

The World Bank in Tajikistan

Country Snapshot



An overview of the World Bank's work in Tajikistan

October 2018

TAJIKISTAN	2018
Population, million	8.8
GDP, current US\$ billion	7.2
GDP per capita, current US\$	801
Life Expectancy at birth, years (2018)	71.1

At a Glance

- Public investment in major infrastructure projects and recovering remittances supported economic growth in the first half of 2018.
- These factors will drive the economy over the medium term, sustaining real GDP growth of around 6% in 2018–20.
- Tajikistan remains vulnerable to external shocks and domestic policy gaps associated with the ailing banking sector, insufficient social protection for vulnerable households, the high contingent liabilities of state-owned enterprises, and the slow progress of structural reforms aimed at improving the business climate.

Country Context

Tajikistan has achieved rapid poverty reduction over the past two decades, mainly due to a favorable external environment. Poverty fell from over 83% to about 47% between 2000 and early 2009, and from 37 to 31% between 2012 and 2016.

In contrast to the decline in monetary poverty, Tajikistan has done less well in improving the quality and accessibility of public goods and services. The country's multidimensional poverty index indicates that non-monetary deprivations in the country are widespread. Many residents are not satisfied with the quality of key public services, such as electricity, water, heating, and roads. Only three out of four persons have access to an improved water source—essential for maintaining good health.

The National Development Strategy 2016–30 envisions improving the living standards of the population in four main areas: (i) achieving energy security; (ii) improving transport and communication connectivity; (iii) improving food security and the population's access to good quality nutrition; and (iv) expanding productive employment.

To achieve higher growth, Tajikistan needs to implement a deeper structural reform agenda designed to: (a) reduce the role of the state and enlarge that of the private sector in the economy through a more favorable business climate, thus increasing private investment and generating more productive jobs; (b) modernize and improve the efficiency and social inclusiveness of basic public services; and (c) enhance the country's connectivity to regional and global markets and knowledge.

The World Bank and Tajikistan

The current World Bank Group (WBG) Country Partnership Strategy aims to support Tajikistan's transition to a new growth model led by investment and exports. The current active World Bank portfolio in Tajikistan includes 16 projects (including regional projects) with a net commitment of US\$560 million.

The largest share of the portfolio is in the energy sector (44%), followed by water (16%) and urban and rural development (12%). Other sectors supported by the WBG include transport, governance, agriculture, health, education, and social protection.

Tajikistan and the WBG are currently consulting on strategic priorities to be addressed jointly under the successor Country Partnership Framework for 2019–23. The new strategy aims to support the country's efforts to transform the economy along the "industrial-innovative scenario" spelled out in Tajikistan's National Development Strategy to 2030.

Key Engagement

The World Bank is one of Tajikistan's most long-standing and trusted partners, a collaboration and portfolio that have strengthened and expanded significantly over the years. Since 1996, the Bank has provided US\$1.47 billion in grants and highly concessional credits from the International Development Association and trust funds.

WBG investments aim to support economic growth through private sector development, while making critical investments in human capital, such as education, health, communal services, and social protection.

In private sector development, for example, the Bank has continued efforts to reduce the cost of doing business, strengthen the financial sector, and increase access to finance. Based on WBG support and with donor partners, the (actual) time to register a business has been reduced from 39 to 11 days; e-filing for taxes has gained important

WORLD BANK PORTFOLIO

Number of Projects: 16

Commitment (IDA): \$560 Million

traction, with 59,000 taxpayers currently using the system; and an online permit application system has been established, with over 600 individual permits issued. In addition, the establishment of the credit bureau has enabled 308,000 individuals and micro, small, and medium enterprises to gain access to credit (5.4 million loans altogether).

In agriculture, which employs 64% of the country's population, land tenure for individual and family farms has increased. More than 122,000 individual and family farms have received land rights certificates, benefiting more than 350,000 shareholders, of whom 43% were women.

Investments in maternal and child health and nutrition are showing positive results. As a result of the performance-based financing pilot, the number of fully vaccinated children increased by 26%, the number of women receiving four or more antenatal care visits increased by 14%, and the number of women using contraceptives increased by over 27%. Twenty percent of the country's primary health care network has been completely renovated.

The Bank's investments in the education sector helped to reduce the shortage of textbooks by over 40% and to rehabilitate 2,850 classrooms, benefiting over 110,000 schoolchildren, mainly in rural areas.

