

SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. 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) countries. The government has retained control over many production activities and directly influences prices in several markets. While growth rates have been robust following the end of the civil war in 1997, this growth started from a low level, and Tajikistan's output remains close to 1991 levels. Tajikistan's economy has not achieved the level of structural transformation that has taken place in other CIS countries.

2. From 2005 to 2014, the annual gross domestic product (GDP) growth rate averaged 6.9%. Growth has been driven by consumption, which is fueled by remittance inflows. Limited job opportunities in Tajikistan have encouraged up to 40% of the working population 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. However, the government estimates that in 2015 a significant share of the 1.2 million migrant workers in the Russian Federation may return to Tajikistan as a result of the downturn in the Russian economy, and stricter procedural requirements that make it more difficult for Tajik workers to seek or retain employment there. In 2013, Tajikistan had the highest dependence on remittances of any economy in the world (49% of GDP).² The country is highly reliant on external factors, such as the economic situation in the Russian Federation, and prices of the two key export commodities (para. 5).

3. 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.³ The majority of policy decisions, including on some public investments, are made without comprehensive public scrutiny and analysis of their economic and social impacts.⁴ Tajikistan's executive bodies often lack in-depth understanding of policy concepts and implementation methods, limiting the effectiveness of policy decisions.

4. Despite efforts to increase Tajikistan's Doing Business ranking,⁵ long-term private investment continues to be constrained by an unfavorable business environment that imposes high uncertainty. Arbitrary taxation and informal inspection rules and 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. Tajikistan's score on Transparency International's Corruption Perception Index is 23 points out of a possible 100,

¹ This summary is based on ADB. Forthcoming. *Tajikistan Country Diagnostic Study*. Manila. Available on request.

² World Bank. 2015. *Migration and Development Brief*. Washington D.C.

³ A score of 7 indicates the best possible outcome. World Economic Forum. 2015. *Global Competitiveness Report, 2015–2016*. Geneva.

⁴ In 2013 an estimated 1,030 laws, parliamentary resolutions, presidential decrees, and government resolutions were adopted in Tajikistan. S. Asadov. 2014. *The Policy Process in Government in Tajikistan: Recent Dynamics, Challenges and Opportunities*. *University of Central Asia, Working Paper no. 28*. Bishkek: University of Central Asia.

⁵ World Bank. 2015. *Doing Business 2016. Measuring Regulatory Quality and Efficiency*. <http://www.doingbusiness.org/reports/global-reports/doing-business-2016>

where 0 is “highly corrupt” and 100 “very clean”.⁶ 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.

5. 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%).⁸ 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 has declined from 48 in 1995 to 44 in 2012. The export basket is concentrated in products that face inelastic and falling demand in the world market. In 2012, aluminum represented 65% of total export value, and cotton 14%. Cotton accounts for 60% of agricultural output, supports 75% of the rural population, and uses 45% of irrigated arable land. Cotton exports are largely unprocessed (raw cotton). Other significant exports include ores (8% of export value) and dried fruits (4% of export value). The economy’s narrow productive base increases vulnerability to external shocks.

6. In 2012, there were around 206,000 registered firms, consisting of 29,000 companies and 177,000 individual entrepreneurs working with a patent or certificate.⁹ The majority of these entrepreneurs are small traders and service providers. Updated figures for the number of firms and entrepreneurs are not publicly available. The private sector employs over 1.5 million of Tajikistan’s 2.3 million workforce, including those in the informal sector and excluding migrants.¹⁰

7. Over 9,600 small enterprises and 1,300 medium-sized and large enterprises have been privatized since independence.¹¹ State enterprises are mainly concentrated in power generation and distribution, aluminum production, construction, and construction materials. In 2012 the Ministry of Finance estimated the magnitude of quasi-fiscal activities for 24 state-owned enterprises at about 3% of GDP. The government is currently undertaking steps to restructure the two key state owned enterprises—Tajikistan Aluminum Company (aluminum production) and Barki Tojik (national integrated power company).

