

**FOR
AGENDA**

EBS/09/43
Supplement 2

March 31, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Tajikistan—Staff Report for the 2009 Article IV Consultation, Final Review Under the Staff-Monitored Program, and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2009 Article IV consultation with the Republic of Tajikistan, the final review under the Staff-Monitored Program, and the Republic of Tajikistan's request for a three-year arrangement under the Poverty Reduction and Growth Facility (EBS/09/43, 3/31/09), which is tentatively scheduled for discussion on **Monday, April 13, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Republic of Tajikistan indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Schimmelpfennig (ext. 34663) and Mr. Abdychew (ext. 35852) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

Staff Report for the 2009 Article IV Consultation, Final Review under the Staff-Monitored Program, and Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility—Informational Annex

March 31, 2009

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ANNEX I. TAJIKISTAN: RELATIONS WITH THE FUND

(As of February 28, 2008)

I. Membership Status: Joined April 27, 1993; Article VIII

II. General Resources Account:

	<u>SDR million</u>	<u>% Quota</u>
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

III. SDR Department

	<u>SDR million</u>	<u>% Allocation</u>
Holdings	0.39	N/A

IV. Outstanding Purchases and Loans None

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	Dec 11, 2002	Feb 10, 2006	65.00	65.00
ESAF/PRGF	Jun 24, 1998	Dec 24, 2001	100.30	78.28
Stand-by	May 08, 1996	Dec 07, 1996	15.00	15.00

VI. Projected Payments to Fund None

VII. Implementation of HIPC Initiative Not Applicable.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ¹	69.31
Financed by: MDRI Trust	69.31
Remaining HIPC resources	--

¹ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

II. Debt Relief by Facility (SDR Million)

<u>Delivery Date</u>	<u>Eligible Debt</u>		<u>Total</u>
	<u>GRA</u>	<u>PRGF</u>	
January 2006	N/A	69.31	69.31

IX. Safeguards Assessment

The last safeguards assessment of the NBT was completed on July 23, 2003; it proposed specific measures to address a number of confirmed weaknesses in the NBT's safeguards framework, as reported in EBS/03/96. In 2007, the NBT authorities informed the Fund that misreporting had occurred, subsequent to which an international audit firm was engaged to complete a special audit of the relevant data and the NBT's financing activities related to the cotton sector. An update safeguards assessment of the NBT in the context of a new PRGF-supported arrangement would be conducted only when: (i) the special audit has been finalized and its conclusions published on the NBT website, and (ii) the annual external audit of the financial year ending April 30, 2009 has been substantially completed by an international audit firm with central banking auditing experience. The appointment of such an audit firm is a prior action for the Board's consideration of a new PRGF arrangement.

X. Exchange Rate Arrangements

The NBT has maintained a conventional peg exchange rate arrangement, but has committed to a flexible exchange rate regime (managed float) going forward. Since August 2005, the NBT has increased the frequency of calculating and announcing the official exchange rate from a weekly to a daily basis. The official exchange rate is based on all interbank transactions in foreign exchange.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. As a result, the Republic of Tajikistan maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144-(52/51).

XI. FSAP Participation

Tajikistan participated in the Financial Sector Assessment Program during 2007-08, and the FSSA report has been published at <http://www.imf.org/external/country/TJK/index.htm>.

XII. Article IV Consultation

The 2007 Article IV consultation was completed on March 28, 2007.

XIII. Resident Representative

Mr. Moers, Resident Representative of the Fund, started his assignment in Dushanbe in June 2006.

XIV. Technical Assistance

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 2004.

Fiscal Affairs:

July 2004	Revenue Administration Reform
December 2004	Poverty and Social Impact Analysis
June 2005	Public Financial Management
August 2005	Tax Policy and Administration
August 2006	Fiscal ROSC
May 2007	Public Financial Management (Budget Classification)
Ongoing	Public Financial Management (Regional Advisor)

Monetary and Financial Systems:

May 2006	Strengthening the Monetary Policy Framework and Liquidity Management
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Statistics:

April 2004	Data ROSC
October 2004	General Data Dissemination System (GDDS)
June 2006	Report on Monetary and Financial Statistics

Finance:

Legal:

