



Report and Recommendation of the President to the Board of Directors

Project Number: 47099-002
November 2015

Proposed Programmatic Approach and Policy- Based Loan and Grant for Subprogram 1 Republic of Tajikistan: Investment Climate Reforms Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 9 November 2015)

Currency unit – somoni (TJS)

TJS1.00 = \$0.151

\$1.00 = TJS6.6207

ABBREVIATIONS

| | | |
|--------|---|--|
| ADB | – | Asian Development Bank |
| CIS | – | Commonwealth of Independent States |
| EBRD | – | European Bank for Reconstruction and Development |
| ESF | – | Entrepreneurship Support Fund |
| GDP | – | gross domestic product |
| PFM | – | public financial management |
| RIA | – | regulatory impact analysis |
| SCISPM | – | State Committee on Investments and State Property Management |
| SOE | – | state-owned enterprise |

NOTE

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

| | |
|-------------------------|--|
| Vice-President | W. Zhang, Operations 1 |
| Director General | S. O’Sullivan, Central and West Asia Department (CWRD) |
| Director | B. Wilkinson, Public Management, Financial Sector, and Trade, CWRD |
| Team leader | R. Barreto, Financial Sector Specialist, CWRD |
| Team members | M. Boboev, Economics Officer, CWRD |
| | B. Chansavat, Portfolio Management Specialist, CWRD |
| | F. Dodomirzoeva, Project Assistant, CWRD |
| | M. Martin, Associate Project Officer, CWRD |
| | L. Mtchedlishvili, Senior Energy Specialist, CWRD |
| | A. Mukhamedyarova, Financial Sector Specialist, CWRD |
| | L. Nazarbekova, Principal Counsel, Office of the General Counsel |
| | S. Shrestha, Principal Country Economist, Southeast Asia Department (SERD) |
| | M.C. Yabut, Operations Assistant, CWRD |
| Peer reviewers | R. Hartel, Principal Investment Specialist (Capital Markets), Private Sector Operations Department |
| | A. Haydarov, Infrastructure Economist, SERD |

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CONTENTS

Page

PROGRAM AT A GLANCE

| | | |
|------|----------------------------------|----|
| I. | THE PROPOSAL | 1 |
| II. | THE PROGRAM | 1 |
| | A. Rationale | 1 |
| | B. Impact and Outcome | 4 |
| | C. Outputs | 4 |
| | D. Development Financing Needs | 5 |
| | E. Implementation Arrangements | 7 |
| III. | DUE DILIGENCE | 7 |
| | A. Economic and Fiscal Impacts | 7 |
| | B. Governance | 9 |
| | C. Poverty and Social | 9 |
| | D. Safeguards | 10 |
| | E. Risks and Mitigating Measures | 10 |
| IV. | ASSURANCES | 10 |
| V. | RECOMMENDATION | 10 |

APPENDIXES

| | | |
|----|---------------------------------|----|
| 1. | Design and Monitoring Framework | 11 |
| 2. | List of Linked Documents | 14 |
| 3. | Development Policy Letter | 15 |
| 4. | Policy Matrix | 20 |

PROGRAM AT A GLANCE

| PROGRAM AT A GLANCE | | | |
|--|---|--------------------------------------|--|
| 1. Basic Data | | Project Number: 47099-002 | |
| Project Name | Investment Climate Reforms Program - Subprogram 1 | Department /Division | CWRD/CWPF |
| Country Borrower | Tajikistan Republic of Tajikistan | Executing Agency | State Committee on Investments and State Property Management |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | |
| ✓ Public sector management | Economic affairs management | | 0.50 |
| | Law and judiciary | | 0.75 |
| | Public administration | | 3.10 |
| Energy | Energy sector development and institutional reform | | 0.25 |
| Industry and trade | Small and medium enterprise development | | 55.40 |
| Total | | | 60.00 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
| Inclusive economic growth (IEG) | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Climate Change impact on the Project | Low |
| Regional integration (RCI) | Pillar 2: Trade and investment | | |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
| Governance and capacity development (GCD) | Anticorruption Client relations, network, and partnership development to partnership driver of change Civil society participation Institutional development Institutional systems and political economy Organizational development Public financial governance Pilot-testing innovation and learning | Effective gender mainstreaming (EGM) | ✓ |
| Knowledge solutions (KNS) | | | |
| Private sector development (PSD) | Conducive policy and institutional environment | | |
| 5. Poverty Targeting | | Location Impact | |
| Project directly targets poverty | No | Nation-wide | High |
| 6. Risk Categorization: | Complex | | |
| 7. Safeguard Categorization | Environment: C Involuntary Resettlement: C Indigenous Peoples: C | | |
| 8. Financing | | | |
| Modality and Sources | | Amount (\$ million) | |
| ADB | | 60.00 | |
| Sovereign Programmatic Approach Policy-Based Lending (Grant): Asian Development Fund | | 53.40 | |
| Sovereign Programmatic Approach Policy-Based Lending (Loan): Asian Development Fund | | 6.60 | |
| Cofinancing | | 0.00 | |
| None | | 0.00 | |
| Counterpart | | 0.00 | |
| None | | 0.00 | |
| Total | | 60.00 | |
| 9. Effective Development Cooperation | | | |
| Use of country procurement systems | | Yes | |
| Use of country public financial management systems | | Yes | |

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Investment Climate Reforms Program, (ii) a proposed policy-based loan, and (iii) a proposed policy-based grant to the Republic of Tajikistan for subprogram 1 of the Investment Climate Reforms Program.¹

2. The program will provide budget support to help expand economic opportunities and develop the private sector. The program includes policy actions to (i) reduce the cost of doing business, (ii) strengthen protection for businesses, and (iii) increase business innovation and productivity.² The programmatic approach will comprise three subprograms to be implemented during 2015–2019; subprogram 2 is scheduled for 2017, and subprogram 3 for 2019. The concept paper for the programmatic approach was circulated to the Asian Development Bank (ADB) Board of Directors on 28 October 2014.³

II. THE PROGRAM

A. Rationale

3. 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 the Commonwealth of Independent States (CIS). 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 and Tajikistan's output remains close to 1991 levels. 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.

4. 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 (largely males) to seek jobs abroad, mostly in the Russian Federation. This has been facilitated by an agreement on labor migration signed by Tajikistan and the Russian Federation in 2004. In 2013, remittances accounted for 49% of gross domestic product (GDP), which was the highest dependency on remittances of any economy in the world.⁴ 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.

5. Governance and capacity of institutions in Tajikistan have improved marginally over the last decade (ranked 4.1 in 2015 on a 1–7 scale, up from 3.4 in 2006) but remain weak by international standards.⁵ The majority of policy decisions, including on some public investments, are made without comprehensive public scrutiny and analysis of their economic and social impacts.⁶ Tajikistan's executive bodies often lack an in-depth understanding of policy concepts and implementation methods, limiting the effectiveness of policy decisions.

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided policy and advisory technical assistance: ADB. 2013. *Technical Assistance to Tajikistan for Investment Climate Reforms*. Manila.

³ ADB. 2014. *Concept Paper: Proposed Programmatic Approach and Policy-Based Grant for Subprogram 1 Investment Climate Reforms Program in Tajikistan*. Manila.

⁴ World Bank. 2015. *Migration and Development Brief*. Washington DC.

⁵ World Economic Forum. 2015. *The Global Competitiveness Report 2015–2016*. Geneva.