8. Financing is expensive and short-term, reducing investors’ capacity to expand and compete internationally. In 2014 credit to the private sector was just 21.5% of GDP, in line with the average for fragile and conflict affected countries (20.0% of GDP), which is nevertheless an

⁶ Transparency International. <http://www.transparency.org/research/cpi/overview> [Accessed on 28 August 2015]

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

⁸ EBRD. *Structural and Institutional Change Indicators*.

<http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html> [Accessed on 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.

⁹ Statistical Agency of the Republic of Tajikistan. 2014. *Statistical Yearbook of the Republic of Tajikistan 2012*. Dushanbe. [In Russian and Tajik].

¹⁰ Statistical Agency of the Republic of Tajikistan. 2014. *The Labor Market in the Republic of Tajikistan*. <http://www.stat.tj/english/home.htm> [Accessed on 3 November 2015].

¹¹ State Committee on Investment and State Property Management. <http://amcu.gki.tj/> [Accessed on 31 August 2015].

improvement from 16.9% of GDP during 2009–2013.¹² Energy supply is unreliable, and large parts of the country lack a stable electricity supply during the 6-month winter period.¹³ Businesses have limited access to external markets due to poor transport and logistics infrastructure, and restrictive regional transit arrangements. Tajikistan scores poorly (3.8 out of a possible 7) on overall infrastructure quality in the World Economic Forum's Global Competitiveness Index (footnote 3). Overall, Tajikistan's country risk is very high.¹⁴

9. Businesses have limited knowledge of modern production techniques. Tajikistan ranks 121 out of 140 countries in cluster development (footnote 3). Only 17% of firms report having an internationally recognized quality certification (16.7% in 2008). Tajikstandard has dominated quality infrastructure, and its organization entails conflicts of interest. For example, Tajikstandard provides conformity assessment services (testing, certification, and inspection) and also accredits conformity assessment bodies based in Tajikistan. Tajikstandard is not independent when it accredits its own testing, certification and inspection activities.

10. 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 inflows dropped from 9% of GDP during 2004–2008 to 1% of GDP during 2009–2014, and are mainly concentrated in a few sectors: financial intermediation, communications, mining, and construction (footnote 12). Public investment is focused on large infrastructure and energy projects with long gestation periods.

2. Government's Sector Strategy

11. The government is developing a new National Development Strategy for 2016–2030 (to replace the existing strategy for 2007–2015),¹⁵ 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. The goal is to expand employment and improve living standards. It will be important to nurture forms of private investment that can increase productive capabilities and create jobs.

12. In March 2013, Tajikistan acceded to the World Trade Organization. The government subsequently approved a program of adjustments to its trade regime. Its goals include (i) the reduction of conflicts of interest within the national quality infrastructure system to help local businesses achieve international quality certification for their products, and (ii) continuing the reduction of outdated technical regulations that impose unnecessary costs to businesses. In May 2012 Tajikistan acceded to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

13. To reduce unnecessary regulatory costs and improve the quality of regulatory decision making, the government plans to improve analysis of the impact of new regulatory proposals and strengthen public consultation through publication of the assessments. The government also aims to reduce unplanned inspections of businesses through the introduction of a new

¹² World Bank. *World Development Indicators*. <http://data.worldbank.org/products/wdi> [Accessed on 31 August 2015].

¹³ Tajikistan Aluminum Company is the main industrial consumer and uses about 35% of total electricity generated.

¹⁴ Tajikistan has the highest country risk classification under the Organization for Economic Co-operation and Development's Arrangement on Officially Supported Export Credits (7 out of 7).

¹⁵ Government of Tajikistan. 2007. *National Development Strategy of the Republic of Tajikistan for 2007–2015*. Dushanbe.

risk-based inspection system and a new mechanism for coordination and reporting of annual inspection plans for all agencies that conduct inspections.

14. The government has drafted new legislation to ensure a transparent and consistent treatment of investment incentives. It intends to structure the investment promotion agency according to international good practice, with a clear and long-term results framework, and fully finance the agency through the state budget. The agency's governance, internal control, and funding to attract good investments will be strengthened.

