

# The World Bank in Tajikistan

## Country Snapshot



An overview of the World Bank's work in Tajikistan

April 2019

TAJIKISTAN	2018
Population, million	9.1
GDP, current US\$ billion	7.5
GDP per capita, current US\$	822
Life Expectancy at birth, years (2018)	71.1

### At a Glance

- Tajikistan's economy registered strong growth in 2018, driven by private consumption and public investment in the energy sector.
- Thanks to favorable commodity prices, substantial public investment, and a gradual recovery of domestic lending, growth will remain at around 6 percent over the medium term.
- Downside risks include rising debt service obligations, state-owned enterprise contingent liabilities, and costly energy projects with uncertain revenue prospects.

### Country Context

Since 2000, Tajikistan has experienced high economic growth and significant poverty reduction. Between 2000 and 2017, GDP grew by more than 7 percent per year and poverty was reduced from above 80 percent to below 30 percent of the population. However, economic growth was not inclusive or sustainable during that period. Job creation was slow and unable to keep pace with a fast-growing population.

The country's multidimensional poverty index indicates that non-monetary deprivations in the country are widespread.

The National Development Strategy (NDS) to 2030 sets a target of increasing domestic incomes by up to 3.5 times by 2030 and reducing poverty by half. This target is achievable if Tajikistan transforms its current growth model and gives the private sector more opportunities to invest, create jobs, and contribute to the economy.

Today, the domestic private sector plays a limited role in the economy. It contributes to only 15 percent of total investments, 30 percent of industrial output, and about 13 percent of formal employment. Tajikistan ranks 126th among 190 economies in the Doing Business report.

Going forward, the country needs to prioritize reforms to improve the business climate and provide enterprises with the space necessary to compete successfully in domestic as well as neighboring regional markets.

This will enable job creation with wages that are conducive to poverty reduction. Investments in human capital are critical to ensuring that Tajikistan's young and growing population is productive and competitive in tomorrow's economy.

## The World Bank and Tajikistan

Since 1996, the World Bank has provided more than US\$1.5 billion in credits, grants, and trust funds to Tajikistan.

The distribution of the portfolio by sectors has been:

- energy (27 percent),
- water and urban/rural development (25 percent),
- governance, economic policy, and finance (21 percent),
- agriculture (11 percent),
- education (6 percent),
- health and social protection (5 percent),
- transport and information and communications technology (4 percent),
- and trade and competitiveness (1 percent).

The Country Partnership Framework (CPF) for 2019–23, discussed with the Government of Tajikistan and key stakeholders, is in the final stages of preparation.

Overall, the CPF will aim to support Tajikistan in achieving the goals spelled out in the NDS 2030, addressing principal development challenges, and placing the country in a position to take full advantage of emerging opportunities from newly accessible large and underserved neighboring markets.

### Key Engagement

The current active World Bank portfolio includes 17 projects with a net commitment of US\$684 million. The active portfolio's largest share is in the energy sector (40 percent), followed by water (23 percent) and urban/rural development (11 percent).

Trust fund activities complement the World Bank's assistance program and finance a wide range of

### WORLD BANK PORTFOLIO

Number of Projects: 17

Commitment (IDA): \$684 Million

projects in key strategic sectors, including education, energy, agriculture, food security, and the social sectors.

Given Tajikistan's long history of power outages, particularly during the cold winter months, the energy sector has been a priority area of engagement for the World Bank. Bank co-financing will help rehabilitate the Nurek Hydropower Plant (HPP), which generates about 70 percent of Tajikistan's total annual energy demand.

The cross regional Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000), upon completion, will allow for exports of around 2,700 GWh of surplus hydropower-based energy and bring much-needed revenues for the country's socioeconomic development.

In private sector development, the World Bank Group, in cooperation with other development partners, is continuing efforts to reduce the cost of doing business, strengthening the financial sector, and increasing access to finance.

As a result, the (actual) time to register a business has been reduced from 39 to 11 days and e-filing for taxes has gained important traction, with 59,000 taxpayers currently using the system.