⁶ In 2013, about 1,000 normative legal acts were adopted in Tajikistan. S. Asadov. 2014. The Policy Process in Government in Tajikistan: Recent Dynamics, Challenges and Opportunities. *Institute of Public Policy and*

6. Despite efforts to raise Tajikistan's Doing Business ranking (footnote 28), 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. The judiciary's ability to enforce contracts and protect investor rights is uncertain.⁷ Executive documents—government orders, instructions, ministerial memos, and regulations—are often inaccessible, leaving businesses and investors unaware of existing rules. There is limited accountability regarding business ownership.

7. Businesses have limited knowledge of modern production techniques. Only 17% of firms report having an internationally recognized quality certification (16.7% in 2008). Tajikistan ranks 121st out of 140 countries in cluster development (footnote 5). 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.⁸ Financing is expensive and short term, reducing investors' capacity to expand and compete internationally. Credit to the private sector was 21.5% of GDP in 2014—in line with the average for fragile and conflict-affected countries (20.0% of GDP)—, which is nevertheless an improvement from 16.9% of GDP during 2009–2013.⁹ Overall, Tajikistan's country risk is very high.¹⁰

8. 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 at about 55%; this is lower than Kazakhstan (65%) and the Kyrgyz Republic (75%), but higher than Turkmenistan (25%) and Uzbekistan (45%).¹¹ Many of the shortcomings in Tajikistan's economy—low competitiveness of products in particular—reflect the private sector's poor performance. Until 2014, remittance inflows supported the appreciation of the real effective exchange rate, thereby reducing export competitiveness. The number of products exported with comparative advantage declined from 48 in 1995 to 44 in 2012.¹²

9. Investment (gross fixed capital formation) 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, and is mainly concentrated in a few sectors:

Administration Working Paper. No. 28. Bishkek: University of Central Asia.

⁷ European Bank for Reconstruction and Development (EBRD). 2012. *Commercial Laws of Tajikistan. An assessment by the EBRD*. London.

⁸ Tajikistan Aluminum Company is the main industrial consumer and uses about 35% of total electricity generated.

⁹ World Bank. *World Development Indicators*. <http://data.worldbank.org/products/wdi> (accessed 9 October 2015).

¹⁰ Tajikistan has the highest country risk classification under the Organisation for Economic Co-operation and Development's Arrangement on Officially Supported Export Credits (7 out of 7). Organisation for Economic Co-operation and Development. 2015. *Country Risk Classifications of the Participants to the Arrangement on Officially Supported Export Credits*. <http://www.oecd.org/tad/xcrc/cre-crc-current-english.pdf>

¹¹ EBRD. *Forecasts, macro data, transition indicators: Structural and Institutional Change Indicators*. <http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html> (accessed 13 August 2015). The private sector's share of GDP represents EBRD estimates based on available statistics. The underlying concept of private sector value-added includes income generated by the activity of private registered companies and private entities engaged in informal activity where reliable information on informal activity is available. The data series starts in 2004.

¹² ADB. Forthcoming. *Tajikistan Country Diagnostic Study*. Manila.

financial intermediation, communications, mining, and construction (footnote 9). Public investment is focused on large infrastructure and energy projects with long gestation periods.

10. The programmatic approach is aligned with the government's national development strategy for 2007–2015.¹³ The government is developing a new national development strategy for 2016–2030, which is expected to focus on development of the real economy, diversification of production, productive employment, expansion of the export potential of locally produced goods and services, improvement of the investment climate, and support for entrepreneurship. In March 2013, Tajikistan acceded to the World Trade Organization, a process that has led the government to introduce improvements to its trade regime.

11. 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 (footnote 2).¹⁴ ADB budget support provides the government with incentives for reforms that otherwise would be delayed or not implemented. ADB support is important because the political system is often divided and vested interests resist policy changes. The programmatic approach is the best modality to implement required reforms in a chronologically sequenced manner.

12. The programmatic approach is aligned with (i) the interim country partnership strategy for 2015, which includes support for private sector reforms as one of three operational priorities;¹⁵ and (ii) the forthcoming country partnership strategy for 2016–2020, through which ADB plans to increase support for government-led reforms to achieve macroeconomic stability, improve the investment climate, diversify the economy, and increase competitiveness. The Economic Research and Regional Cooperation Department conducted a country diagnostic study that explains Tajikistan's declining competitiveness (footnote 12), which was a factor in the selection of improvement of Tajikistan's competitiveness as a strategic thrust of ADB assistance for 2016–2020. The Independent Evaluation Department's country assistance program evaluation for 1998–2013 recommended that ADB increase its dialogue with the government to strengthen governance and improve the business and investment climate.¹⁶

13. In 2014, ADB completed a policy-based program in Tajikistan to strengthen tax administration, social protection, and public financial management.¹⁷ In 2014, ADB approved its first nonsovereign operation in Tajikistan.¹⁸ Ongoing technical assistance is strengthening the environment for public–private partnerships and the anti-money laundering regime.¹⁹ ADB continues to support restructuring of the energy sector. Subprogram 1 reinforced and benefited from development partner interventions, particularly from the World Bank Group.²⁰

¹³ Government of Tajikistan. 2007. *National Development Strategy of the Republic of Tajikistan for the Period to 2015*. Dushanbe.

¹⁴ The design of the institutional reforms in the product quality infrastructure system benefited from separate small-scale technical assistance approved in 2013 (Strengthening Tajikistan's Trade and Investment Regime. <http://www.adb.org/projects/44073-012/main>).

¹⁵ ADB. 2014. *Interim Country Partnership Strategy: Tajikistan, 2015*. Manila.

¹⁶ Independent Evaluation Department. 2014. *Country Assistance Program Evaluation: Tajikistan—Responding to the Changing Development Conditions*. Manila: ADB.

¹⁷ The program was rated *successful*. ADB. 2015. *Completion Report: Strengthening Public Resource Management Program in Tajikistan*. Manila.

¹⁸ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Equity Investment and Senior Loan for Promoting Financial Inclusion through Greenfield Banking in Tajikistan*. Manila.

¹⁹ Support Enabling Capacity Building for Public–Private Partnerships in Tajikistan. <http://www.adb.org/projects/47098-001/main>; and ADB. 2014. *Technical Assistance to Tajikistan for Strengthening the Anti-Money Laundering Regime*. Manila.

²⁰ ADB interventions and other development partner activities are listed in Development Coordination (accessible from the list of linked documents in Appendix 2).

B. Impact and Outcome

14. The impact of the program will be the development of the private sector and attraction of investments to Tajikistan. The outcome will be increased capabilities and opportunities of businesses to set up and expand higher value-added production.

C. Outputs

15. The program includes policy actions that will help deliver three outputs along the three subprograms: (i) reduced cost of doing business, (ii) strengthened protection for businesses, and (iii) increased business innovation and productivity. Subprogram 1 has 10 policy actions; subprogram 2 has 10 indicative policy actions, while subprogram 3 has 11.

16. **Output 1: Reduced cost of doing business.** The objective is to reduce the regulatory cost of operating in Tajikistan. Under subprogram 1, to reduce unnecessary costs for businesses, the government is approving a new regulatory impact analysis (RIA) system for newly proposed legal acts, and started two pilot RIAs (on improving access to finance and improving food safety through technical regulations). Under subprograms 2 and 3, the government will implement the new RIA system—including gender analysis—and publish RIA results more widely on an authorized government website.

17. Under subprogram 1, the parliament is expected to approve a new law on business inspections that uses a risk-based inspection system and a new mechanism for coordination and reporting of annual inspection plans for all government agencies that conduct inspections. To fulfill the country's commitments under the World Trade Organization, the government disclosed and reviewed the list of all existing provisional technical regulations, and removed 107 outdated technical regulations. This effort will continue during subprograms 2 and 3, along with the introduction of voluntary international standards.