January 2004	Tax Legislation
May 2004	Tax Legislation
2006	AML/CFT

ANNEX II. TAJIKISTAN: STATISTICAL ISSUES

As of March 10, 2009

Assessment of Data Adequacy for Surveillance

1. **General:** Data provision has some shortcomings (mainly in the areas of national accounts, price statistics, and monetary statistics), but is broadly adequate for surveillance
2. **National Accounts and Price Statistics:** There are significant deficiencies in the statistical techniques for national accounts and price statistics, most notably in procedures to estimate the informal economy, and the techniques for imputation, replacement, quality adjustment, and introduction of new products in the price indices. Technical assistance from the World Bank and the Fund have yielded some improvements, but there are remaining problems with the CPI compilation methodology and the GDP volume estimates, relating in parts to the period-to-period averages of price indices.
3. **Government finance statistics:** Government finance statistics (GFS) are based on cash transactions as recommended in the 1986 Manual on Government Finance Statistics. There are no plans to migrate the basis of compilation to the 2001 Government Finance Statistics Manual. There are occasional budget classification issues within the economic classification of expenditures and the classification of above- and below-the-line transactions, which are being resolved with the help of a regional advisor.
4. **Monetary and financial statistics:** In late 2007, a serious misreporting episode concerning the monetary accounts was uncovered. The special audit of the National Bank of Tajikistan that was completed in March 2009 found that there was no “reliable accounting baseline.” The authorities have committed to establishing such an accounting baseline, including through an audit of net international reserves as of end-2008 and the regular audit of the NBT’s financial statements for fiscal year 2009 (ends April).
5. **Balance of payments:** There is a need for consistency in applying the residency concept in the balance of payments and the national accounts, and the scope of the foreign trade data needs to be improved to cover the shuttle trade.

Data Standards and Quality

6. Tajikistan began participating in the General Data Dissemination System (GDDS) on November 17, 2004. Metadata updated regularly. The authorities have indicated their interest in graduating from the GDDS to the Fund’s Special Data Dissemination Standard (SDDS). They have appointed a national SDDS coordinator and requested technical assistance for this purpose.
7. Data ROSC was published on March 30, 2005.

Reporting to STA

8. Country page in the International Financial Statistics (IFS) has been published since February 2003.

Tajikistan: Table of Common Indicators Required for Surveillance
(As of December 1, 2008)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication	Memo Items:	
						Data Quality – Methodological soundness ⁷	Data Quality – Accuracy and reliability ⁸
Exchange Rates	03/06/09	03/11/09	D	W	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	03/06/09	03/10/09	D	W	W		
Reserve/Base Money	02/21/09	03/04/09	W	M	W	O, O, LO O	LO, O, O, O, NO
Broad Money	02/21/09	03/04/09	M	M	M		
Central Bank Balance Sheet	02/21/09	03/04/09	W	M	W		
Consolidated Balance Sheet of the Banking System	01/31/09	03/04/09	M	M	M		
Interest Rates ²	01/31/09	03/05/09	M	M	V		
Consumer Price Index	Feb./09	03/10/09	M	M	M	LO, LO, LNO, O	LO, LO, LO, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ — General Government ⁴	Jan/09	03/08/08	M	M	M	LO, LO, O, O	O, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ — Central Government	Jan/09	03/08/08	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt	Q4/08	01/27/08	Q	Q	V		
External Current Account Balance	Q3/08	03/11/09	Q	Q	V	LNO, LNO, O, O	LO, O, O, O, O
Exports and Imports of Goods	Q4/08	02/06/09	Q	Q	V		
GDP/GNP	Jan./09	02/24/09	M/A	M	V	O, LNO, LNO, LNO	LO, LO, LNO, O, O
Gross External Debt ⁵	Q4/08	02/06/09	Q	Q	V		

¹Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government comprises central government (budgetary, extra budgetary, and social protection funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); NA: Not Available.

⁷Reflects the assessment provided in the data ROSC published in April 2005 and based on the findings of the staff mission during April 2004 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁸Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

ANNEX III. TAJIKISTAN: RELATIONS WITH THE WORLD BANK

(As of March 3, 2009)

Country Director: Mr. Motoo Konishi
Country Economist: Mr. Sudharshan Canagarajah

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A. Partnership in Tajikistan's Development Strategy

1. The Bank's Country Partnership Strategy, endorsed by the Bank's Board of Executive Directors on July 26, 2005, and updated on June 22, 2007, focuses on the following three priorities, which are in line with the country's Second Poverty Reduction Strategy (PRS 2) for 2007–2009:

- To improve business opportunities in rural and urban areas.
- To enhance and preserve the quality of the human capital.
- To improve energy service delivery and increase electricity exports.