Given Tajikistan's vulnerability to climate change, the Bank is investing in sustainable water and land management. Thanks to the enhanced efficiency of local irrigation systems, close to 1.4 million farmers now have improved access to irrigation and are able to grow more products.

Over 440 square kilometers of land managed by almost 53,000 households now benefit from improved agricultural, land, and water management practices.

## Recent Economic Developments

Compared to a year before, Tajikistan's GDP growth accelerated slightly to 7.3 percent in 2018. Growth was mainly supported by private consumption and public investment in energy, which offset a decline in net exports.

The external position deteriorated in 2018 as public investment in energy boosted imports of machinery and construction materials. The substantial fall in international prices for minerals—one of Tajikistan's key export commodities—severely affected export proceeds and could not be offset by the increased export of cotton and electricity.

Although Chinese mining sector investments helped lift foreign direct investment (FDI) to 2.6 percent of GDP, the country's investment needs are such that FDI needs to rise further.

Preliminary estimates indicate that the fiscal deficit narrowed to 5 percent of GDP in 2018, facilitated by cuts to capital spending. Although public spending cuts and delays targeted non-priority capital expenditures, the Government safeguarded energy sector investment and core social obligations and raised civil servant wages, pensions, and other social transfers on September 1, 2018.

Investments in the Rogun HPP accounted for 14 percent of total budget spending in 2018, only slightly less than total education spending at 16 percent. In 2018, the Government received a budget support grant from the European Union in the amount of €9.4 million.

Except for two problem banks, the financial sector was generally healthy in 2018. Amendments to the legal framework that were adopted in mid-2018 are expected to strengthen the regulator's supervisory powers.

However, the banking system remains non-transparent, particularly regarding related-party lending; the overdue resolution of the two toxic banks will require additional efforts by the authorities.

## Economic Outlook

Tajikistan's positive medium-term outlook assumes that the external environment will remain favorable and publicly driven investment programs will be sustained.

The prospects of positive (albeit modest) growth in Russia, elevated prices for major export commodities (cotton and aluminum), and deepening regional cooperation should sustain high rates of GDP growth in Tajikistan.

Remittance inflows will continue to support private consumption, while the long-awaited resolution of problem banks, once completed, would restore trust in the banking system and lead to a gradual pickup in private credit and investment.

The country's current account is expected to remain in deficit owing to continued strong demand for capital-intensive imports for the construction of the Rogun HPP and a remittance-propelled expansion of private consumption.

FDI inflows are forecast to suffer from weaknesses in the general business climate and slowing growth in China.

Although the Government is expected to pursue fiscal consolidation, in the medium term, Tajikistan will continue to face fiscal stress. The primary sources of this stress will be the tight schedule for Rogun HPP construction and high public debt service obligations.

## Project Spotlight

### Tajikistan Agriculture Commercialization Project



Rustam Nazriev, head of the dairy production farmer group in Fayzobod of Tajikistan

Agriculture accounts for 23 percent of GDP and 48 percent of employment in Tajikistan, and therefore plays a major role in economic growth and poverty reduction.

Through a set of complementary measures, including access to finance and capacity building that involves training, advice, and value chain

modernization, the **Agriculture Commercialization Project** aims to increase the commercialization of farm and agribusiness products in Tajikistan.

The project is expanding opportunities for local farmers and enterprises by modernizing selected value chains to increase their productivity and expand their access to domestic and international markets.

So far, about 2,800 farmers have received credit-line support through participating financial institutions, while about 10,500 beneficiaries have been provided with agriculture extension advice and training services, resulting in significant sales increases of agricultural products.

Around 1,100 members of smallholder farmer groups have received US\$1.4 million in grants, allowing them to grow their businesses and connect to project-supported value chains that include dairy products as well as apricots, lemons, and other fruit.

Rustam Nazriev, head of the dairy production farmer group in Fayzobod of Tajikistan, says: "With a grant from the project, we upgraded the facility and equipment and hired 25 people, including 17 women. We hope to hire 250 people in a couple of years, once the business grows. It is very important for our district, as jobs for the population are limited."



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