



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 04-Dec-2018 | Report No: PIDISDSC25355



BASIC INFORMATION

A. Basic Project Data

Country Tajikistan	Project ID P168326	Parent Project ID (if any)	Project Name Rural Economy Development Project (P168326)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Apr 29, 2019	Estimated Board Date Jun 24, 2019	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) The Ministry of Finance of the Republic of Tajikistan	Implementing Agency The Tourism Development Committee under the Government of Tajikistan, The Ministry of Economic Development and Trade of Tajikistan, The Ministry of Agriculture of the Republic of Tajikistan	

Proposed Development Objective(s)

The Project Development Objective is to create income-generation opportunities in tourism and agribusiness in Khatlon and GBAO.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	30.00
Total Financing	30.00
of which IBRD/IDA	30.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	30.00
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IDA Grant

30.00

Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Tajikistan has enjoyed high rates of economic growth since 2000. The Tajik economy expanded by 8.8 percent on average during 2000–08, facilitated by a post-civil-war catch-up that was financed mostly by a large inflow of remittances and donor funding. In particular, 2008 saw the peak of remittance inflows, registering 49 percent of gross domestic product (GDP). Growth outcomes remained above 6.6 percent during 2009–17 despite the impact of the global financial crisis of 2008–09 and the resource price shock of 2014, which affected the Tajik economy through the remittance channel.¹

2. Economic, social, and cross-border risks challenge this growth and put the country at risk of fragility, violence, and conflict (FCV). Because over 90 percent of remittance inflows come from Russia, Tajikistan is highly vulnerable to Russian economic conditions and fluctuations. Moreover, private sector development in Tajikistan has been hindered by poor governance practices, and the country has recently experienced a banking crisis.² Compounding these risks, the country faces high rates of youth unemployment and idleness: the working-age population (those aged 15 to 64) rose from 3.31 million in 2000 to 5.23 million in 2015, of which only 43 percent are part of the labor force; at the same time, about 30 percent of young people between the ages of 15 and 29 do not go to school or work.³ Finally, Tajikistan’s more than 1,300-kilometer border with Afghanistan is of concern because of its length and relative insecurity.

3. Tajikistan is included in the list of countries eligible for scaled-up financing under the International Development Association (IDA18) for activities to mitigate potential risks connected to conflict and violence. The Risk Mitigation Regime (RMR) Window is dedicated to financing pilot development interventions as innovative prevention tools to mitigate fragility risks, and

¹ Remittance inflows are at 31.5 percent, down by 34 percent since 2008.

² Reportedly, some commercial banks were, until recently, directed by the government to provide financing to financially inviable state-owned enterprises (SOEs) at below-market interest rates, crowding out productive private investment while undermining bank performance over time. It is believed that, with the recent large currency depreciation, an increased share of bank loans to SOEs have become bad loans. This has contributed to the erosion of banks’ asset quality and to banking sector distress, requiring the government to bail out two large banks through money creation and, in turn, weakening the *somoni*.

³ Not in employment, education, or training (NEET).



USD 87 million has been allocated for Tajikistan. The RMR window for Tajikistan is expected to support two complementary operations: (a) the Community and Youth Resilience Project (CYRP), targeting at-risk communities, youth, and women; and (b) the Rural Economic Development Project (REDP), supporting micro, small, and medium enterprises (MSMEs) and creating jobs for vulnerable groups, in particular women and youth. The RMR has a geographical focus on the Khatlon Oblast and Gorno-Badakhshan Autonomous Oblast (GBAO).

4. Mitigation of fragility risks requires stimulating the development of key industries that could drive growth and create economic opportunities in the most fragile regions, Khatlon and GBAO. To create concrete opportunities for the local population and, in particular, for the most vulnerable groups, requires fostering the development of industries that leverage the key assets of these regions: the land, the people, and the local culture and cultural heritage. The land is highly fertile (in Khatlon) and potentially attractive to visit (in GBAO). Both GBAO and Khatlon share a rich cultural heritage, which should be preserved and could be commercialized to create economic benefits. By leveraging available assets, the large share of young people in Tajikistan's labor force could be engaged productively.

5. Creating jobs and economic opportunities will require leveraging agriculture in Khatlon and tourism in GBAO as the regions' predominant economic activities. Of Khatlon's formal workforce, 62 percent work in agriculture. Khatlon accounts for half of the country's agricultural land and pastures and produces half of the country's agricultural output. GBAO contains 17 percent of the agricultural land in the country, but due to the mountainous nature of its territory, productivity remains low and production is mostly for self-consumption. On the other hand, the tourism value chain employs approximately 20,000 people (about 1 percent of total employment in Tajikistan). Women account for about 60 percent of workers in the sector. Tourism arrivals have doubled every year since 2014, reaching a record high of 100,100 in 2017. GBAO, in particular, already receives more than ten thousand foreign tourists per year. Although not as attractive as GBAO for international tourists on a stand-alone basis, Khatlon, too, could develop its tourism assets to cater to foreign tourists who are visiting the country as part of a tour package as well as to domestic tourists.