2. In addition, in each of the above areas, the Bank Group and government have agreed to work to improve government capacity for service delivery, and to reduce corruption by giving special emphasis to measures that increase transparency of resource use, reduce discretionary controls in business operations, and encourage the participation of users in the provision of services.

3. Macroeconomic management is aimed at establishing a stable economic environment through appropriate fiscal, monetary, exchange rate, and sustainable debt policies. However, macroeconomic management started worsening around October 2007 and the risk of debt distress has emerged. Tajikistan's long term prospects remain positive only if the authorities move quickly to restore sound macroeconomic management and implement institutional reforms to improve the business climate, the financial sector, the agricultural sector, transparency and governance of large state-owned enterprises, and public financial management. Expansion in aluminum processing capacity to service continued high world demand, recovery in cotton production following institutional reforms, buoyant inflows of remittances, and the start of a large-scale Russian-financed hydroelectric power project and other infrastructure investments have the potential to support growth of 7–8 percent over the long term.

4. The IMF has taken the lead in assisting Tajikistan in enhancing macroeconomic stability. The Fund has encouraged the authorities to continue with fiscal consolidation, maintain a restrictive monetary policy, and conduct prudent debt management policy to enhance its sustainability.

5. The World Bank has taken the lead in the policy dialogue on structural issues, including poverty reduction measures, agriculture sector reforms, private sector development, institution building, budget planning, improving public service delivery, and governance. A range of instruments is used to conduct the dialogue. Policy based lending and technical

assistance are supporting reforms in a number of sectors. The Programmatic Development Policy Grant (PDPG) operation of three annual development policy financing programs to support government's medium-term reform program was approved in July 19, 2007. The program is supporting the government in the areas of public administration reform, public expenditure management, social service delivery, and private sector development.

6. This broad-based approach is combined with investment projects and technical assistance in health, education, municipal infrastructure, energy, agriculture and rural development, environment, public financial management and public administration. Over the last three years the Bank in collaboration with others has produced analytical work aimed at informing program design. A country procurement assessment report, a country financial accountability assessment, a public and civil service wage note and an update, and a remittances note have informed the public sector reform program. A trade diagnostic, an investment climate assessment, an aviation sector note, an energy utility reform review, the Central Asia Regional Electricity Export Potential Study, and an Agricultural Development Strategy have highlighted key reforms required to attract private sector investment. A poverty assessment update has deepened understanding of poverty and its dynamics, and is important for the design of policy reforms that effectively reduce poverty. Poverty and social impact assessments of cotton and energy reforms have helped promote dialogue with the government on issues of social protection. A programmatic public expenditure review is supporting Tajikistan's first public expenditure and financial accountability review, and analyzing the country's prospects for achieving the MDGs and long-term growth, and providing support for the introduction of the MTEF. Two public expenditure tracking surveys, one for health and one for education, are expected to promote transparency and efficiency of expenditure in these sectors. A country environmental analysis has identified policy and capacity reforms to improve environmental management.

Tajikistan: Collaboration of the World Bank and the IMF

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Economic Framework/Management	Monetary policy, exchange rate, fiscal, and trade policies, economic statistics	Economic growth, economic statistics	<i>IMF</i> : Dialogue on performance criteria and benchmarks on monetary and fiscal targets. <i>Bank</i> : PDPG and Strengthening National Statistics System Project under implementation.
Budget	Medium-term budget framework, tax and customs policy and administration, and treasury and debt management	Budget management, debt management and statistics, public expenditure and financial management reform	<i>IMF</i> : Dialogue on performance criteria on overall fiscal balance, including the public investment program. Structural benchmark on treasury development. <i>Bank</i> : PDPG, Public Sector Reform Project (PSRP) (under implementation); TA for public procurement (under implementation) and external audit (recently completed) with grant funding from the Institutional Development Fund (IDF). Public Finance Management Project (under preparation).
Public Sector Reform		Civil service reform, public sector wage reform, public administration reform, health and education financing	<i>IMF</i> : Dialogue. <i>Bank</i> : PDPG and PSRP, Education Modernization Project, Community and Basic Health Project and Education for All Fast Track Initiative Catalytic Fund Grant (all under implementation).
Private and Financial Sector Development	Bank supervision; development of the interbank market and increasing competition in the banking sector.	Investment climate, developing and implementing the private sector development strategy, farm privatization, cotton debt resolution, land reform, financial sector reform.	<i>IMF</i> : Dialogue. <i>Bank</i> : PDPG, Land Cadastre Project and Cotton Sector Modernization Project (all under implementation). TA for Private Sector Development Strategy under implementation with grant funding from the IDF. A grant from FIRST financial sector reform, including reform of NBT, is under implementation.

