



Tajikistan: Investment Climate Reforms Program (Subprogram 1)

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|--|--|--|--|--|--------------------|---|--|--|-------------------|
| Project Name | Investment Climate Reforms Program (Subprogram 1) | | | | | | | | |
| Project Number | 47099-002 | | | | | | | | |
| Country | Tajikistan | | | | | | | | |
| Project Status | Closed | | | | | | | | |
| Project Type / Modality of Assistance | Loan | | | | | | | | |
| Source of Funding / Amount | <table><tr><td colspan="2">Grant 0463-TAJ: Investment Climate Reforms Program (Subprogram 1)</td></tr><tr><td>concessional ordinary capital resources lending / Asian Development Fund</td><td>US\$ 53.40 million</td></tr><tr><td colspan="2">Loan 3343-TAJ: Investment Climate Reforms Program - Subprogram 1</td></tr><tr><td>concessional ordinary capital resources lending / Asian Development Fund</td><td>US\$ 6.60 million</td></tr></table> | Grant 0463-TAJ: Investment Climate Reforms Program (Subprogram 1) | | concessional ordinary capital resources lending / Asian Development Fund | US\$ 53.40 million | Loan 3343-TAJ: Investment Climate Reforms Program - Subprogram 1 | | concessional ordinary capital resources lending / Asian Development Fund | US\$ 6.60 million |
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| concessional ordinary capital resources lending / Asian Development Fund | US\$ 6.60 million | | | | | | | | |
| Strategic Agendas | Inclusive economic growth Regional integration | | | | | | | | |
| Drivers of Change | Governance and capacity development Knowledge solutions Private sector development | | | | | | | | |
| Sector / Subsector | Energy - Energy sector development and institutional reform Industry and trade - Small and medium enterprise development Public sector management - Economic affairs management - Law and judiciary - Public administration | | | | | | | | |
| Gender Equity and Mainstreaming | Effective gender mainstreaming | | | | | | | | |
| Description | <p>The Investment Climate Reforms Program is a policy-based programmatic approach with three subprograms of reforms that promote private sector development and expansion of economic opportunities. The program provides budget support to (i) reduce costs of doing business, (ii) strengthen protection for businesses, and (iii) increase business innovation and productivity. Under the program, ADB provides the government with advice on the design and implementation of new policy and institutional mechanisms to improve the investment climate. ADB budget support also provides the government with incentives to undertake reforms that otherwise would be delayed or not implemented. ADB support is important because the political system is often divided and vested interests resist economic policy changes. The programmatic approach is the best modality to implement the required reforms in a chronologically sequenced manner.</p> | | | | | | | | |

Project Rationale and
Linkage to Country/Regional
Strategy

Tajikistan's transition from a centrally planned to a market economy following the dissolution of the Soviet Union in 1991 has been one of the slowest among CIS countries. The civil war in 1992-1997 eroded the country's human and physical capital inherited from the Soviet Union. While growth has been robust since the end of the civil war, this growth started from a low economic base. The government has retained control over many production activities and directly influences prices in several markets. Tajikistan's economy has not achieved the level of structural transformation that has taken place in other CIS countries.

Since 2005, Tajikistan's growth has been driven by consumption, fueled by remittance inflows. Limited job opportunities in Tajikistan have encouraged up to 40% of the working population to seek jobs abroad. In 2013 remittances accounted for 49% of GDP, which was the highest dependency on remittances of any economy in the world. Tajikistan's economy is highly reliant on external factors, such as the economic situation in the Russian Federation and the international prices of two key export commodities: aluminum and cotton.

Governance and capacity of institutions in Tajikistan have improved marginally over the last decade but remain weak by international standards. The majority of policy decisions, including on some public investments, are made without comprehensive public scrutiny and analysis of their economic and social impacts. Tajikistan's executive bodies often lack an in-depth understanding of policy concepts and implementation methods, limiting the effectiveness of policy decisions.

Private investment continues to be constrained by an unfavorable business environment that imposes high uncertainty. Arbitrary taxation and informal inspection arrangements reduce the prospects of fair competition. The same government agency (Tajikstandard) sets technical regulations, certifies product quality, and accredits conformity assessment bodies; this is prone to conflicts of interest. Strong perceptions of corruption and expropriation risks discourage businesses and investors from expanding or investing in Tajikistan. Executive documents are often inaccessible, leaving businesses and investors unaware of existing rules. There is limited accountability regarding business ownership. Businesses have limited knowledge of modern production techniques. Only 17% of firms report having an internationally recognized quality certification. Businesses have limited access to external markets due to poor transport and logistics infrastructure, and restrictive regional transit arrangements. The energy supply is unreliable and large parts of the country lack a stable electricity supply during the 6-month winter period. Financing is expensive and short term, reducing investors' capacity to expand and compete internationally. In 2014 credit to the private sector was 21.5% of GDP nevertheless an improvement from 16.9% of GDP during 2009-2013. Tajikistan's country risk is very high.

The private sector remains weak and has made limited progress in expanding its productive capabilities to create more wealth. Since 2005 the private sector's contribution to GDP has remained stable. Many of the shortcomings in Tajikistan's economy (low competitiveness of products in particular) reflect the private sector's poor performance. The number of products exported with comparative advantage declined from 48 in 1995 to 44 in 2012.