18. As of 1 July 2015, 180,000 taxpayers under the simplified regime (out of a total of 240,000 taxpayers) can apply to the Tax Committee for a log-in and mobile password authentication system. The new, free system allows taxpayers to submit tax declarations through the Tax Committee's website. The committee conducted a nationwide awareness campaign (using workshops; television and radio; and its call center) to inform taxpayers about this option. Under subprograms 2 and 3, the committee will expand the use of electronic declarations to facilitate timely and effective tax compliance, particularly through the log-in and mobile password authentication system, while continuing to make the old token-based authentication system available to other taxpayers (e.g., payers of value-added tax).

19. **Output 2: Strengthened protection for businesses.** The objective is to increase transparency and thereby reduce expropriation risks for businesses. The government is improving transparency of business ownership: as of 8 July 2015, the Tax Committee's website (www.andoz.tj) provides access to information in the committee's database of legal entities (including ownership, management, economic activity, capital, and contacts). Subprograms 2 and 3 will further support transparency, particularly regarding legal documents and gender-disaggregated statistics of business ownership, to ensure that the government is better prepared to support women entrepreneurship.

20. The new investment law—to be submitted for Parliament approval under subprogram 1—seeks to ensure a more transparent and consistent treatment of investment incentives and to signal the government's interest in promoting private investment. An authorized government

body will coordinate and make public all investment incentives. The draft law establishes the concept of indirect expropriation and the right of the investor to compensation in such cases.²¹ Under the program, the government will (i) improve investment promotion by structuring the investment promotion agency according to international good practice, with a clear, long-term results framework; strengthened governance; internal control; and funding; and (ii) approve legislation with clear methods for determining compensation in case of expropriation.

21. **Output 3: Increased business innovation and productivity.** The objective is to improve the productivity of firms operating in Tajikistan. In subprogram 1, the government is transferring Tajikstandard accreditation functions to the newly established National Accreditation Center, a body with strengthened governance, including management that is accountable to a supervisory board with independent members. The National Accreditation Center will become fully independent of Tajikstandard by 1 January 2017. This will reduce potential conflicts of interest within the quality infrastructure system, and support product quality certification.

22. The government has raised the status for the Entrepreneurship Support Fund (ESF) and changed its governance structure to one governed by a supervisory council. This will increase ESF oversight and enable increased funding from the state budget. Under the program, the government will adopt a credit guarantee scheme that will work with private financial institutions to finance investments by local businesses in innovation, particularly for businesses led by women. Under subprograms 2 and 3, the government will improve ESF governance, internal control, and funding to support local businesses when investing in innovation.

23. In subprogram 1, the government (i) increased state budget allocation for grants to businesswomen for cofinancing of investments, and (ii) allocated office space for two business service centers, which are managed by nongovernment organizations and provide incubation and other services such as marketing and taxation advice. The program will continue to finance investments by businesswomen, and to support business service center expansion.

24. In subprogram 1, the President of Tajikistan instructed the government to (i) develop and adopt a new tariff policy for electricity that will eliminate cross-customer price subsidies; and (ii) carry out public consultations in developing and implementing the policy. The new tariff policy will become effective on or before 1 January 2017, and allow fair competition among businesses. The government will include subsidy allocations in the state budget to ensure tariff increases do not negatively affect low-income customers. Under the program, the government will introduce measures to improve collection rates in the energy sector.

D. Development Financing Needs

25. Tajikistan remains the poorest country in the CIS, with the lowest per capita (i) GDP (\$1,099 in 2014), and (ii) social expenditures. Development financing needs are substantial, particularly for social security and welfare expenditures (predominantly pensions). The pension system faces demographic challenges,²² which explain in part the significant increase in the state budget share allocated to social expenditures (from 32.8% in 2010 to 44.4% in 2014).

26. The government is cutting expenditures due to lower-than-expected revenues—a

²¹ Indirect expropriation occurs when the state interferes with the use of the investor's property or its benefits, even if the property is not seized and the title not affected (e.g., if government measures force an investor to flee the country, deny an investor access to funds or profits, or compel the investor to sell or transfer at an unfairly low price).

²² The number of public pensioners increased by just 1.0% during 1997–2009, but rose more than 2.5% per year during 2010–2014 (from 554,000 to 611,000), an effect of the post-World War II “baby boom.”

consequence of the economic slowdown. Growth is projected to decline from 6.7% of GDP in 2014 to 3.5% in 2015. Remittance inflows in dollar terms dropped 32% in the first half of 2015 compared with the first half of 2014, slashing consumption. Revenue collection in the first 9 months of 2015 was TJS392 million below the target. The estimated financing gap in the state budget is about \$170 million for 2015 and about \$42 million for 2016 (Table 1). Fiscal support is needed to prevent reduction of critical social expenditures; address demographic challenges (i.e., increased pension demand and the return of migrants); and finance subprogram 1.²³

Table 1: Tajikistan State Budget's Financing Gap

| Item | 2015 | | 2016 | |
|---|------------------------|----------|------------------------|----------|
| | Amount (\$ million) | % of GDP | Amount (\$ million) | % of GDP |
| 1. Revenues and grants ^a | 2,035.5 | 23.9 | 2,137.4 | 25.8 |
| 2. Expenditure | 2,505.4 | 29.4 | 2,671.6 | 32.2 |
| 3. Overall fiscal balance (=1-2) ^a | (469.9) | (5.5) | (534.2) | (6.4) |
| 4. Net financing | 300.3 ^b | 3.5 | 492.7 | 5.9 |
| 5. Financing gap | (169.6) | (2.0) | (41.5) | (0.5) |

() = negative, GDP = gross domestic product.

Note: Projections based on the 2015 state budget and draft 2016 state budget with the following changes: (i) expected reduction in tax collections of TJS540 million for 2015, based on the figures for the first 9 months of the year, and in budget support; (ii) revised GDP using June 2015 International Monetary Fund Article IV projections (TJS52,936 million); and (iii) depreciated Tajik somoni (average exchange rate for 2015 of TJS6.2037 = \$1).

^a Excluding Asian Development Bank budget support under the Investment Climate Reforms Program.

^b Includes special funds and budget support proceeds from the European Union (€6 million grant) and the Eurasian Fund for Stabilization and Development (\$20 million loan).

Sources: Ministry of Finance of the Republic of Tajikistan; International Monetary Fund.

27. The government has requested a grant not exceeding \$53.4 million from ADB's Special Funds resources to help finance its development program, in particular subprogram 1.²⁴ The government has also requested a loan in various currencies equivalent to SDR4.72 million from ADB's Special Funds resources to help finance its development program. The loan will have a 24-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft financing agreement. The government is closing the remaining financing gap by using cash reserves, reducing noncritical expenditures, and delaying capital expenditure plans and increases in salaries and pensions. The financing plan is in Table 2. The indicative size of subprograms 2 and 3 is \$20 million and \$30 million; this will be finalized during processing of each subprogram, taking into account the government's development financing needs.

Table 2: Financing Plan for Subprogram 1

| Source | Amount (\$ million) | Share of Total (%) |
|---------------------------------|---------------------|--------------------|
| Asian Development Bank | | |
| Special Funds resources (grant) | 53.4 | 89.0 |
| Special Funds resources (loan) | 6.6 | 11.0 |
| Total | 60.0 | 100.0 |

Source: Asian Development Bank.

²³ The 2015 budget allocates 45.1% of available resources (or 13.2% of GDP) to social expenditures.