Tajikistan (continued): Collaboration of the World Bank and the IMF

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Other Sectors		Reforms in agriculture, energy, health, education, water and sanitation, environment, infrastructure.	<i>Bank:</i> PDPG, Education Modernization, Community and Basic Health, Municipal Infrastructure Development, Energy Loss Reduction, Dushanbe Water Supply, Land Cadastre, Ferghana Valley Water, Cotton Sector Modernization Projects (all under implementation).

B. World Bank Collaboration in Specific Areas

Areas in which the World Bank leads and there is little direct IMF involvement

7. Areas in which the Bank leads and there is no direct IMF involvement include the social sectors, infrastructure, and environmental management. In the social sphere, the Bank has carried out regular poverty assessments to monitor poverty and develop programs to alleviate poverty. It has prepared a poverty assessment update has been prepared on the basis of the 2003 living standards survey. Under the Strengthening National Statistics System Project, data collection of a new living standards survey was completed in 2007; analysis of the results is underway.

8. **In education**, the Bank is providing policy advice and investment resources. The ongoing Education Modernization Project (FY03) aims to upgrade the basic education system by supporting reforms in education financing and management, curriculum and textbooks development; teacher training and student assessment improvement, and upgrading school facilities. Tajikistan has also received grant funding from the Education for All Fast Track Initiative catalytic fund, administered by the Bank. Key issues in education, apart from infrastructure rehabilitation and capacity building, are pay reform, per capita financing and expenditure tracking. Assistance to this sector will continue through the PDPG, a multi-donor education investment program, and the PSRP. The Bank is also helping with wage reform in education and a gradual move towards program-based budgeting in the sector through the PDPG. Jointly with the UNICEF the Bank assists the government in the overall national education strategy formulation. The IMF has in the past supported the education reform process, in close collaboration with the World Bank, through a PRGF structural benchmark requiring the drawing up of a fully costed education reform plan by the government.

9. **In health**, the Bank is helping the government to improve the effectiveness and efficiency of delivery—both of which are aimed at ensuring the poor access to a basic level of services. Through the Community and Basic Health Project and the PDPG, the Bank is

helping to strengthen the institutional capability (both at the center and district levels) to carry out health care reforms, to improve the system for budgeting and spending for basic health services, and pay reform. It is also supporting programs to prevent the spread of HIV/AIDS, malaria, and other communicable diseases. The Avian Fluenza Control and Human Pandemic Preparedness and Response is minimizing the threat of highly pathogenic avian influenza infection and other zoonoses posed to humans and poultry; and preparing for control and respond to influenza pandemics and other infectious disease emergencies in humans.

10. With regard to **infrastructure** development, the Bank is concentrating on upgrading basic utility services for the population as a whole and especially the poor. The Dushanbe Water Supply Project is helping the Dushanbe municipality and the local water company to address the most critical deficiencies of water supply services. The Pamir Private Power Project is supporting improvements in reliability of electricity supply in the Gorno Badakshan region with participation of the private sector. The Energy Loss Reduction Project is helping to reduce commercial losses and improve the financial viability of the power and gas sectors. The Bank has also been leading policy dialogue (under PDPG) on increasing efficiency/viability to ensure long-term growth prospects of the energy sector. The Municipal Infrastructure Project is providing support to improve urban infrastructure in big towns.

11. In **agriculture**, the Bank is concentrating on land reform, rehabilitation of irrigation and drainage infrastructure, and introduction of market rules in procurement of inputs and marketing of outputs as well as on the resolution of the cotton farm debts. The Land Registration and Cadastre Project is assisting the government with the land reform, issuance of land certificates, and establishment of a modern cadastre system. The Ferghana Valley Project aims to increase water supply and efficiency of irrigation systems in the Ferghana Valley, and develop institutional capacity in land and water resources management. The Cotton Sector Recovery Project is helping to improve the livelihoods of cotton farmers and to create conditions for sustainable growth of cotton production in selected, low-income areas. The project is doing this through assistance for cotton debt resolution, for an improved policy environment, and for increased cotton output and profitability. Cross cutting policy issues for increasing productivity in cotton sectors are being addressed through the PDPG.

