economy and society, especially MSMEs (including those engaged in cross-border trade), the poor (including households headed by women), and communities in remote and border areas. ADB will mobilize TA resources to support the implementation and monitor and report on the progress of the government's COVID-19 response measures. Consulting services for these activities will be engaged using additional financing of \$250,000 for an existing transaction TA project (TA 9894).³³ This will improve the executing agency's capacity for program monitoring and evaluation, data collection (including sex-disaggregated data) and reporting, and financial management, in line with ADB requirements. ADB consultants will ensure that quality expenditure-tracking mechanisms, internal controls, and audits are in place or undertaken, and will independently

²⁹ ADB. 2010. [Completion Report: Tajikistan: Crisis Recovery Support Program](#). Manila.

³⁰ ADB. 2018. [Reports and Recommendations of the President: Maternal and Child Health Integrated Care Project](#). Manila.

³¹ ADB. 2020. *Regional Support to Address the Outbreak of Coronavirus Disease 2019 and Potential Outbreaks of Other Communicable Diseases (TA 9950-REG)*. Manila.

³² ADB. 2017. [Report and Recommendations of the President: Investment Climate Reforms Program \(Subprogram 2\)](#). Manila.

³³ ADB. 2019. [Preparing the Financial Sector and Fiscal Management Improvement Program \(TA 9894\)](#). Manila.

monitor and report on the delivery of the key program outputs and indicators. Another \$150,000 in TA resources (TA 9643) was allocated to undertake a socioeconomic needs assessment in Tajikistan over the next 12 months.³⁴ The results of the assessment will be used to identify priority needs arising from the COVID-19 pandemic, to be incorporated into the design of ADB pipeline projects. The continuation of ADB's support to the government's reform agenda in 2020–2021 includes the Financial Sector and Fiscal Management Improvement Program, which will assist with reforms to enable more private investment. This is to be achieved through a well-functioning finance sector and stronger public financial management, by developing the government's medium-term budget framework and SOE financial reporting, and adopting international public sector accounting standards.³⁵ The Power Sector Development Program to support the reform and restructuring of the state-owned power utility (Barqi Tojik) is also under preparation (\$105 million, including a \$20 million budget support component). In aggregate, these reforms will help ensure fiscal sustainability, improve the investment climate, and lead to greater stability and economic recovery in the long term.

C. Effects of ADB Program and Outputs

24. The proposed CARES program will support the implementation of the government's countercyclical measures, targeting the poor and vulnerable while meeting financing needs and achieving debt sustainability. The program is aligned with the overarching development objective: COVID-19 transmission reduced while minimizing economic, public, and social impacts. The effect of the program will be: COVID-19 outbreak more effectively managed, and social and economic impacts reduced. The program has three outputs: (i) health measures for COVID-19 country preparedness and response implemented, (ii) increased social assistance and food security measures implemented, and (iii) enhanced support for business entities and measures to safeguard employment implemented. The proposed CARES program grant is \$50 million.³⁶ The program is coordinated with ADB's overall assistance package to the CAREC region, incorporating a regional cooperation aspect in responding to this global as well as regional crisis. The program will also support CAREC-2030's Operational Cluster 5 (human development), by addressing pandemic risks and controlling transboundary communicable diseases. The regional TA (footnote 31) will complement the program by sharing regional experiences, information, and lessons. The CARES program will also promote the adoption of international preparedness and response standards and best practices, especially those recommended by WHO, to manage pandemics and public health emergencies. Food, medical items, seeds, and fertilizers from neighboring countries will be procured as measures for the COVID-19 response. The program is aligned with ADB's Strategy 2030, including its operational priorities of (i) addressing remaining poverty and reducing inequalities, (ii) accelerating progress in gender equality, (iii) strengthening governance and institutional capacity, and (iv) fostering regional cooperation and integration.³⁷ The program aligns with these priorities by strengthening the government's capacity for implementing the countercyclical responses; targeting the response measures, including social assistance, at women and poor and vulnerable groups; and coordinating with ADB's regional response to the COVID-19 pandemic.

³⁴ ADB. 2018. [Strengthening the Investment Climate in Tajikistan](#) (Project data sheet for TA 9643–TAJ). Manila.