Investment is relatively low, averaging 16% of GDP during 2005-2013. This limits future economic growth and job creation. Investment is largely funded by the government and development partners; private investment was 5% of GDP during 2005-2013, one of the lowest levels in the world. Foreign direct investment dropped from 9% of GDP during 2004-2008 to 1% of GDP during 2009-2014. Public investment is focused on large infrastructure and energy projects.

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| Impact | Development of the private sector and attraction of investments_ (National Development Strategy 2007-2015) |
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Project Outcome

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| Description of Outcome | Increased businesses' capabilities and opportunities to set up and expand higher value-added production |
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Progress Toward Outcome

Implementation Progress

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| Description of Project Outputs | Reduced cost of doing business Strengthened protection for businesses Increased business innovation and productivity |
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Status of Implementation Progress (Outputs, Activities, and Issues)

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| Geographical Location | Tajikistan |
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Safeguard Categories

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|--------------------------|---|
| Environment | C |
| Involuntary Resettlement | C |
| Indigenous Peoples | C |

Summary of Environmental and Social Aspects

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|--------------------------|---|
| Environmental Aspects | The program of economic reforms aims to reduce costs of doing business, strengthen protection of businesses, and increase businesses' innovation and productivity. It is anticipated that the proposed program will have no adverse environmental impacts. |
| Involuntary Resettlement | The proposed program includes country-wide policy reforms to improve investment climate and private sector development. Program activities do not include civil works with land acquisition. |
| Indigenous Peoples | The proposed program includes country-wide policy reforms to improve investment climate and private sector development. The reforms shall be applied across regions and are not expected to have impacts on any specific minority ethnic groups in the country. |

Stakeholder Communication, Participation, and Consultation

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| During Project Design | Main stakeholders include entrepreneurs, investors, and those in the informal and private sectors. The primary beneficiaries are current and future entrepreneurs and investors who are expected to benefit from an improved business environment and have better knowledge of modern production techniques and of external markets. These groups have been regularly consulted. |
| During Project Implementation | ADB has been conducting regular consultations during program implementation. Missions of ADB staff and international consultants were conducted in May-June 2014 and January 2015 to discuss binding constraints to private sector development with government, local firms, business associations, and development partners. |

Responsible Staff

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|----------------------------|---|
| Responsible ADB Officer | Barreto, Ruben B. |
| Responsible ADB Department | Central and West Asia Department |
| Responsible ADB Division | Public Management, Financial Sector and Trade Division, CWRD |
| Executing Agencies | <i>State Committee on Investments and State Property Management 27, Shotemur Street Dushanbe Tajikistan</i> |

Timetable

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|---------------------|----------------------------|
| Concept Clearance | 24 Oct 2014 |
| Fact Finding | 18 May 2015 to 22 May 2015 |
| MRM | 17 Sep 2015 |
| Approval | 04 Dec 2015 |
| Last Review Mission | - |
| Last PDS Update | 09 Dec 2015 |

Grant 0463-TAJ

| Milestones | | | | | |
|-------------|--------------|------------------|-------------|---------|-------------|
| Approval | Signing Date | Effectivity Date | Closing | | |
| | | | Original | Revised | Actual |
| 04 Dec 2015 | 08 Dec 2015 | 21 Dec 2015 | 30 Jun 2016 | - | 08 Jan 2016 |

| Financing Plan | | Grant Utilization | | | |
|----------------|--------------------------------|----------------------------|-------|--------|----------------|
| | Total (Amount in US\$ million) | Date | ADB | Others | Net Percentage |
| Project Cost | 53.40 | Cumulative Contract Awards | | | |
| ADB | 53.40 | 04 Dec 2015 | 53.40 | 0.00 | 100% |
| Counterpart | 0.00 | Cumulative Disbursements | | | |
| Cofinancing | 0.00 | 04 Dec 2015 | 53.40 | 0.00 | 100% |

Loan 3343-TAJ

| Milestones |
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| Approval | Signing Date | Effectivity Date | Closing | | |
|-------------|--------------|------------------|-------------|---------|-------------|
| | | | Original | Revised | Actual |
| 04 Dec 2015 | 08 Dec 2015 | 21 Dec 2015 | 30 Jun 2016 | - | 08 Jan 2016 |

| Financing Plan | | Loan Utilization | | | |
|----------------|--------------------------------|----------------------------|------|--------|----------------|
| | Total (Amount in US\$ million) | Date | ADB | Others | Net Percentage |
| Project Cost | 6.60 | Cumulative Contract Awards | | | |
| ADB | 6.60 | 04 Dec 2015 | 6.55 | 0.00 | 100% |
| Counterpart | 0.00 | Cumulative Disbursements | | | |
| Cofinancing | 0.00 | 04 Dec 2015 | 6.55 | 0.00 | 100% |

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| Project Page | https://www.adb.org/projects/47099-002/main |
| Request for Information | http://www.adb.org/forms/request-information-form?subject=47099-002 |
| Date Generated | 06 July 2017 |

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