12. The Bank has supported programs to improve **environmental management** and to deal with natural disasters. A National Environment Action Plan was developed with the Bank's help. A 2008 Country Environmental Analysis has highlighted the country's most severe environmental issues and proposed measures to strengthen the legal and institutional framework for addressing them. The Emergency Flood Assistance and Lake Sarez Risk Mitigation Projects have helped the government to mitigate the consequences of natural disasters and to build national capacity to address frequent natural hazards such as mudslides, rock-falls, avalanches, and seasonal floods.

13. The Bank also supported the government in coping with emergency situations. The Energy Emergency Project assisted the government in implementing an Energy Emergency Mitigation Action Plan (EEMAP) to address the energy crisis in 2008 due to the harshest winter in 25 years. Through the Global Food Price Crisis Response Trust Fund, the Emergency

Food Security and Seed Imports Project and Community and Basic Health Project – Additional Financing assisted the government in mitigating the impacts of food prices crisis in 2008.

14. Areas in which the World Bank leads and its analysis serves as input into the IMF program

15. The Bank leads the dialogue on structural reforms through the three-year PDPG program currently under implementation. Institution building and technical assistance in support of PDPG structural reforms come from several sources, including the PSRP, the Education Modernization Project, Fast Track Initiative Grant and the Community and Basic Health Project.

16. The Bank and the Fund both support **private sector development**, including in the areas of financial transparency and improvements in the regulatory framework. The Bank has completed the Investment Climate Assessment and agriculture sector review to determine the most important impediments to private sector development. Tajikistan has participated in three Doing Business surveys and in three Business Environment and Enterprise Performance surveys since the mid-2000s. These provides insight into trends within Tajikistan to improve the business environment and show how Tajikistan is performing relative to other countries of the region. The Bank has supported the preparation of the government's private sector development strategy, which is now under implementation with support of an IDF grant.

17. The Bank and the Fund support **enterprise and farm privatization**, including acceleration of privatization of medium and large enterprises, improvements to the corporate governance framework for public enterprises, land reform, and restructuring of the cotton subsector. The Bank has completed the Investment Climate Assessment and agriculture sector review to identify obstacles to growth of agricultural productivity. With support of donors, the Bank has been providing technical support to the State Committee for Investments and State Property Management to implement a long-term strategic privatization plan and to promote private sector investment.

18. **Regulatory reforms** include (a) changing role of anti-monopoly agency and further strengthening its capacity, (b) improving the inspection regime for businesses; and (c) streamlining licensing. In addition, under the PDPG, the Bank is assisting with separating in aviation the functions of policymaking, technical regulation, and accident investigation, with the aim of increasing the transparency and performance of operations. It is also helping with the restructuring the Tajik Air Company aimed at creating separate entities to operate the airport, airline, and air traffic control system. This restructuring is expected to increase the competitiveness of Tajikistan's aviation sector, with benefits for economic growth and poverty reduction.

19. While the Bank has taken the lead in privatization and in structural reforms in the private sector, the IMF has also a strong interest in these areas, since many of these reforms are critical to achieving macroeconomic stabilization and enhancing growth. Accordingly, the two institutions maintain an active dialogue with each other on these matters to ensure good coordination of interventions.

Areas of shared responsibility

20. The Bank and the Fund are working jointly in the following four main areas (supported by the Bank's PDPG, grants, and several investment operations, and the Fund's SMP):