6. Agribusiness and tourism are complementary sectors. Research shows that where the local economy is highly dependent upon farming, tourism activity can help retain more of the tourist spending, which results in higher employment multipliers. There is room, however, for Tajikistan to strengthen further the linkages between tourism and other sectors, in particular agriculture.⁴ This goal could be accomplished in Khatlon and GBAO through several channels, including "farm-to-table," which involves making locally sourced agricultural products more readily available to the tourism sector; "tourist-to-farm," which involves developing the capacity of local farms to provide tourism experiences to visitors; "culinary tourism and experience;" and "agricultural souvenirs," such as dried fruits packaged in locally produced containers for tourists to purchase as souvenirs as part of a destination's offerings.

Sectoral and Institutional Context

AGRIBUSINESS

⁴ Tajikistan's tourism employment multiplier (World Travel and Tourism Council) is 2.64, lower than the Kyrgyz Republic (2.74) and the Central Asia average (2.83).



7. **The agriculture sector remains a major source of employment in rural Tajikistan.** The International Labor Organization (ILO) estimates that, in 2017, agriculture accounted for 51.6 percent of total employment in the country. The Tajstat estimate for 2010 was 66.7 percent, including forestry.

8. **The limited income generation opportunities from agriculture is one of the factors driving labor migration or idleness, especially among rural youth.** The absence of economic opportunities is one of the leading causes for migration and rural households are de-facto headed by women with children: women lead more than 70% of them, and many of which are abandoned households.⁵ At the same time, a large share of the rural youth remains idle, hence creating a potential fragility risk.

9. **Creating better opportunities in agriculture is critical to increase resilience and stability in rural Tajikistan.** Such opportunities can come from fostering investment in agri-processing for specific value chains, which will in turn result in better pricing for the primary production, fostering small scale processing and storage to improve the “shelf life” of the production and creating additional trading opportunities, including cross border ones. Youth can contribute to the success of potential initiatives with their energy, fresh minds and aptitude for innovations and entrepreneurship.

COMMUNITY-BASED TOURISM AND SERVICES

10. **Around the world, tourism has proven to be transformational through the creation of jobs and economic opportunities, including for vulnerable groups.** Tourism is estimated to contribute to over 10 percent of global GDP and account for 1 in 11 jobs on the planet. Women make up between 60 and 70 percent of the labor force in the hotel sector worldwide. A 1997 European Union study discovered that women held 63 percent of management positions in tourism while half of the global tourism workforce is under 25. The tourism industry is labor-intensive and allows for quick entry into the workforce for young people, women, and migrant workers.

11. **Globally, adventure tourism⁶—a tourism segment of particular interest for Tajikistan—is expected to grow at an increasing pace, with particular benefits for developing economies.** The adventure tourism segment, in particular, is forecasted to reach USD 1.3 trillion in 2023, registering a compound annual growth rate of 17.4 percent between 2017 and 2023.

12. **Tajikistan is already on the global tourism map, attracting adventure tourists from all over the world, but the country is extracting limited value from its tourists.** Tajikistan was ranked 7th among adventure holiday destinations, according to the British backpacking society, while the Daily Mail placed Tajikistan among the fastest-growing destinations in the world (UNWTO Tourism Highlights, 2016). The type of tourism offered by Tajikistan appeals to members of the middle class in Europe and elsewhere who are in search of novelty but also interested in keeping up with a healthy lifestyle and taking part in physical activities while on holiday.

13. **GBAO is likely to remain Tajikistan’s main pole of attraction for international adventure tourists.** The Pamir Mountains (also known as the Tajik National Park) in GBAO are included on the UNESCO Heritage List and in *The Sustainable Destinations Global Top 100*. From hiking and mountaineering opportunities along the Pamir range, to dozens of petroglyphs sites and a number of world-class archeological and historical sites, to thousands of mountain lakes, natural reserves, and parks, GBAO has the potential to attract hard and soft adventure tourists, as well as eco-tourists.

⁵ An “abandoned household” is defined as a household where a wife does not receive remittances from her migrant husband during a period of over six months.

⁶ The Adventure Travel Trade Association defines “adventure tourism” as a trip that has at least two of the following components: physical activity, natural environment, and cultural immersion (UNWTO 2014). Adventure tourists are risk takers and look for exotic locations that provide authentic experiences.