15. The Entrepreneurship Support Fund (ESF) was established in 2013 to facilitate credit to small and medium-sized enterprises in remote regions. However, its size and effectiveness have been limited. The government wants to improve the ESF's governance, internal control, and funding to provide support to local businesses. The ESF is expected to partner with private financial institutions to help finance local businesses' investments in innovation.

3. ADB Sector Experience and Assistance Program

16. The Asian Development Bank (ADB) has recently completed a policy-based program of budget support to strengthen public resource management in Tajikistan, particularly tax administration, social protection, and public financial management.¹⁶ In 2014, ADB approved its first non-sovereign operation in Tajikistan.¹⁷ Ongoing technical assistance is strengthening the environment for public-private partnerships and the anti-money laundering regime.¹⁸ ADB continues to support restructuring of the energy sector.

17. ADB will provide a combination of technical assistance and policy-based lending to improve the business and investment climate. This will include support for policy actions that reduce the cost of doing business, strengthen protection of businesses, and increase business innovation and productivity. A three-phased approach will allow sustained monitoring of reform progress and leveraged, step-by-step deepening of reforms. The reform areas constitute a logical extension of previous ADB support (para. 16).

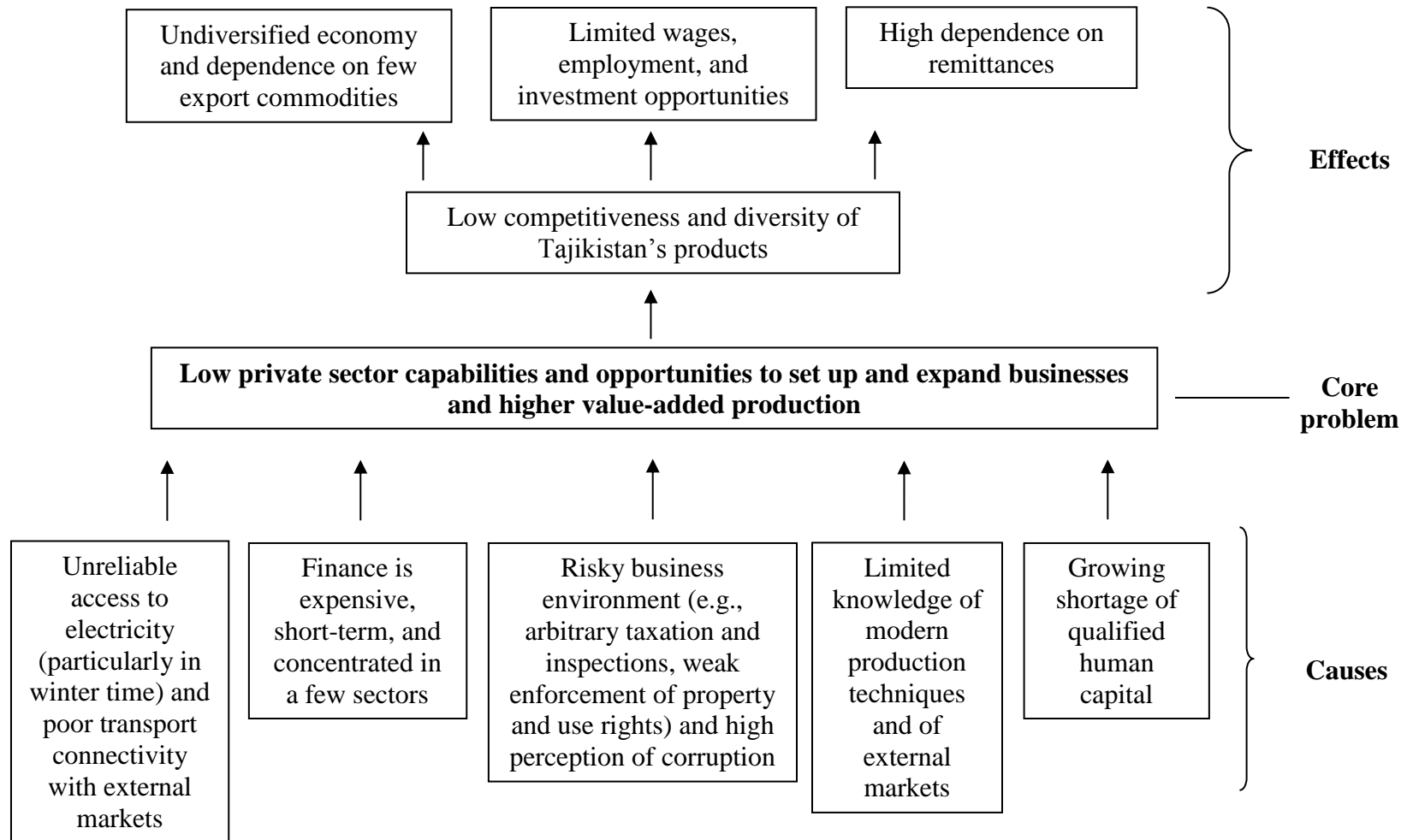
18. Women's entrepreneurship is critical for the economic advancement of Tajik women, given limited formal employment opportunities. While women's entrepreneurship is generally small-scale, involving home-based production and sale, it may expand over time. Women entrepreneurs face many challenges, such as limited access to information and markets; lack of financial literacy and management skills, financial resources and training; and cultural norms that discourage women from starting and managing businesses. ADB program will support initiatives and engage in policy dialogue to enable women overcome these barriers through training, creating business incubators and business development centers.