³⁵ ADB. 2019. [Concept Paper: Financial Sector and Fiscal Management Improvement Program](#). Manila.

³⁶ The program will be funded by a portion of the performance-based assessment country allocation, some freed-up Asian Development Fund (ADF) grant resources from savings and cancellations of ongoing projects in countries eligible for ADF grants, and the ADF12 disaster response facility.

³⁷ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

D. Development Financing Needs and Budget Support

25. **Development financing needs.** Tajikistan's financing needs based on the revised 2020 post-COVID-19 budget are estimated to reach \$735 million (Table 5). The government has limited domestic borrowing capacity available because of an undeveloped government securities market and low demand for government treasury bills, although it plans to raise \$10 million from the issuance of government securities. External funding to meet the remaining financing needs is expected to be sourced largely from concessional loans and grants provided by international finance institutions. The IMF approved a rapid credit facility of \$189.5 million (80% of the IMF quota) on 6 May 2020 with a single-tranche disbursement. The ADB CARES program grant will finance a 6.8% share of Tajikistan's 2020 financing needs. Two additional ADB budget support grant operations under preparation are programmed in 2020, including the \$50 million Financial Sector and Fiscal Management Improvement Program (para. 23) and \$20 million from the Power Sector Development Program (subject to ADB Board approval).³⁸ The government expects other sources of concessional external financing to meet the financing gap, including a \$50 million concessional loan from the Eurasian Fund for Stabilization and Development and additional financing from the World Bank.³⁹

Table 5: Tajikistan's Financing Needs for 2020

Item	Amount, pre- COVID-19 (\$ million)	Amount, post- COVID-19 (\$ million)	Change (%)
Total financing requirement (including PIP)	538.3	735.0	36.5
Domestic financing	8.0	10.0	25.0
External financing (tentative)	530.3	725.0	36.7
- IMF		189.5	
- ADB		120.0	
- EFSD		50.0	
- Other IFIs or bilateral partners		3.5	
- PIP ^a		362.0	

ADB = Asian Development Bank, COVID-19 = coronavirus disease, EFSD = Eurasian Fund for Stabilization and Development, IFI = international financial institution, IMF = International Monetary Fund, PIP = public investment program.

^a PIP includes development partner project loans (related to energy, health, education, transport, urban development, climate change, disaster reduction, and gender).

Source: Ministry of Finance and ADB estimates.

E. Implementation Arrangements

26. The Ministry of Finance (MOF) will be the executing agency for the program, and MOF and MOHSP will be the implementing agencies covering all program outputs. ADB and MOF will engage in continuous dialogue and interaction to monitor and report on the progress of program implementation. The government, through MOF, will provide monthly reports to ADB for the first 3 months after the grant effectiveness date and quarterly reports thereafter on (i) macroeconomic and finance sector conditions; (ii) budget execution, flow of funds, and expenditures made to support the COVID-19 countercyclical measures; and (iii) implementation of the government's countercyclical response to mitigate the impact of the COVID-19 pandemic, highlighting the beneficiaries targeted, and the impacts on women, the poor, and other vulnerable groups. This reporting mechanism will ensure suitable monitoring and evaluation of the government's program-

³⁸ ADB. 2019. [Country Operations Business Plan: Tajikistan, 2020–2022](#). Manila.

³⁹ The terms of the IMF loan are a 10-year tenor, 5-year grace period, and 0% interest. The terms of the Eurasian Fund for Stabilization and Development loan are a 20-year tenor, 8-year grace period, and 1% interest.

supported countercyclical response measures. ADB TA (TA 9894) will support program monitoring and reporting, including program outcome and output indicators (para. 23 and footnote 33). MOF has experience in executing and implementing ADB and other development partner projects and programs, and has developed adequate financial management capacity, which this ADB TA will further augment. The program implementation period is from May to December 2020. A single disbursement is expected after program approval, and a program completion report will be provided 6 months after the program ends. The proceeds of the grant will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE

A. Governance

27. The 2018 worldwide governance indicators for Tajikistan are below the regional average and rank in the bottom 20th percentile for all categories, including (i) voice and accountability, (ii) political stability, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption.⁴⁰ In the Transparency International Corruption Perception Index 2019, Tajikistan scored 25% and ranked 153rd out of 180 countries.⁴¹ The Public Expenditure and Financial Accountability assessment for 2017 shows that some improvements were made since 2012 in four of six pillars, and in most indicators, reflecting more robust public financial management.⁴² The main areas of improvement are: (i) comprehensiveness and transparency of budget information, (ii) predictability and control in budget execution, (iii) accounting and reporting, and (iv) external scrutiny and audit. Areas identified for further improvement: (i) expenditure composition outturn by function, (ii) public access to fiscal information, (iii) investment project selection, and (iv) medium-term expenditure estimates. A new public financial management strategy covering 2020–2030 was approved in January 2020, with the key objectives of improving fiscal discipline, and allocative efficiency and transparency of public financial resources. The strategy highlights key reform areas, priorities, and sequencing, and will help improve the weaker areas in the Public Expenditure and Financial Accountability assessment. The government has been implementing reforms to improve governance, including measures to reduce tax incentives and concessions and increase public spending efficiency, SOE governance, and finance sector and central bank governance. The reforms are being supported by ADB and development partners and are helping reduce vulnerability to corruption and boost the prospects for sustainable growth. ADB is assisting efforts to improve the medium-term budget framework and public sector accounting (footnote 35) as well as SOE governance in the energy sector through a sector development program under preparation (para. 23). The government is improving public procurement legislation, and has begun a comprehensive process to introduce a new tax code in 2021 to improve tax policy and administration, simplify the tax structure, and widen the tax base. Electronic filing of tax returns and online payments were introduced to modernize tax administration and reduce corruption. The World Bank's Doing Business indicators for Tajikistan improved considerably in 2019, from reforms that made it easier to start a business, improved access to credit, and enhanced trade facilitation.

⁴⁰ World Bank. 2019. Worldwide Governance Indicators. <https://info.worldbank.org/governance/wgi/Home/Reports>

⁴¹ Transparency International. 2019. Corruption Perceptions Index 2019. <https://www.transparency.org/cpi2019>

⁴² Government of Tajikistan. 2017. Tajikistan: Public Expenditure and Financial Accountability Assessment. Dushanbe.

B. Poverty and Social

28. The poor and vulnerable are most at risk to crises in Tajikistan, have the least means to respond, and may find it difficult to finance basic needs if their already low incomes are reduced. Government initiatives supported by the CARES program will help mitigate price and income shocks, especially for vulnerable groups and women. Measures targeted at poor households include social protection initiatives that will provide additional social assistance transfers to 207,000 poor households. Food security measures supported by the program will help low-income farmers increase their agricultural production and will ensure that the prevalence of moderate or severe food insecurity in the total population does not increase above the 2019 baseline of 29.6%. VAT exemptions and cost control measures will be applied to food and medical items to lower the net cost, which will benefit poor households.

C. Gender

29. The program is categorized as *effective gender mainstreaming* and focuses on ensuring that women can equitably benefit from the government's COVID-19 response. In the health sector, the program will ensure that all health workers directly working with COVID-19 patients are properly protected with an adequate quantity of properly fitting personal protective equipment, and menstrual hygiene kits, as necessary. This measure will meet the specific needs of female health care staff and help avoid higher exposure and the risk of infection among female doctors and nurses. Gender-sensitive features will be incorporated in the hospitals' designated isolation areas for COVID-19 patients, such as separate female and male COVID-19 wards, and sex-segregated facilities for medical staff. The MOHSP household database will be used to target poor households headed by women for the additional social assistance. The program will provide tax relief and financial support to crisis-affected MSMEs, including those owned by women, to help them recover. This will mitigate the loss of income for women entrepreneurs and business owners, as well as maintain employment (women make up at least 50% of the MSME workforce). A systematic information campaign will be staged to reach all eligible MSMEs, especially those owned by women, that may otherwise have limited access to information, along with clear guidelines on how to access this financial support. The program will enable (i) a salary increase of 100% for all frontline medical staff directly managing COVID-19 cases, of which at least 80% will be women; (ii) the provision of medical protection equipment for health workers, of which 84% are women; (iii) additional targeted social assistance transfers for poor and vulnerable households, of which at least 30% are headed by women; and (iv) support measures for micro, small, and medium-sized enterprises, of which 24% are owned by women. The gender monitoring matrix (available from the list of linked documents in Appendix 2) will be used as a tool for monitoring progress in achieving gender targets and indicators, collecting sex-disaggregated data for reporting, and ensuring that the program-supported measures do indeed benefit women. The CARES program compliments the ongoing ADB Maternal and Child Health Integrated Care Project (footnote 30), which is simultaneously providing health support to women by improving the quality of MCH services during the COVID-19 pandemic.