²⁴ A country's eligibility for Asian Development Fund grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis conducted by the International Monetary Fund and the World Bank in November 2014 determined that Tajikistan had a moderate risk of debt distress and was therefore eligible to receive 50% of its Asian Development Fund allocation as grants. The rating was based on debt-to-GDP, debt-to-exports (including remittances), and debt-to-budget revenue ratios.

28. Tajikistan's long-term debt sustainability remains moderate despite short-term balance of payments and fiscal shocks (footnote 24). External debt declined from an average of about 70% of GDP in 2000–2011 to 28% in 2014, due to economic growth, debt forgiveness, and grant assistance from development partners, such as ADB, the World Bank, and bilateral agencies. Public and publicly guaranteed debt was 28.2% of GDP at the end of 2014; the Export–Import Bank of China was the largest creditor (52%), with the remainder owed to multilateral donors.²⁵

29. The macroeconomic deterioration and depletion of foreign exchange reserves observed since the end of 2014 can worsen debt ratios. Tajikistan's gross official reserves were equivalent to 1.4 months of imports as of the end of 2014 and are projected to be just 1.2 months equivalent of imports by the end of 2015. Similar to many currencies in the region, the Tajik somoni depreciated 30% against the US dollar in the year ending 30 September 2015.²⁶ In 2014 the current account deficit was 9.1%. Tajikistan is graduating from all-grant assistance from major development partners such as ADB and the World Bank. The government lacks access to international financial markets to finance sovereign debt, because of the very high country risk (footnote 10). Domestic financing is very limited and short term.

E. Implementation Arrangements

30. The executing agency is the State Committee on Investments and State Property Management (SCISPM). The implementing agencies are the Ministry of Energy and Water Resources, the Ministry of Justice, the SCISPM, the ESF, Tajikstandard, and the Tax Committee. The Executive Office of the President, the Ministry of Finance, and the Secretariat of the Consultative Council on Improvement of Investment Climate under the President will oversee program implementation. No program implementation unit will be established.

31. Financing proceeds for subprogram 1 will be disbursed in a single tranche to the Government of Tajikistan as the recipient in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time) upon compliance with all policy actions for subprogram 1 and with satisfaction of all conditions precedent to loan and grant effectiveness. The proceeds will be used to finance the cost of items produced and procured in ADB member countries, excluding ineligible items and imports financed by other bilateral and multilateral sources. The implementation period for subprogram 1 is January–December 2015. The closing date is 30 June 2016.

III. DUE DILIGENCE

A. Economic and Fiscal Impacts

32. The program supports economic growth through reforms that increase investment opportunities and improve capabilities of firms to set up and expand higher value-added production. The reforms are expected to help firms in Tajikistan raise revenues from product sales and reduce the cost of doing business, thus increasing their expected returns. The primary beneficiaries are current and future entrepreneurs and investors who will benefit from an improved business environment; women entrepreneurs are specifically targeted. The reforms are expected to provide indirect benefits to the working population (employed and unemployed), because investment opportunities will create jobs and increase wages. Reduced regulatory costs will attract more businesses to the formal sector, increasing the number of formal jobs.

²⁵ ADB recognizes China as the People's Republic of China.

²⁶ Source: National Bank of Tajikistan.

33. Inspections and certification impose direct costs on the average small and medium-sized enterprise equivalent to 16.6% of profits.²⁷ More than 1,000 legal acts are adopted every year in Tajikistan and these can impose unnecessary costs on businesses, because the government performs limited quality checks on the drafts. RIA will improve decision-making quality and reduce unnecessary costs to businesses arising from new policy and regulatory proposals. More than 100 outdated technical regulations were eliminated in 2015, reducing the regulatory burden on firms. Electronic tax declarations will improve transparency and reduce opportunities for corruption; the new system will help increase the number of taxpayers filing electronically from about 6,500 taxpayers at the end of 2014 to more than 40,000 by the end of the program.

34. The perceived risk of corruption and expropriation is high, discouraging businesses and investors from expanding or investing in Tajikistan. Disclosure of the ownership of businesses on the Tax Committee's website will increase transparency and reduce expropriation risks for businesses. Increased stability in legislation—particularly regarding taxation—provided by the new law on investments will improve the attractiveness of investing in Tajikistan. Recent large private investments in Tajikistan in the beverages and distribution sectors are encouraging.

35. The restructuring of Tajikstandard is expected to improve the institutional and regulatory framework for firms in Tajikistan applying for certification of product quality. Improvements in the quality of products made in Tajikistan are critical to reversing the decline in the number of products exported with comparative advantage (para. 8). Government support through the ESF and grants to women entrepreneurs are expected to improve low levels of financing for investments in product and service innovation (para. 7).

36. Access to electricity is a binding constraint to business development. Tajikistan ranks 177th out of 189 economies on the ease of getting electricity.²⁸ Firms are reluctant to invest in new equipment and automated production if they cannot access a stable supply of affordable electricity. Existing indirect (tariff-based) cross-customer energy subsidies distort both the pricing structure and market competition. The new tariff policy for electricity is expected to bring (i) additional revenues to a system that charges consumers at a rate lower than required to fully recover costs, and thus is not yet self-sufficient; and (ii) fairer competition for private businesses, which pay tariffs that are almost triple those paid by organizations—e.g., budgetary organizations and state-owned enterprises (SOEs)—that successfully lobby for lower tariffs. The reforms will improve access to a reliable supply of electricity.

37. The government is expected to incur significant adjustment costs and revenue losses in the implementation of policy reforms under the program. The majority of the costs will come from the increase of state budget allocations to (i) budgetary organizations, to pay for higher electricity tariffs arising from removal of the implicit subsidy in their tariff; (ii) the low-income population as compensation for higher electricity costs (through the Utility Subsidy and the Targeted Social Assistance Program) arising from the new policy that will remove implicit cross-customer subsidies from the tariff; and (iii) the ESF, for financing of businesses. Revenue losses will arise from strengthening the investment incentives regime, i.e., from the increase of the stabilization period for investors that signed investment agreements with the government.²⁹

²⁷ International Finance Corporation. 2009. *Business Environment in Tajikistan as Seen by Small and Medium Enterprises*. Dushanbe.

²⁸ World Bank. 2015. *Doing Business 2016. Measuring Regulatory Quality and Efficiency*. Washington DC.

²⁹ Economic Analysis (accessible from the list of linked documents in Appendix 2).

B. Governance

38. The government approved the Public Financial Management (PFM) Strategy 2009–2018 to increase the credibility and transparency of the country's budget, but implementation challenges remain: (i) comprehensive public scrutiny and analysis of the economic and social impacts of large public investments are rare; (ii) the quasi-fiscal activities of SOEs have largely remained outside the purview of the central budget; and (iii) efficiency in tax collection is among the lowest in Asia and the Pacific. Development partners continue to assist the government in addressing these weaknesses. Recent PFM reform initiatives include (i) the creation of internal audit institutions in selected government agencies, (ii) the implementation of the budget administrative classification, (iii) the redesign of the chart of accounts, (iv) improved macroeconomic forecasting, and (v) basic monitoring of SOEs.

39. The government is revising the law on public procurement to address serious flaws (e.g., ambiguous provisions on single-source procurement and complaints handling) that can cause misprocurement and delay public investments. The Public Procurement Agency is heavily involved in managing procurement, which conflicts with its oversight and regulatory functions. ADB is reviewing a draft procurement law and will support capacity building for its effective implementation. ADB will facilitate restructuring of the Public Procurement Agency into an effective regulatory agency and promote procurement decentralization.