¹⁶ The program was rated *successful*. ADB. 2015. *Completion Report: Strengthening Public Resource Management Program in Tajikistan*. Manila.

¹⁷ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Promoting Financial Inclusion through Greenfield Banking*. Manila.

¹⁸ ADB. 2013. *Support Enabling Capacity Building for Public-Private Partnerships in Tajikistan*. Manila; ADB. 2014. *Republic of Tajikistan: Strengthening the Anti-Money Laundering Regime*. Manila.

Problem Tree for Public Sector Management



Sector Results Framework (Public Sector Management, 2016–2020)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Improved business environment and investment climate	<p>Share of private investment in GDP increased to 8% on average in 2016–2020 (baseline: average of 3% in 2010–2012)</p> <p>Number of products exported with competitive advantage increased to an average of 60 during 2016–2020 from an average of 50 during 2010–2012</p> <p>Time and cost to cross border crossing points reduced by 30% (2012 baseline: 1.5 hours, \$171)</p>	<p>Institutional reforms that reduce cost of doing business</p> <p>Institutional reforms to strengthen protection of businesses</p> <p>Institutional reforms that increase business innovation and productivity</p>	<p>The government publishes the RIA results (including gender analysis) for all new and proposed legal acts eligible for RIA within a 1-year period on the authorized government website</p> <p>New law on investments enacted</p> <p>Share of technical regulations that are internationally recognized increased by 20 percentage points</p>	<p>Planned key activity areas Business environment and investment climate reforms (87.5% of funds) Trade facilitation (12.5% of funds)</p> <p>Pipeline projects with estimated amounts Investment Climate Reforms Program, subprograms 1 (\$60 million), 2 (\$20 million), and 3 (\$30 million)</p> <p>Ongoing projects with approved amounts CAREC Regional Improvement of Border Services Project (\$10.2 million) Enabling Capacity Building for PPPs (\$0.5 million) Strengthening the Anti-Money Laundering Regime (\$0.35 million)</p>	<p>Pipeline projects Product quality certification expanded Number of outdated (mandatory) technical regulations reduced</p> <p>Ongoing projects Physical infrastructure and working conditions at Guliston border crossing point improved Single window on foreign trade operationalized</p>

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, GDP = gross domestic product, PPP = public–private partnership, RIA = regulatory impact analysis, SMEs = small and medium-sized enterprises.

Sources: Asian Development Bank; International Monetary Fund.