D. Safeguards

30. In compliance with ADB's Safeguard Policy Statement (2009), the program is classified *category C* for environment, involuntary resettlement, and indigenous peoples. The program is not expected to have any adverse environmental or social safeguard impacts, and no category A or B activities are envisaged. An assessment of the program's potential impacts on safeguards is provided as a supplementary document. ADB proceeds will not be used for the purpose of any new physical construction (temporary or permanent) or an expansion of existing medical facilities.

The program will confirm such exclusions through MOF's monthly and quarterly reporting on consolidated expenditures.

E. Risks and Mitigating Measures

31. Major risks and mitigating measures are summarized in Table 6 and described in detail in the risk assessment and risk management plan.⁴³ ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOF.

Table 6: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Economic growth weakens further as the COVID-19 pandemic worsens in Tajikistan and as external factors widen revenue shortfalls and delay fiscal consolidation.	The CARES program will help meet a significant portion of the government's financing needs for its response to COVID-19. Coordinated development partner support will ensure consistency in financing and implementation of countercyclical measures through regular policy dialogue and monitoring.
Inadequate public financial management, including internal controls in line ministries on expenditure management, leads to diversion of funds and insufficient mobilization of resources to finance the program.	ADB TA resources will be provided to improve the financial management capacity of the executing agency, MOF. A monitoring and reporting framework requiring monthly reports for the first 3 months and then quarterly reports on countercyclical expenditures was established under the grant agreement.
Insufficient capacity of government agencies to implement and monitor the program effectively	ADB will mobilize ongoing and new TA resources to strengthen MOF's capacity for program monitoring and evaluation, improve data collection and reporting, and ensure the availability of sex-disaggregated data.

ADB = Asian Development Bank, CARES = COVID-19 Active Response and Expenditure Support, COVID-19 = coronavirus disease, MOF = Ministry of Finance, TA = technical assistance.

Source: Asian Development Bank.

IV. ASSURANCES

32. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the grant agreement.

V. RECOMMENDATION

33. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the grant not exceeding \$50,000,000 to the Republic of Tajikistan for the COVID-19 Active Response and Expenditure Support Program from ADB's Special Funds resources (Asian Development Fund), on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Masatsugu Asakawa
President