40. Tajikistan scored 23 out of a possible 100 in Transparency International's Corruption Perception Index, where 0 is "highly corrupt" and 100 "very clean."³⁰ The program includes measures that promote transparency and reduce opportunities for corruption: (i) a new RIA system that includes mechanisms for disclosure of newly proposed legislation; and a free, single repository for executive documents; (ii) a coordination mechanism for government inspection of businesses; and (iii) improved information about ownership of businesses through the Tax Committee's website. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and with SCISPM.

C. Poverty and Social

41. Policy reforms are expected to have indirect medium- and long-term impacts on poverty, mainly through more sustainable economic growth and increased employment opportunities. Private investment is expected to increase as a result of the reduced cost of doing business; more transparent tax regime; improved access to electricity for businesses and households, and increased tariff equity for businesses; and improved protection framework for investors. Reduced regulatory costs are expected to attract businesses to the formal sector and increase formal jobs; improved business innovation and productivity should increase profits and wages.

42. The program includes actions to address obstacles faced in particular by women entrepreneurs, and promote equality between male and female entrepreneurs. For subprogram 1, the government (i) included a requirement for gender analysis in the RIA system for newly proposed legal acts to understand the potential impacts on women, (ii) allocated funds to businesswomen to cofinance investments, and (iii) supported the creation of two business service centers that have gender balance among their staff. The program will monitor the share of women among entrepreneurs, the number of women entrepreneurs that receive government cofinancing for investments, and the number of female taxpayers filing electronic declarations.

³⁰ Transparency International. Corruption Perceptions Index 2014. <http://www.transparency.org/cpi2014/results> (accessed 28 August 2015).

D. Safeguards

43. Subprogram 1 is unlikely to have adverse impacts on the environment, require involuntary resettlement, or affect indigenous peoples. It is categorized as C for each of these safeguard areas. ADB consulted with private businesses and business associations regarding the program design and implementation.

E. Risks and Mitigating Measures

44. Major risks and mitigating measures are described in detail in the risk assessment and risk management plan.³¹ Private investment growth may be constrained by lower remittance inflows due to the deterioration of the economic situation of major economic partners. Perceptions of high corruption and expropriation risks may discourage business investment in Tajikistan. The PFM and procurement systems are weak, although PFM reforms to address fiduciary risks are being introduced (para. 38). The program has measures promoting transparency and reducing opportunities for corruption (para. 34). The recent International Monetary Fund Article IV report recommends the government to ensure that central bank liquidity support benefits only banks with strong balance sheets and good collateral, and refrain from shifting further deposits to banks. The program's overall risk assessment is high, but the government has in place necessary mitigating measures. Subprogram 1's integrated benefits and impacts are expected to outweigh the costs.

IV. ASSURANCES

45. The government and the SCISPM have 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 financing agreement.

V. RECOMMENDATION

46. I am satisfied that the proposed programmatic approach and policy-based loan and grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the programmatic approach for the Investment Climate Reforms Program;
- (ii) the loan in various currencies equivalent to SDR4,720,000 to the Republic of Tajikistan for subprogram 1 of the Investment Climate Reforms Program, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft financing agreement presented to the Board; and
- (iii) the grant not exceeding \$53,400,000 to the Republic of Tajikistan, from ADB's Special Funds resources, for subprogram 1 of the Investment Climate Reforms Program, on terms and conditions that are substantially in accordance with those set forth in the draft financing agreement presented to the Board.

13 November 2015

Takehiko Nakao
President

³¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

| Impact the Program is Aligned with | | | |
|---|--|--|--|
| Development of the private sector and attraction of investments (National Development Strategy 2007–2015) ^a | | | |
| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
| Outcome Capabilities and opportunities of businesses to set up and expand higher value-added production increased | a. Share of private investment in GDP increased to 5.5% in 2016 (subprogram 1) and 6.5% on average in 2015–2019 (Baseline: average of 3.1% in 2009–2013) b. Proportion of firms in Tajikistan that report having an internationally recognized quality certification increased, to at least 20% by 2016 (subprogram 1); and 25% by 2019 (Baseline: 17% in 2013) c. Estimate of regulatory quality ^b increased to –0.75 in 2016 (subprogram 1), and –0.25 in 2019 (Baseline: –1.01 in 2014) d. Share of women as a percentage of entrepreneurs increased, to 22% in 2016 (subprogram 1), and 30% in 2016–2019; (Baseline: average 19.9% in 2010–2014) | a. World Development Indicators (gross fixed capital formation, private sector) b. World Economic Forum's Global Competitiveness Report c. World Bank's Worldwide Governance Indicators (www.govindicators.org) d. Tajikistan National Statistics Committee, gender analysis | Private investment growth may be constrained by lower remittance inflows due to deterioration of the economic situation in major economic partners |
| Outputs 1. Reduced cost of doing business | (All baselines are not applicable, unless otherwise stated) 1a. RIA (with gender analysis) piloted by 2016 (subprogram 1) | 1a. RIA reports disclosed by the RIA oversight body | Political pressures from vested interests may constrain policy choices during implementation |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|---|--|--|--|
| 2. Strengthened protection for businesses | 1b. RIA results (with gender analysis) published by regulators for all new regulatory proposals that impact businesses, on a new, open government website by 2019 | 1b. Government online repository of legal and regulatory acts | Resistance to change in government agencies may delay implementation |
| | 1c. Electronic declarations made available to taxpayers through the Tax Committee's website using a free log-in and mobile password authentication system by 2015 (subprogram 1) | 1c. Tax Committee's website (www.andoz.tj) | |
| | 1d. More than 40,000 taxpayers (50% women) submitted electronic declarations through the Tax Committee's website by 2019 | 1d. Tax Committee's specific report | |
| | 2a. Legislation with clear methods for determining compensation in case of expropriation approved by 2019 | 2a. Government online repository of legal and regulatory acts | |
| | 2b. Access to the information in the Tax Committee's database of legal entities provided through its website, by 2015 (subprogram 1) | 2b. Tax Committee's website (www.andoz.tj) | |
| | 3a. Tajikstandard's accreditation functions transferred to a separate government body by 2015 (subprogram 1) | 3a. Government resolution approving the establishment of the new National Accreditation Center | |
| 3. Increased business innovation and productivity | 3b. ESF financial support for local businesses increased to 0.4% of GDP by 2019 (Baseline: 0.15% of GDP in 2014) | 3b. ESF's financial statements | |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|--|--|--|-------|
| | <p>3c. Government grants provided to an average of 120 women entrepreneurs per year during 2015–2019 (Baseline: average of 60 women entrepreneurs during 2013–2014)</p> <p>3d. Average electricity tariff for private businesses reduced to the same level as that of public organizations by 2019 (Baseline: tariff for businesses 2.5 times more expensive in July 2014)</p> | <p>3c. Committee on Women and Family Affairs' annual reports</p> <p>3d. Tariff structure from the electricity distribution company</p> | |
| Inputs ADB Subprogram 1: \$53,400,000 (ADF grant); \$6,600,000 (ADF loan) Subprogram 2: \$20,000,000 (indicative) Subprogram 3: \$30,000,000 (indicative) | | | |
| Assumptions for Partner Financing Not applicable. | | | |

ADB = Asian Development Bank, ADF = Asian Development Fund; ESF = Entrepreneurship Support Fund, GDP = gross domestic product, RIA = regulatory impact analysis.

^a Government of Tajikistan. 2007. *National Development Strategy of the Republic of Tajikistan for the Period to 2015*. Dushanbe.