The National Testing Center became operational and a Unified University Entrance Examination was introduced, resulting in enrollment increases of 10% for women and 40% for students from rural areas in the first year of university studies.

Recent Economic Developments

Tajikistan's GDP growth accelerated to 7.2% in the first half of 2018, up from 6% a year earlier. Growth was mainly supported by increased public investment in infrastructure projects.

On the supply side, the construction of the Rogun Hydropower Plant (HPP), together with a strong performance from both industry and agriculture, bolstered overall economic activity. However, the services sector shrank as remittance inflows eased and constrained private consumption.

The fiscal deficit remained relatively large at 4% of GDP in the first half of 2018. Capital spending on the Rogun HPP, largely financed by the remaining balance of the Eurobond issued in 2017, continued to drive the Government's expansionary fiscal policy.

The foreign exchange market remains highly regulated by the Central Bank, which constrains access to hard currency, indirectly limits imports, and stimulates the informal market. In the context of growing pressures and an increasing spread between the official and black market rates, in mid-July, the Central Bank made a one-off adjustment by devaluing the somoni by 2.6% against the U.S. dollar.

The financial sector continued to show signs of improvement as business activity picked up. The nonperforming loans ratio declined to 28.4% in June 2018 (from 35.8% at end-2017).

Economic Outlook

Tajikistan's outlook remains positive, building on Russian economic growth, the upward trend of global prices for major export commodities, and further dynamism in the region, specifically trade relations with Uzbekistan.

Growth is projected to average 6% in the medium term, supported by strong private consumption, a gradual rehabilitation of the

banking sector, and continued investment in public infrastructure projects.

The poverty rate is projected to fall to 12.5% by 2020. The fiscal stance will gradually improve as the authorities seek to balance the country's need to finance large infrastructure projects with a commitment to meet soaring debt service obligations within prudent macro-fiscal parameters.

With this intention, the level of public debt is forecast to remain within the recently adopted fiscal rule on the debt ceiling; in addition, a new Eurobond issuance has been not ruled out under the baseline scenario.

The medium-term outlook is subject to downside risks. As remittances recover, economic performance will become more dependent on exogenous factors. Given its narrow and concentrated export basket, any external headwinds will limit Tajikistan's already limited economic policy choices.

Domestic risk factors include the ailing banking sector, the high contingent liabilities of state-owned enterprises, and rising debt pressures. To mitigate these risks, Tajikistan needs to embark on structural and institutional reforms that are vital to gaining investor confidence.

To address the poverty reduction challenge, the authorities will need to foster a better business climate, promote job-creation policies, and increase the amount and coverage of the Targeted Social Assistance program.

Project Spotlight

Second Phase of the Central Asia Road Links Program – CARs-2



The CARs-2 project improved safety conditions in sections where school children regularly cross the road. The installation of traffic lights, pedestrian walkways, and additional road signs have significantly improved road safety.

Tajikistan is Central Asia's least connected and most isolated country. Transportation by road is often the only option, given the country's alpine topography and small rail network.

The Second Phase of the Central Asia Road Links Program, or CARs-2, focuses on the rehabilitation of approximately 70 kilometers of cross-border roads in the Sughd oblast of Tajikistan,

which connects the country's road network with that of Uzbekistan and the Kyrgyz Republic and accounts for 40% of the country's overall freight turnover.

The **CARs-2** project is financed by the World Bank in the amount of US\$45 million from IDA resources, consisting of US\$38 million provided as a highly concessional credit and US\$7 million as a grant. By financing the rehabilitation of critical road links, the project is expanding opportunities for trade and increasing the competitiveness of domestic products, leading to private sector growth and job creation.

In addition, improvements in road infrastructure, including the installation of drainage dikes and flood protection systems as well as the construction of bridges, will help protect villages from frequently occurring natural disasters.

Central Asia Road Links is a collaborative multi-phase program initiated by the governments of the Central Asian countries, with World Bank support. The program is helping to rebuild a regional network that links population centers and economic hubs across borders in the highly populated Ferghana Valley.

More than 10 million residents of the Ferghana Valley and more than 3 million people in other areas of the Kyrgyz Republic and Tajikistan will benefit from improved connectivity and better market access across borders.



CONTACTS

Dushanbe,
+992 48 701-5810
48 Ayni Street, Business
Center "Sozidanie", 3rd floor,
Dushanbe, Tajikistan.

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