8 June 2020

⁴³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective			
COVID-19 transmission reduced while minimizing economic, public, and social impacts ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Effect of the Program</p> <p>COVID-19 outbreak more effectively managed and social and economic impacts reduced</p>	<p>By December 2020:</p> <p>a. Average number of new COVID-19 cases per day in December 2020 falls to below 5 (Baseline: average of 123 new cases per day during 30 April–31 May 2020)</p> <p>b. Prevalence of moderate or severe food insecurity in the total population does not increase above the 2019 baseline (2019 baseline: 29.6% of total population)</p> <p>c. At least 60% of MSMEs still in business, of which at least 20% are owned by women (January 2020 baseline: 326,000 MSMEs in operation, including 78,000 owned by women)</p>	<p>a. MOHSP's daily COVID-19 reports</p> <p>b. FAO's State of Food Security and Nutrition in the World Report</p> <p>c. Tax Committee's business registration database</p>	<p>COVID-19 pandemic is not contained after 6 months, and cases are increasing, leading to a much larger economic impact and rendering the expenditure package insufficient.</p>
<p>Outputs</p> <p>1. Health measures for COVID-19 country preparedness and response implemented</p>	<p>Key program outputs and actions</p> <p>By December 2020:</p> <p>1.1 The government allocated isolation facilities in 14 existing hospitals nationwide for COVID-19 critical care and treatment, with sex-segregated wards, necessary staff and equipment for patient care, and sex-segregated facilities for medical staff (January 2020 baseline: not applicable)</p> <p>1.2 The government increased salaries by 100% for all medical staff (at least 80% of whom are women) working with COVID-19 patients in quarantine medical facilities (January 2020 baseline: not applicable)^b</p> <p>1.3 Personal protective equipment in different sizes and</p>	<p>1.1–1.3 MOHSP's monthly reports</p>	<p>Insufficient internal controls in line ministries on expenditure management lead to inefficient use of funds and reduced benefits.</p> <p>Ineffective coordination across government agencies impedes the implementation of countercyclical measures.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
2. Increased social assistance and food security measures implemented	<p>sufficient quantities provided to 5,000 medical staff, as well as menstrual hygiene products as needed, and 2,000 ventilators (January 2020 baseline: 510 ICU beds with ventilators)</p> <p>2.1 The targeted social assistance program was expanded to cover at least 207,000 poor households, of which at least 30% are headed by women, and to cover all 68 districts (March 2020 baseline: 100,000 households, including 30% headed by women)</p> <p>2.2 At least 207,000 poor households (of which at least 30% are headed by women) received an additional one-time social assistance transfer of TJS500 per household (March 2020 baseline: not applicable)</p> <p>2.3. National average prices of basic food products such as sugar, vegetable oil, wheat, and rice kept at April 2020 prices or lower for at least 3 months (March 2020 baseline: not applicable)</p> <p>2.4 At least 5,000 small scale farmers received agricultural inputs in kind including seeds and fertilizer (March 2020 baseline: not applicable)</p>	<p>2.1–2.2 MOF's monthly or quarterly reports on COVID-19 countercyclical measures</p> <p>2.3 Tajikistan Statistics Agency</p> <p>2.4 MOF's monthly or quarterly reports on COVID-19 countercyclical measures</p>	
3. Enhanced support for business entities and measures to safeguard employment implemented ^c	<p>3.1 MOF applied tax concessions to at least 40,000 eligible MSMEs, of which 24% owned by women (March 2020 baseline: not applicable)</p> <p>3.2 The government placed a moratorium on all business inspections, including tax audits, until December 2020 (January 2020 baseline: no moratorium)</p> <p>3.3 TJS180 million in concessional loans from the Entrepreneurship Support Fund</p>	<p>3.1 MOF's monthly or quarterly reports on COVID-19 countercyclical measures</p> <p>3.2 Ministry of National Economy's annual report</p> <p>3.3. MOF's monthly or quarterly reports on COVID-19</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	received by MSMEs, of which 24% owned by women (January 2020 baseline: TJS90 million)	countercyclical measures	
Budget Support (COVID-19 Pandemic Response Option) ADB: \$50 million (grant)			

ADB = Asian Development Bank; COVID-19 = coronavirus disease; FAO = Food and Agriculture Organization of the United Nations; ICU = intensive care unit; MOF = Ministry of Finance; MOHSP = Ministry of Health and Social Protection; MSMEs = micro, small, and medium-sized enterprises; TJS = Tajik somoni.

^a Government of Tajikistan. 2020. Tajikistan COVID-19 Country Preparedness and Response Plan. Dushanbe.

^b Regular salaries of health workers are \$100 per month for doctors and \$67 per month for nurses.

^c Awareness-raising activities for women will be conducted to inform them of available support measures for MSMEs.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=54156-001-3>

1. Grant Agreement
2. Debt Sustainability Analysis
3. Development Coordination
4. International Monetary Fund Assessment Letter¹
5. Summary Poverty Reduction and Social Strategy
6. Risk Assessment and Risk Management Plan
7. Country Economic Indicators
8. List of Ineligible Items
9. Gender Monitoring Matrix

Supplementary Document

10. Safeguards Assessment Matrix

¹ The IMF confirmed on 15 May 2020 that the attached Request for Disbursement under the Rapid Credit Facility may serve as the IMF assessment letter.