^b Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=47099-002-2>

1. Financing Agreement: Special Operations
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Economic Analysis
6. Country Economic Indicators
7. International Monetary Fund Assessment Letter
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items

Supplementary Documents

11. Concept Paper for the Proposed Programmatic Approach and Policy-Based Grant for Subprogram 1 Investment Climate Reforms Program
12. A Model for a Regulatory Impact Analysis System in Tajikistan
13. Policy Research and Analysis on Organizational Reforms of the Tajikistan Standards Agency—Tajikstandart

DEVELOPMENT POLICY LETTER

МУОВИНИ ЯКУМИ
САРВАЗИРИ
ҶУМҲУРИИ ТОҶИКИСТОН



ПЕРВЫЙ ЗАМЕСТИТЕЛЬ
ПРЕМЬЕР-МИНИСТРА
РЕСПУБЛИКИ ТАДЖИКИСТАН

№ 22/3-55

"30" OCTOBER 20 15

Mr. Takehiko Nakao
President
Asian Development Bank

Subject: Investment Climate Reforms Program

Dear Mr. President,

On behalf of the Government of the Republic of Tajikistan I would like to thank the Asian Development Bank for its continued support to country's development process.

Tajikistan's economy has experienced robust economic growth over the last two decades although it still remains dependent on external financial resources, particularly remittances, and energy resources. The Government's lack of financing capacity is limiting investment in public goods. Investment has been relatively low at 16% of gross domestic product between 2005 and 2013, which limits future economic growth and job creation; private investment was only 5% of GDP in the same period. Investment has been largely funded by the government and development partners.

The Government's development expenditures and financing needs over the next years are substantial, particularly in 2015 given the expected substantial reduction of GDP growth. The 2015 budget allocates 45.1% of the available resources (or 13.3% of estimated GDP) to social expenditures in education, health and social protection, but we may not be able to sustain it without external financial assistance (including the budget support provided by the ADB). The Government has limited fiscal space, with external public debt at 22.5% of GDP and gross official reserves at only 1.4 months of imports (2014).

The macroeconomic picture has deteriorated significantly since the end of 2014 due to the sharp fall of the Russian ruble. Total remittances in dollar terms were down by 8.3% for 2014 and by 32% in the first half of 2015.

The National Development Strategy for the period 2007-2015 and the Living Standard Improvement Strategy for the years 2013-2015 continue to guide our economic policy, but are being updated into the new National Development Strategy covering 2016-2030. Our focus is the development of the real sectors of the economy, diversification of production, expansion of export potential of locally produced goods and services, improvement of the investment climate, and support to entrepreneurship. This will make it possible to create productive employment and improve living standards for our people. Of particular importance to the Government is the need to attract private investment that increases productive capabilities and creates jobs.

Mr. President,

Let me note that the Government is committed to economic structural reforms to achieve this vision. The development of the private sector's productive capabilities is a cornerstone of our economic strategy. It is critical for our economy to diversify into higher-value-added products and for our businesses to open up new markets. Our partnership under the ADB Investment Climate Reforms Program is key to improve the business environment and to enable investors and entrepreneurs to expand, perform better, and innovate. The program is focused on key challenges for our investment climate, namely the high cost of regulatory compliance, risks for businesses, and the need to strengthen our innovation systems and firm productivity.

The authorities are committed to remove the administrative cap on the exchange rate and limit interventions in the foreign exchange market to curb excess volatility. The Government is also taking steps to protect the health of the financial system and stop directed lending.

Reduced Cost of Doing Business

More than 1,000 legal acts (laws, Parliament resolutions, Presidential decrees, and Government resolutions) are adopted every year in Tajikistan. These can impose unnecessary costs on businesses if proper quality checks on the draft legislation are not in place. To reduce these costs we are improving our processes for assessing the impact of new policy and regulatory proposals on the costs of doing business, including a gender analysis. Under subprogram 1, the Government approved a new regulatory impact assessment system for newly proposed legal acts and we have started two pilot RIAs on reform areas included in subprograms 2 and 3, namely on how to improve access to finance and food safety through technical regulations.

Under subprograms 2 and 3, we will roll-out the new RIA system (on 1 January 2017) and publish RIA results more widely on an authorized government website. The National Legislation Center will be responsible for quality control of the RIA system. We expect that RIA will improve the quality of decision-making.

The Government is also working on the reduction of unplanned inspections of businesses. Under the Program we have enacted a new Law on Business Inspections that approves a risk-based inspection system and a new mechanism for coordination and reporting of annual inspection plans for all agencies conducting inspections.

To fulfill the country's commitment under our membership of the World Trade Organization (WTO), we will continue the reduction of outdated technical regulations that impose unnecessary costs to businesses. The Government has already disclosed and reviewed the full list of all existing provisional technical regulations and has removed 107 outdated technical regulations. We will continue this effort to remove outdated technical regulations during subprograms 2 and 3, along with the introduction of voluntary international standards.

From 1 July 2015, taxpayers under the simplified regime (180,000 taxpayers out of a total of about 240,000 taxpayers) have the option to apply to the Tax Committee for a login/password authentication system. This new authentication system is free of charge and allows taxpayers to submit their tax declarations through the Tax Committee's website. The Tax Committee conducted a nationwide awareness campaign (e.g., workshops, TV and radio campaigns, call center) to inform taxpayers about this option. The new system will reduce costs of electronic submission of tax declarations and we expect will help increase the number of taxpayers filing electronically to more than 40,000 (about 6,500 taxpayers, as of end-2014). The Tax Committee will continue to make available the old authentication system (through token) to other taxpayers (e.g., VAT taxpayers).

Strengthened Protection for Businesses

The Government is improving transparency of business ownership. As of 8 July 2015, the Tax Committee's website (www.andoz.tj) provides access to the information available in the Committee's database of legal entities (including ownership, management, economic activity, capital, and contacts). We will continue this policy of transparency under subprograms 2 and 3, particularly for legal documents and gender-disaggregated statistics of business ownership to ensure that the Government is better prepared to address the needs of businesswomen.

A new Law on Investment was developed by the Government to ensure a more transparent and consistent treatment for incentives to investors and to signal the Government's interest in promoting private investment. State Committee on Investment and State Property Management of the Republic of Tajikistan will be in charge of coordination of incentives to investment. All incentives provided to investors will be made public. The new law establishes for the first time the concept of indirect expropriation. We have also approved a new blueprint for the state organization on investment promotion under the State Committee on Investment and State Property Management. Under the Program the agency will be acting according to international good practice, with a clear and long-term results framework, and will be fully financed by the state budget. We will improve the agency's governance, internal control, and funding to attract good investments for our country. Under the Program, the Government will also approve legislation with clear methods for determining compensation in case of expropriation.

Increased Business Innovation and Productivity

The Government approved a revised structure for Tajikstandard in line with our commitments related to WTO accession, and transferred its accreditation functions to the new National Accreditation Center. The new center has strengthened governance (new management and an accreditation council with independent members). The new structure will become fully independent of Tajikstandard by 1 January 2017 and if by this time "National Centre for Accreditation" will not reach full competence to carry out activities independently, Government of the Republic of Tajikistan may extend the transitional period, but not later than 2019.

We expect this to reduce potential conflicts of interest within the national quality infrastructure system and help local businesses in achieving quality certification for their products. Under the Program, the Government will continue reforms in Tajikstandard.

The Government has changed the governance structure for the Entrepreneurship Support Fund to improve its oversight and allow it to benefit from increased funding from the state budget. Under the Program, the Government will adopt a credit guarantee scheme that will work with private financial institutions to finance local businesses' investments in innovation, particularly for women-led businesses. We will continue to improve the Fund's governance, internal control, and funding to provide support to our local businesses when investing in innovation.