14. Khatlon also has the potential to attract tourists, including through the newly developing segment of domestic tourism. Although less well-known for its cultural, natural, and ethnographic assets, Khatlon has much to offer to tourists. Domestic tourists could be interested in circuits that include sacred springs, shrines, and religious sites for pilgrimage. Of course, these circuits could also be interesting to international tourists.

Relationship to CPF

15. The proposed project is aligned with the priorities of the government. One of the key priorities of the Government's National Strategy of the Republic of Tajikistan on Preventing Extremism and Terrorism for 2016–2020 is to reduce unemployment among youth and women. In addition, the government has declared 2018 "The Year of Tourism and Folk's Crafts Development," and as part of this declaration, it has implemented several complementary regulatory initiatives. Moreover, the socioeconomic development program for Khatlon and GBAO for 2016–2020 aims to increase agricultural production more than fivefold by 2020, and to increase the value of agricultural products by providing support to small and medium enterprises (SMEs) in processing fruits and vegetables.

16. The project is aligned with the Country Partnership Framework (CPF) that is under preparation for Tajikistan. In particular, the project is in line with the CPF's strong focus on strengthening social cohesion and resilience at the community level, including by creating opportunities for private sector initiatives.

C. Proposed Development Objective(s)

The Project Development Objective is to create income-generation opportunities in tourism and agribusiness in Khatlon and GBAO.

Key Results (From PCN)

- Increased number of jobs created for women and youth at risk
- Increased number of MSMEs that receive tourism spending in GBAO and Khatlon
- Improved quality of homestays
- Improved quality of touristic food providers
- Improved and diversified tourism products
- Financial support to direct project beneficiaries (including female and youth)
- Increased average length of stay per tourist

D. Concept Description

17. Component 1—Improving capacities in agri-processing and markets. This component will focus on increasing the value of agricultural outputs, creating jobs, and improving the economic resilience of local communities—in particular, among vulnerable groups such as youth and women. This will be achieved by increasing processing capacities, providing storage, and strengthening trading opportunities. This will in turn allow for reduced losses and improved income for farmers, who can either sell more produce at a given point in time or sell it at a higher price. Increasing processing



capacity could create additional jobs, both in the processing industry and in related sectors (such as transportation), and contribute to macroeconomic resilience by fostering exports and reducing the need for imports. A stronger agri-processing sector will allow the tourism sector to access and consume more locally sourced products, benefitting both the tourism and the agriculture sectors.

18. Component 2—Strengthening the competitiveness of the tourism sector. This component is expected to create economic opportunities for local populations in Khatlon and GBAO, including women and youth, by attracting tourists and increasing tourism spending. The component will address (i) the lack of public sector resources and low capacity to rehabilitate, maintain, commercialize, and preserve historical, cultural, and natural sites; (ii) the private sector’s lack of resources to invest in the hospitality and related sectors; and (iii) the low levels of public and private sector capacity to develop, offer, and promote tourism activities in Khatlon and GBAO. Activities under this component will further leverage the agriculture value chain: in addition to creating demand for agricultural products through tourism, including through culinary and agriculture-based tourism (such as farm-based tours and activities), businesses could package processed agriculture products as souvenirs. This component will also contribute to the preservation of cultural and natural sites as a way to strengthen further the sense of identity and pride in the local culture and promote cultural exchange as a way to curb extremism and increase resilience.

19. Component 3— Supporting project implementation. This component will include: (i) provision of technical assistance, training, and logistical support to strengthen the capacity of the Project Management and Implementation Units (PMUs/PIUs) on procurement, financial management, and safeguards during the execution of the project; (ii) capacity building and implementation of instruments (surveys) for monitoring and evaluation of project results, including performance indicators; and (iii) consulting services for project audit.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The social risk is rated Substantial. The project is expected to result in positive impacts on employment and livelihoods. On farm and value chain activities as well as community-based tourism could herald new vistas for communities in the fragile and conflict-ridden regions. A variety of risks are evident, some are external and others internal to the project. Key social risks relate to 'exclusion' which may happen due to geographical setting, socio economic setting, gender differentials. Once factors that aid/ constrain 'inclusion' are identified, mitigatory measures could be drawn. On securing lands, while project would make use of the existing buildings or unused public lands, as a backup measure, a RPF will need to be developed. The environmental risk is rated Substantial based on the expected medium impact level of physical works under the project. During preparation and implementation, planned activities in and around protected areas such as the Tajik National Park (UNESCO World Heritage Site) and other critical habitats or cultural landmarks will be carefully reviewed and the risk rating re-assessed as necessary.



Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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