ELIGIBILITY CRITERIA FOR COVID-19 PANDEMIC RESPONSE OPTION

Eligibility Criteria for CPRO	Summary status (detailed information provided in main RRP text)
Adverse impact of exogenous shock	<p>Tajikistan is experiencing a significant socio-economic shock due to the COVID-19 pandemic. From 30 April to 31 May 2020, 3,930 positive COVID-19 cases and 47 deaths were reported. Economic transmission mechanisms to Tajikistan include a sharp reduction in remittances, international trade and foreign direct investment, and slowdown of the transport, tourism, retail, and financial sectors. Tajikistan is experiencing a significant negative economic impact from COVID-19, due to preventative measures and external factors slowing domestic consumption and firms' output, including MSMEs. In March 2020, the currency was devalued by 5%. The COVID-19 pandemic will plunge the Middle East and Central Asia region into a recession with negative growth of -2.8% forecast in 2020. Economic growth for Tajikistan is expected to fall sharply from 7.5% of GDP in 2019 to -2% in 2020 based on IMF estimates as a direct result of COVID-19. The IMF had previously forecast growth would slow to 4.8% of GDP in 2020, largely from fiscal consolidation and lower public investment, which has been significantly exacerbated with the COVID-19 shock. All sectors will be affected and the service sector, which is the largest sector contributing to around 50% of GDP, is expected to contract by 4.3% of GDP in 2020. A shortfall in revenue by 15% will increase the fiscal deficit from 5.2% to 7.7% of GDP.</p>
Countercyclical development expenditure	<p>To mitigate adverse impacts of COVID-19 and finance the approved COVID-19 County Preparedness and Response Plan, the government has adopted countercyclical measures totaling \$364 million. This includes (i) a health sector and social protection response package to assist the poor and vulnerable (\$176 million), and (ii) a package of economic measures to ensure food security, and safeguard businesses prone to be severely affected, including women-owned businesses (\$188 million). The government's health and social protection measures include procurement of medical protective equipment and medicines, ventilators, and ambulances, and strengthening facilities to treat and care for COVID-19 patients. Additional salaries (100% top up) will be provided to medical personnel working in quarantine medical facilities or with infected patients for at least 3 months (\$2 million) starting from 1 May 2020. Additional one-time social assistance transfers of TJS500 per household have been allocated for poor households, of which at least 30% are woman-headed. This cash transfer will be distributed through the government's Targeted Social Assistance Program, for which the government is also increasing the number of beneficiaries and geographical coverage. The aim of the government's package of stabilization measures (\$160 million) is to mitigate the impact of the pandemic on the population and employment through enhancing support to the business community, particularly MSMEs. The private sector contributes approximately 70% of GDP and MSME's contribute approximately 15% of GDP based on ADB estimates. Key measures for support to businesses will include tax concessions such as property tax reduction and reduction of interest payments for tax debt, and additional concessional loans (\$9 million) offered to manufacturing businesses, producing food and medical products, through the Entrepreneurship Support Fund. The government has also offered an extension of the moratorium on business inspections for all business, including tax inspections.</p>