- **Public sector management.** The Bank has provided technical support to the government to develop a comprehensive public administration reform strategy. It includes policy actions in public administration reforms aimed at redefining the role of the state in line with the market economy needs, reorganizing key ministries, strengthening the internal control and audit function, and supporting the pay reform. The Bank is involved in civil service reform while the Fund is providing technical assistance in support of tax and customs administration and treasury management.
- **Budget planning and execution.** Both institutions work on providing support for a treasury, adoption of new law on public finances introducing modern budgetary procedures and improved fiscal management, and switching from norm-based costing and allocation of expenditures to per capita based financing in education and health sectors. The Bank will continue to provide technical support and mobilize donor funds to implement the medium-term budget framework. The Bank will also continue to support public financial external and internal control reform through the PDPG, IDF grants, and the PSRP. The forthcoming Public Financial Management Project (FY09) will support treasury reform.
- **Financial sector reforms.** This area includes the acceleration of financial sector restructuring and closure of weak banks, a new regulatory framework for the establishment of non-bank intermediaries, and significant changes in the tax code making tax authorities' access to bank accounts conditional on a court authorization. In terms of banking supervision, the IMF is monitoring the closure and merger of banks that do not satisfy prudential requirements. A Financial Sector Assessment Program (the country's first), carried out jointly by the Bank and the Fund, was discussed with the authorities in late 2007. The Bank is implementing a grant from the FIRST trust fund to support implementation of the assessment's recommendations, especially needed reforms at the NBT.
- **Utilities reform.** The Fund included in its former PRGF benchmarks related to energy tariff rates, energy arrears, and collection rates with the aim to reduce quasi-fiscal activities and increase transparency. The Bank under the PDPG is supporting tariff reform aimed at reducing the quasi-fiscal deficit. It also supported the conducting of an audit of Barki Tajik's accounts, which was completed in August 2008. The Bank is providing financial assistance to help the government to repair the electricity and gas transmission system, to import the energy needed to meet periodic winter shortfalls, and to help implement the Energy Emergency Action Mitigation Plan. The Bank-supported Energy Loss Reduction Project is supporting implementation of reforms. The Bank is working closely together with the Asian Development Bank and the EBRD on utilities reform and restructuring of strategic enterprises such as the railways and airlines.

- **Debt sustainability analysis:** The Bank and the IMF have started carrying out joint debt sustainability analyses (DSA). The first one was done in early 2006 and an update was completed in February 2007. The next joint DSA update will be finalized before February 2009.

Areas in which the IMF leads and its analysis serves as input into the World Bank program

21. The Fund leads the dialogue on fiscal matters, setting the overall envelope for public expenditures. The Bank's work in key sectors, such as health, education and infrastructure, necessitates close cooperation.
22. In the budgetary area, the Fund is taking the lead on tax reforms and budget preparation and execution. The IMF also leads the dialogue on policies to rationalize and contain expenditures in the public sector. These include policies regarding wage setting in both the public service, and defining the ceiling for public investment expenditures. In these areas, the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent.

Areas in which the IMF leads and there is no direct World Bank involvement

23. The Fund takes the lead in the formulation and execution of fiscal and monetary policies, tax policy, external trade policies, and issues involving economic and financial statistics. The Bank-financed Strengthening National Statistics System Project is improving Tajikistan's capacity to collect, analyze, and disseminate key information required for evidence-based decision-making.

C. IDA Funding

24. IDA funding to Tajikistan was provided in the form of 100 percent grant in FY06 and FY08; while in FY07 allocation was set with a 45 percent grant component. Tajikistan's eligibility for grants is determined based on the annual debt sustainability analyses. The indicative IDA 15 envelope for FY08–10 is about SDR61.0 million. Of this, about SDR 19.5 million is scheduled for the FY09, about SDR 20.5 million is planned for FY10, around SDR 21.0 million is targeted for FY11. FY09 IDA allocation will be 100 percent grant.

ANNEX IV. TAJIKISTAN: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of February 2009)

Country Director: Mr. Makoto Ojira—Telephone: 992-372-210558/271895/ 271897

1. Tajikistan became a member of the Asian Development Bank (ADB) in 1998. The ADB has participated in the Consultative Group Meeting for Tajikistan since 1998. After conducting an initial mission in June 1998, ADB completed an Economic Report and Interim Operational Strategy that identified three areas: (a) agriculture; (b) infrastructure rehabilitation (especially energy and transport sectors); and (c) social sector, in which ADB assistance would have the greatest development impact. Based on the Interim Strategy, ADB's Board of Directors approved in October 1998 Tajikistan's country classification, which provides the basis for Tajikistan's full access to concessional resources (Asian Development Fund (ADF)). Under the new ADF grants framework, starting from 2008, Tajikistan is eligible for 100% grants of its entire ADF allocation up to 2012, subject to a 20% volume discount. Under the performance-based allocation of ADF for 2009-2010, Tajikistan was allocated \$102 million for the two-year period. As of end 2008, Tajikistan has received \$372.50 million in loans, \$33.65 million in technical assistance, and \$97.27 million in grants.