The Government continues the allocation from the state budget for grants to businesswomen for co-financing business investments. We will continue expanding this co-financing scheme for businesswomen under the Program. We have also allocated resources for the establishment of two new business services centers that are managed by non-government organization sand have gender balance among staff. These business services centers will provide incubator and other services such as marketing and advice on taxation.

The President of the Republic of Tajikistan has instructed the Government to (i) develop and adopt a new tariff policy for electricity, in line with good international practice, that will eliminate cross customer subsidies, and to(ii) carry out public consultations in the course of development and implementation of the policy. The new tariff policy will become effective on or before 1 January 2017. The new policy will allow fair competition among businesses. The Government will incorporate in the state budget any necessary allocations for subsidies to ensure that tariff increases will not negatively affect low-income customers. The Government will gradually move tariffs to cost recover levels.

Mr. President, the Government of the Republic of Tajikistan continues to face significant development financing needs. The Investment Climate Reforms Program is a critical mechanism to address this issue, not only for the direct support to the state budget in difficult times but mostly because it drives more private investment to finance our development strategy.

I truly appreciate your continued support.



Sincerely,

Davlatali Said
First Vice Prime Minister
Government of the Republic of Tajikistan

POLICY MATRIX

| Principal Objective | Subprogram 1 | | Subprogram 2 | Subprogram 3 |
|---|---|--|---|--|
| | Policy Action (completion by December 2015) | Results and Status of Implementation | Indicative Actions (completion by June 2017) | Indicative Actions (completion by June 2019) |
| OUTPUT 1: REDUCED COST OF DOING BUSINESS | | | | |
| Reduced cost of regulatory changes | 1. The government (i) approves improvements to the institutional mechanism for assessing the impact (including gender analysis) of legal and regulatory proposals on the cost of doing business; (ii) assigns the responsibility for quality control of the RIA system to an appropriate regulatory oversight body; and (iii) launches two pilot RIAs to be completed by June 2016. | <p>Partially completed.</p> <p>With ADB support, the government prepared and approved a blueprint¹ for a new system for RIA to be undertaken for newly proposed legal and regulatory acts. The RIAs will include gender analysis. The National Legislation Center will act as the regulatory oversight body and be responsible for ensuring that the RIA system performs well. The revised RIA system will become fully effective by 1 January 2017. During the transition period, ADB will provide capacity building to key government agencies, including guidance in the implementation of the two pilot RIAs approved by the government: (i) on food security, and (ii) on access to finance by businesses.</p> <p>The government is expected to approve the new RIA system through a resolution by November 2015.</p> <p>An estimated 1,030 and 1,150 legal acts (laws, parliament resolutions, presidential decrees, and government resolutions) were adopted in Tajikistan during 2013 and 2014. RIA is expected to improve the quality of government decision-making and reduce unnecessary costs of doing business.</p> | <p>The government establishes a free of charge web portal of normative acts (forward regulatory plans, RIA reports, draft normative acts, and adopted normative acts).</p> <p>The government publishes on the authorized government website the RIA results (including gender analysis) for at least 50% of the new legal acts eligible for RIA and proposed in the first half of 2017.</p> | The government publishes on the authorized government website the RIA results (including gender analysis) for all new legal acts eligible for RIA and proposed within a 1-year period. |
| Reduced cost of unplanned inspections of businesses | 2. The government approves (i) a risk-based business inspection system, and (ii) a mechanism for coordination and reporting of annual | <p>Partially completed.</p> <p>On 4 November 2015, the Parliament Lower House approved the Law on</p> | | |

| Principal Objective | Subprogram 1 | | Subprogram 2 | Subprogram 3 |
|---|--|---|--|---|
| | Policy Action (completion by December 2015) | Results and Status of Implementation | Indicative Actions (completion by June 2017) | Indicative Actions (completion by June 2019) |
| | inspection plans for agencies undertaking business inspections. | business inspections that (i) establishes a mechanism for coordination and reporting of annual inspection plans, and (ii) adopts the principle of risk-based inspections. The law is expected to be approved in December and enter into effect on 1 January 2016. This is expected to improve targeting of inspections and reduce the burden for businesses that have low risks of noncompliance. This action has been coordinated with the World Bank Group. | | |
| Reduced cost of product quality certification | 3. The government (i) further reduces the number of goods subject to outdated (mandatory) technical regulations by removing at least 100 of those that do not meet international standards, and (ii) discloses the full list of provisional technical regulations. | <p>Completed.</p> <p>As part of the WTO accession, technical working groups coordinated by Tajikstandard have been reviewing the list of technical regulations to remove those that are redundant and outdated. Before accession to WTO there were more than 10,000 mandatory technical regulations. In 2014, this number had been reduced to 1,120 provisional technical regulations.</p> <p>Under the ADB Program, Tajikstandard coordinated a working group that identified 107 outdated technical regulations that were subsequently canceled through amendments to Government Resolution no. 704, of 30 December 2009. The list of remaining technical regulations (1,013) has been disclosed in Tajikstandard's website.</p> | The government further eliminates outdated technical regulations and introduces voluntary standards. | The government further eliminates outdated technical regulations and introduces voluntary standards. |
| Reduced cost of tax compliance | 4. The Tax Committee (i) makes available to all taxpayers electronic declarations through its website using a login/mobile password authentication system, and (ii) designs and implements a nation-wide awareness campaign to promote the system. | <p>Completed.</p> <p>From 1 July 2015, taxpayers under the simplified regime (180,000 taxpayers out of a total of about 240,000 taxpayers) have the option to apply to the Tax Committee for the login/mobile password authentication system. This new</p> | | The Tax Committee accepts electronic declarations from at least 40,000 taxpayers (50% women) through its website using a login/mobile password authentication system. |

| Principal Objective | Subprogram 1 | | Subprogram 2 | Subprogram 3 |
|---|---|--|---|---|
| | Policy Action (completion by December 2015) | Results and Status of Implementation | Indicative Actions (completion by June 2017) | Indicative Actions (completion by June 2019) |
| | | authentication system is free of charge and will allow taxpayers to submit their tax declarations through the Tax Committee's website (http://www.andoz.tj/index.php/ru/nalogopla_telshchikam/elektronnye-uslugi/elektronnaya-deklaratsiya). The Tax Committee conducted a nation-wide awareness campaign (e.g., workshops, TV and radio campaigns, call center) to inform taxpayers. The new system will reduce costs of electronic submission of tax declarations and help increase the number of taxpayers filing electronically (about 6,500 taxpayers, as of end-2014). The Tax Committee will continue to make available the old authentication system (through token) to other taxpayers (e.g., VAT taxpayers). | | |
| OUTPUT 2: STRENGTHENED PROTECTION OF BUSINESSES | | | | |
| Improved transparency of business ownership | 5. The government makes permanently available on the Tax Committee's website basic information (including ownership, management, economic activity, capital, and contacts) about all legal entities registered in the Tax Committee's database. | Completed. Since 8 July 2015, the Tax Committee's website (www.andoz.tj) provides access to the information available in the Committee's database of legal entities (including ownership, management, economic activity, capital, and contacts). It is possible to search legal entities by name and taxpayer identification number. This will increase transparency over business ownership thus reducing expropriation risks for businesses. | The SCISPM publishes on an annual basis on its website gender-disaggregated statistics of business ownership. | The SCISPM publishes on an annual basis on its website gender-disaggregated statistics of business ownership. |
| More stable regime of investment incentives and promotion | 6. The government enhances the transparency, consistency and stability of the regime for incentives to investors by establishing (i) a concept of indirect expropriation, (ii) a voluntary one-stop-shop to be | Partially completed. With ADB support, the government drafted a new law on investments to ensure a transparent and consistent treatment of incentives to investors. The draft law | The government (i) starts implementation of the one-stop-shop for investors; (ii) restructures the investment promotion agency according to | The government investment promotion agency publishes on its website (i) its annual report on performance against targets, and (ii) annual |