Eligibility Criteria for CPRO	Summary status (detailed information provided in main RRP text)
Pre-shock record of generally sound macroeconomic management	<p>Overall Tajikistan's record of macroeconomic management was generally sound and had been improving pre-shock. After the 2015 financial crisis the government was able to bring the budget deficit under control, which has averaged 3.9% over 2016-2019. High public investment and increasing remittances have led to strong growth averaging over 7% per annum in recent years, despite weak private investment, and has improved poverty reduction. Growth rose from 7.3% in 2018 to 7.5% in 2019 driven by public investment, higher remittances, and ongoing state-led industrialization boosting manufacturing output. The tax to GDP ratio is relatively high and has been stable averaging 21% of GDP over 2017-2019. Inflation has been dampened by improved monetary operations, and remained within NBT's target range, although exchange rate policy remains restrictive. Pre-COVID-19 shock, the fiscal deficit was projected to increase to 5.2% of GDP in 2020 and then stabilize averaging 4% of GDP over 2020-22. Total public debt was on course to decline from a peak of 50.4% of GDP in 2017 to 46.4% in 2020. The government has also taken positive steps to improve supervision and regulation in the banking sector. Non-performing loans have fallen from 47.6% in 2016 to 26.1% in 2019 and profitability has improved since 2015, although two large state-owned banks remain insolvent. The government has been implementing public financial management reforms to improve fiscal management as well as SOE reforms in the energy sector to improve performance and corporate governance, and reduce losses and fiscal risks. Structural reforms have been supported by ADB and other development partners.</p>
Structural reforms (health sector response)	<p>The government implemented rapid responses to contain the spread of COVID-19 including travel restrictions and closed borders. The government established a COVID-19 task force in February 2020 to mitigate the impacts of the pandemic and coordinate the response. The task force is chaired by the Prime Minister and consists of representatives from the Ministry of Health and Social Protection, Ministry of Economic Development and Trade, Ministry of Education and Science, Committee on Emergency Situations and Civil Defense, and Committee on Tourism Development. The task force has daily meetings and reporting to the President. The task force has coordinated arranging testing labs, medical equipment, supplies and personnel. The National Public Health Laboratory has been designated for COVID-19 testing, and more technicians are undergoing training to analyze test results. More than 4,000 hospital beds have been prepared to receive potentially infected patients. On 19 March 2020 in response to the crisis the government approved the Tajikistan COVID-19 Country Preparedness and Response Plan. The objective of the government plan is to outline key measures to prevent, prepare for, and address the spread of COVID-19 among the population, and expand the capacity of the health sector in the short and medium term, including training for key health specialists, lab technicians and improving lab capabilities. The plan was prepared in close consultation with WHO and UNICEF, and covers 10 key areas: (i) country-level coordination, (ii) risk communications and community engagement, (iii) surveillance, (iv) points of entry, (v) case investigation and rapid response, (vi) national laboratory system, (vii) infection prevention and control, (viii) case management, (ix) multi-sectoral action to mitigate social and economic consequences, (x) logistics and supply management.</p>

Eligibility Criteria for CPRO	Summary status (detailed information provided in main RRP text)
Debt sustainability	<p>The updated ADB debt sustainability analysis takes into account the COVID-19 shock and estimates that countercyclical fiscal expansion, increased concessional borrowing, and slower growth are expected to increase public debt from 45.4% in 2019 to 47.6% of GDP in 2020 in the baseline scenario, which will stabilize in the medium term. In the shock scenario with lower growth projections, the debt ratio may increase to 48.4% of GDP by 2024. The \$50 million proposed ADB grant will not add to the country's debt stock, and will help to create fiscal space and improve debt sustainability. Loans under negotiation or already approved by other international financial institutions in 2020 are on concessional terms, jointly represent around 6.6% of the country's public debt stock and will neither significantly affect the debt-to-GDP ratio nor increase the annual debt service obligations of the government. The IMF has also approved debt relief to Tajikistan through the Catastrophe Containment and Relief Trust of \$28.49 million which has improved debt sustainability. To improve debt sustainability further, the government is seeking medium term fiscal consolidation including reprioritization of public spending, avoiding non-concessional external borrowing, and strengthening public debt management with technical support from development partners.</p>
IMF Coordination	<p>The ADB program team has coordinated closely with IMF staff on Tajikistan's latest macroeconomic outlook and risks, fiscal measures being introduced in response to the COVID-19 pandemic, and preparation of ADB and IMF support for the government's response, including the proposed ADB program. The IMF approved a rapid credit facility on 6 May 2020 for \$189.5 million (80% of IMF quota) with a single tranche disbursement in 2020 to support Tajikistan's financing needs. There is close collaboration among ADB and key development partners on planned COVID-19 pandemic assistance through the donor coordination council forum. The IMF confirmed support of the ADB program.</p>

ADB = Asian Development Bank, COVID-19 = coronavirus disease, CPRO = COVID-19 Pandemic Response Option, GDP = gross domestic product, IMF = International Monetary Fund, MSME = micro, small, and medium-sized enterprises, NBT = National Bank of Tajikistan, SOE = state owned enterprise, UNICEF = United Nations Children's Fund, WHO = World Health Organization.

Source: Asian Development Bank.

DEVELOPMENT POLICY LETTER

МУОВИНИ ЯКУМИ
САРВАЗИРИ
ҶУМҲУРИИ ТОҶИКИСТОН



ПЕРВЫЙ ЗАМЕСТИТЕЛЬ
ПРЕМЬЕР-МИНИСТРА
РЕСПУБЛИКИ ТАДЖИКИСТАН

№ 22/3-59

“01” 05 2020

His Excellency
Masatsugu Asakawa
President
Asian Development Bank
Manila, Philippines

Subject: COVID-19 Pandemic Response Option (CPRO) under the
Countercyclical Support Facility (CSF), (COVID-19 Active Response
and Expenditure Support (CARES) Program)

Dear Mr. Masatsugu Asakawa,

On behalf of the Government of the Republic of Tajikistan, I would like to express our gratitude to the Asian Development Bank (ADB) for the comprehensive support and long-term fruitful cooperation toward our overall reforms and national development agenda.