2. In view of Tajikistan's urgent need for assistance in 1998, in coordination with the IMF and the World Bank (WB), the ADB provided a **Postconflict Infrastructure Program Loan** (\$20 million), which was designed to create a framework for developing market-based transport and energy sectors. The loan was for two years and was fully disbursed by end-2000. Based on the satisfactory progress of the Postconflict Infrastructure Program loan conditionality, the following loans were approved in these two sectors:

3. **Transport Sector:** the Road Rehabilitation Project loan (\$20 million in 2000), which rehabilitated the most deteriorated sections of the Dushanbe—Kulyab road in the southern part of Tajikistan, the most civil-war affected areas; Dushanbe—Kyrgyz Border Road Rehabilitation Project loans (first phase of \$15 million in 2003 and second phase of \$30 million in 2005); and the Regional Road Corridor Improvement Project (\$53.4 million loan/grant in 2007), which improve Tajikistan's transportation link toward north and east through Kyrgyz Republic, further to Kazakhstan and Russia, as well as to the People's Republic of China. These projects also improve rural roads in the project areas. Continued supports in strengthening the government's institutional capacity for efficient management of national road network are provided under technical assistance grants associated with these loans and on stand-alone basis. In October 2007, ADB approved a \$2.0 million Japan Fund for Poverty Reduction (JFPR) grant to reconstruct key infrastructure in northeast Tajikistan to restore access to rural communities that were isolated after flooding in 2006 washed away a suspension bridge.

4. **Power Sector:** the Power Rehabilitation Project loan (\$34 million in 2000) aims to improve people's quality of life and support poverty reduction by increasing the availability of electricity, and assist in post-conflict recovery of Tajikistan's economy (the project

rehabilitates and reinforces power transmission and distribution facilities in the war-damaged areas in Khatlon and Dushanbe regions, and rehabilitates the Nurek Power Plant and Central Hydropower Plant). The Regional Power Transmission Modernization Project loan (\$20 million in 2002) was geared towards improving the reliability and the operation of the Central Asian power transmission system, enhancing the intercountry power trading between Tajikistan and Uzbekistan, and laying the foundation for a future wholesale regional power market. However, the later loan had to be cancelled due to the inability of Tajikistan and Uzbekistan agreeing on the Power Trade Agreement. The Tajikistan-Afghanistan Power Transmission Interconnection Project loan for \$21.5 million to Tajikistan was approved in 2006. This project is aimed to construct a 220 kilovolt double circuit transmission line that will link the hydropower stations on Tajikistan's Vakhsh River to the border town of Sherkan Bandar, then to Kunduz, Baglad, Pul-e-Khumri and, ultimately, Kabul in Afghanistan. In November 2008, ADB approved a \$54.77 million grant for the Nurek 500 kV Switchyard Reconstruction Project to rehabilitate an ageing facility in Tajikistan's electricity supply network which is in danger of collapse. Various technical assistance projects were provided to accelerate market-oriented reforms in the power sector also in line with IMF and WB programs and for supporting the government in formulating a power sector development strategy.

5. In addition to the above, the ADB Board approved to date the following loans to Tajikistan in each sector:

6. **Social Sector:** the Social Sector Rehabilitation Project loan (\$20 million in 1999) to address the serious deterioration in living standards and strengthen the delivery of essential social services; the Health Sector Reform Project loan (\$7.5 million in 2003) to improve health, especially of the poor, women, and children by providing pro-poor health service package, and by reforming the health service delivery and financing mechanism; and the Education Sector Reform Project loan (\$7.5 million in 2003), which focuses on supporting the government's reform priorities in primary (grades 1–4) and general secondary education (grades 5–11) by improving the education system and its management. These two social sector reform loans are supported by respective JFPR grants: (a) the project for Community Participation and Public Information Campaign for Health Improvement (\$1 million in 2004); and (b) the School Improvement Project (\$2 million in 2004).