| Principal Objective | Subprogram 1 | | Subprogram 2 | Subprogram 3 |
|---|--|--|---|--|
| | Policy Action (completion by December 2015) | Results and Status of Implementation | Indicative Actions (completion by June 2017) | Indicative Actions (completion by June 2019) |
| | managed by the government body in charge of coordination of incentives to investment, and (iii) that all incentives provided to investors are disclosed to the general public. | establishes (i) the concept of indirect expropriation and the right of the investor to compensation in such cases, (ii) the concept of a voluntary one-stop-shop to be implemented by one government body in charge of coordination of incentives to investment, and (iii) that all incentives provided to investors should be made public. The government is expected to approve the submission of the draft law on investment to the Parliament by November 2015. | international good practice, with a clear and long-term results framework, and fully financed by the state budget; (iii) assigns an internal state auditor for the investment promotion agency; and (iv) allocates at least TJS2 million for Tajikistan's investment promotion agency from the annual state budget. | audited financial statements. The government approves legislation with clear methods for determining compensation in case of expropriation. |
| OUTPUT 3: INCREASED BUSINESS INNOVATION AND PRODUCTIVITY | | | | |
| Improved product quality infrastructure system | 7. To reduce potential conflicts of interest within the national quality infrastructure system, the government (i) transfers Tajikstandard accreditation functions to a separate accreditation body, and (ii) appoints the head of this new body and the members of its supervisory board (including independent members). The new accreditation body starts operations by 1 January 2016. | Partially completed. Tajikstandart has been dominating quality infrastructure in Tajikistan. Its organization entails conflicts of interest. For example, Tajikstandart provides conformity assessment services (testing, certification, and inspection) and, before the start of implementation of the ADB Program, accredited conformity assessment bodies based in Tajikistan. Tajikstandart is not independent when it accredits its own testing, certification and inspection activities. With ADB support, the government drafted a resolution that approves (i) the creation of the National Accreditation Center and its charter, and (ii) the extinction of Tajikstandard's accreditation functions. The governance structure of the center includes an accreditation council that includes members from the private sector, government, and independent stakeholders, without any dominance of one party. The center is expected to start | The new national standardization body starts operations. The government provides incentives (e.g., tax credits) to international quality certification to help develop export-oriented value chains benefitting local producers. | The new national metrology body starts operations. The government continues facilitating international quality certification through public policy (e.g., agreements with conformity-assessment bodies in other WTO member states). |

| Principal Objective | Subprogram 1 | | Subprogram 2 | Subprogram 3 |
|------------------------------------|---|---|--|--|
| | Policy Action (completion by December 2015) | Results and Status of Implementation | Indicative Actions (completion by June 2017) | Indicative Actions (completion by June 2019) |
| | | <p>operations in January 2016 and report to Tajikstandard during the first year of operations, after which it will become fully independent.</p> <p>The government is expected to approve the creation of the center and to appoint its director and the members of the accreditation council through a resolution by December 2015.</p> | | |
| Increased investment in innovation | 8. The government raises the legal status of the Entrepreneurship Support Fund to state organization under the government. | <p>Completed.</p> <p>The Fund was established in June 2013 as a state unitary organization under the SCISPM. Government resolution no. 62, of 14 February 2015, approved the new structure for the Entrepreneurship Support Fund which is now governed by a supervisory council. This will increase the oversight of the Fund and allow increased funding from the state budget.</p> <p>As of 30 September 2015, the Fund provided 117 loans for a total of TJS95 million, of which almost twenty loans were issued to women entrepreneurs. The state budget for 2016 is expected to allocate at least TJS100 million to the Fund (TJS70 million in 2015). The President of Tajikistan pledged to allocate TJS1 billion to the Fund by 2020. ADB is providing technical assistance to the government for the design of a credit guarantee scheme for businesses.</p> | The government (i) adopts a credit guarantee scheme for businesses (including women-led businesses) linked to investments in innovation that channels funds through at least two private financial institutions, and (ii) improves the Entrepreneurship Support Fund's long term results framework and internal control function, including appointment of an independent auditor. | The government increases the annual budget support to the Entrepreneurship Support Fund's credit portfolio. The Entrepreneurship Support Fund publishes on its website (i) its annual report on performance against targets, and (ii) annual audited financial statements. |
| | 9. The government allocates (i) grants to businesswomen for co-financing of investments (TJS2 million in 2015), and (ii) office space for two business services centers | <p>Completed.</p> <p>In 2014–2015, the Committee for Women and Family Affairs approved 80 grants (total of TJS2 million) to women</p> | The government facilitates the expansion of (i) business services centers, and (ii) grants to women entrepreneurs, including | |

| Principal Objective | Subprogram 1 | | Subprogram 2 | Subprogram 3 |
|---|---|---|--|--|
| | Policy Action (completion by December 2015) | Results and Status of Implementation | Indicative Actions (completion by June 2017) | Indicative Actions (completion by June 2019) |
| | with gender balance among their staff and managed by non-governmental organizations. | entrepreneurs that submitted investment proposals (from 40 grants of a total of TJS1 million in 2013–2014). The SCISPM and local government allocated office space for two new business services centers (in Shahrituz and Kulyab) that provide incubator services, and other services such as marketing and advice on taxation. The SCISPM is coordinating this initiative between non-governmental organizations and local governments. The OSCE has also provided financial support. | for medium and long-term business management courses. For 2015–2016, the government is expected to increase the budget for grants to TJS3 million (for a total of 120 grants). | |
| Improved access to affordable electricity by businesses | 10. The President instructs the Government to (i) develop and adopt a new tariff policy for electricity, in line with good international practice, that eliminates cross customer subsidies; (ii) carry out public consultations in the course of development and implementation of the policy; and (iii) make the new tariff policy effective on or before 1 January 2017. | Completed. The President of the Republic of Tajikistan issued the Order no. 594 of 6 October 2015 instructing the government to develop and adopt a new tariff policy for electricity that will become effective on or before 1 January 2017. The new tariff policy will eliminate cross customer subsidies which will allow fair competition among businesses. ADB is providing technical assistance in this area. The government will provide necessary annual allocations from the state budget to help mitigate the impact of potential tariff increases on low-income consumers. | The government (i) adopts the new tariff policy that eliminates cross-customer subsidies and takes decision on gradual tariff adjustment to cost recovery levels, and (ii) increases allocation in the 2018 state budget for subsidies to low income consumers to mitigate the impact of tariff increases. | The government increases allocation in the 2019 state budget for subsidies to low income consumers to mitigate the impact of tariff increases. Barqi Tojik publishes on a monthly basis in mainstream media and its website (a) payment performance from 10 worst paying customers (legal entities), and (b) overall collection rate. |

ADB = Asian Development Bank; RIA = regulatory impact assessment; OSCE = Organization for Security and Co-operation in Europe; SCISPM = State Committee for Investments and State Property Management; WTO = World Trade Organization.

¹ A blueprint is a document that proposes the specifications for a system or institution to perform certain functions and meet certain objectives. The document includes governance arrangements, business objectives and rules required for a target institution to effectively perform its function, with detailed business model and processes, implementation plans, cost estimates and financing plans, monitoring and evaluation arrangements.