This Development Policy Letter highlights the Tajikistan Government's continued commitment to achieve strong, sustainable and inclusive growth in light of the COVID-19 pandemic which has changed the course of the economy not only of Tajikistan but globally.

The Government of the Republic of Tajikistan has undertaken decisive and proactive actions to prevent a COVID-19 outbreak and mitigate its adverse impact. These include establishing an Interagency Task Force to contain and mitigate the impact of the pandemic headed by the Prime Minister, closing of the border with China and the suspension of flights from China, Iran, and Afghanistan in February 2020 and total lockdown (all flights stopped – airports closed) since 20 March 2020. From February 1 to April 29, 2020, we have placed 10,580 people in quarantine, tested 4,100. On 30th April 2020 Tajikistan recorded its first positive cases of COVID-19.

The outbreak of COVID-19 has resulted in significant economic losses for the country, including a sharp reduction in remittances, international trade and foreign direct investment, slowdown of the transport, tourism, retail,

and financial sectors as well as shortfalls of state revenues and depreciation of the local currency. These repercussions pose risks to poverty reduction and gender-mainstreaming developments.

At this point, we estimate that our full year GDP growth will decline from earlier projected 7.5% down to 2.4% in 2020. In case of introduction of self-quarantine across the country, GDP growth could dive to zero or move into negative territory. We also expect that as much as 100 thousand workers to temporarily lose their jobs, thus increasing the unemployment rate from 2.0% in February up to 6.1% close to the end of 2020. **Potential losses to the national economy because of the global pandemic may reach 20% of GDP.**

On 19 March in response to the crisis the government approved (i) the Tajikistan COVID-19 country preparedness and response plan and (ii) an Action-plan to prevent and mitigate the impact of global COVID-19 related potential risks to the national economy. The objective of the government response plans is to outline proactive steps and measures to prevent, prepare for, and address the spread of COVID-19 among the population, expand the capacity of the health sector, and reduce the social and economic cost of the pandemic. To mitigate adverse impacts of COVID-19 and finance the two response plans, the Government has adopted **countercyclical measures totaling \$364 million**. This includes (i) a health sector and social protection response package, to assist the poor and vulnerable (**\$176.5 million** or 1.8 billion TJS), and (ii) a package of economic measures to ensure food security, and safeguard vulnerable businesses, including women owned businesses (**\$188 million** or 1.9 billion TJS).

The government has made reallocations in the 2020 Budget to finance and implement these response plans, including measures in three priority areas, namely;

- (i) health sector measures to directly address the COVID-19 outbreak, including increasing medical supplies and equipment, personal protective equipment, and increasing salaries of health workers;
- (ii) additional targeted social assistance transfers to poor and vulnerable groups, with 90% targeted to women headed households.

In particular the national response plan will expand the targeted social assistance program to all 62 districts, and

(iii) economic support measures for the private sector, including tax relief and concessional loans for micro, small and medium sized enterprises and entrepreneurs, and to avoid large scale layoffs. The package will include measures to enhance food security, and provide support to small scale farmers with agricultural inputs to increase production.

Considering the above and the fact that the current situation is a force majeure for the economy, the Republic of Tajikistan needs support from ADB. This support is critical to support implementation of the government's COVID-19 response plans and to cover the deficit of financial resources due to the pandemic. This is necessary to help us alleviate the impact and implement economic policies to maintain a stable and sustainable macroeconomic situation aimed at reducing poverty and promoting inclusive economic development.

In view of difficult financial-economic conditions, the Government requests ADB's support through Countercyclical Support Facility Pandemic Response Option to cope with COVID-19.

Please accept, Your Excellency the assurances of my highest consideration.

First Deputy Prime Minister
ADB Governor for Tajikistan



Davlatoli Said /signed/