7. **Agriculture Sector:** based on the agriculture sector assessment prepared during 1999–2000, the Agriculture Rehabilitation Project loan (\$35 million in 2002) is being implemented to improve living conditions of the farming communities in the project area and to institute measures to sustain benefits of improvements for irrigation and drainage systems and water supply, as well as by providing farm production support services. In order to support the agriculture sector reforms, the TA for Farm Debt Resolution and Policy Reforms, which was associated with the loan, has been completed in consultation with the IMF, involving a wide range of stakeholders. Based on the findings of the TA, ADB supported the government in close cooperation with other donors and NGOs for formulating a National Farm Debt Resolution Strategy. ADB, in collaboration with DFID, supported donor

coordination for implementing the Strategy. On 5 March 2007, the Government approved the Roadmap for Implementation of the Farm Debt Resolution Strategy. The road map, which includes a comprehensive program of reforms for the sustainable and profitable farming of cotton and other crops, guides the preparation of a suitable intervention for ADB. Grant assistance for Rural Poverty Reduction Project (\$2.9 million in 2001) financed by JFPR supported implementation by pilot testing innovative poverty-oriented on- and off-farm supports. In 2004, Irrigation Rehabilitation Project loan was approved for \$22.7 million. In a major push supporting the agriculture sector and rural development, Sustainable Cotton Sub-Sector Project loan/grant and Rural Development Project loan/grant were approved in 2006 and 2007, respectively.

8. **Finance:** Microfinance Systems Development Program loan (\$4 million in 2003) to support policy, legal, and regulatory reforms; and Microfinance Systems Development Project loan (\$4 million in 2003) to help transform nongovernmental organization microfinance programs into licensed and regulated microfinance institutions.

9. **Trade Facilitation:** the Regional Trade Facilitation and Customs Cooperation Program loan (\$10 million in 2002), which supported trade and customs reform development across the East and Central Asia. Regional Customs Modernization and Infrastructure Development (\$10.7 million in 2004) to promote international trade and enabling environment for private sector development.

10. **Emergency Assistance:** in response to the government's urgent requests, three emergency loans, including the Emergency Flood Rehabilitation Project loan (\$5 million in 1999), the Emergency Restoration of Yavan Water Conveyance System loan (\$3.6 million in 2001), and the Emergency Baipaza Landslide Stabilization Project loan (\$5.3 million in 2002) were approved. In 2007, ADB provided a \$22 million loan for the Khatlon Province Flood Risk Management Project to help address recurring flood risks in four districts in the province through a comprehensive and coordinated approach. A major part of the project is the rehabilitation of 8.3 kilometers of flood protection embankment along Pyanj River, which borders Tajikistan and neighboring Afghanistan.

11. In end-2000, ADB started supporting the government in developing PRSP through participatory approach under a TA grant in close cooperation with the IMF, WB, and UNDP. Following the finalization of the PRSP in June 2002, ADB concluded the Poverty Partnership Agreement (PPA) with the government in December 2002, and proceeded to prepare a new five-year Country Strategy and Program (CSP) for 2004–08 for Tajikistan, which was endorsed by the ADB Board in October 2003. The CSP was successfully completed in 2008, and its main objectives were (a) to strengthen rural development through institution building that will support policy implementation and the private sector; (b) to rehabilitate power and rural infrastructure; and (c) to strengthen regional cooperation through improved customs services and transport links, both within the country and neighboring ones.

12. ADB prepares and updates its three-year rolling programs for Tajikistan every year in consultation with the government based on the ADF resources availability, carefully

examining the country's social and economic development status and in coordination with other donors, including IMF. The latest Country Operations Business Plan for Tajikistan covering 2008–2010 was approved in October 2007. Currently, a joint country support strategy for Tajikistan for 2009–2012 is being developed with the joint support of twelve development partners working in the country, including ADB. The strategy is planned for finalization by mid 2009 and expected to be managed through a result-based framework. ADB pays full attention to the progress of Tajikistan's MDG achievement. ADB is also paying intensive attention to governance reforms through investment projects and technical assistance. In 2006, ADB approved a technical assistance project entitled Strengthening Results Management in Support of Poverty Reduction in Tajikistan cofinanced by the Swedish Government. The \$2.0 million grant package co-financed by the Government of the United Kingdom Department for International Development was approved in 2007 to help boost the Tajikistan government's capacity in promoting private sector development.

13. The proposed 2009–2010 investment program comprises three projects worth a total of \$102 million. The actual assistance level will be determined by (a) availability of overall ADF resources; (b) country performance assessment vis-à-vis ADB's policy on performance based allocation of ADF resources; and (c) processing status of the projects in the pipeline.