

CENTRAL ASIA

TAJIKISTAN INFRASTRUCTURE GOVERNANCE ASSESSMENT



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Frequently Used Abbreviations and Acronyms

CAA	Civil Aviation Authority
CEP	Committee on Environmental Protection
CES	Committee of Emergency Situations
CoA	Court of Accounts
EIA	Environmental impact assessment
FDI	Foreign direct investment
FRM	Fiscal Risk Management
GoRT	Government of the Republic of Tajikistan
HPP	Hydropower plant
InfraGov	Infrastructure Governance
InfraSAP	Infrastructure Sector Assessments Programs
IPR	Investment Project Registry
iSOEF	Integrated State-owned Enterprise Framework
JSC	Joint Stock Company
MD	Monitoring Department
MoEDT	Ministry of Economic Development and Trade
MoF	Ministry of Finance
PEFA	Public Expenditure and Financial Accountability
PIM	Public investment management
PIP	Public investment program
PPP	Public-private partnership
QFD	Quasi-fiscal deficit
SCIMSP	State Committee on Investments and Management of State Property
SOE	State-owned enterprise
SUE	State Unitary Enterprise
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
USP	Unsolicited proposal
VfM	Value for money
WSS	Water and Sanitation Services

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Executive Summary

Context

1. **The Republic of Tajikistan faces significant infrastructure and governance challenges that limit citizen access to quality services, constrain potential private sector contributions to urgently needed infrastructure investments, and hinder economic growth.** Tajikistan's infrastructure is substandard (indeed among the lowest in Central Asia), across the full range of sectors.

- Deteriorating Soviet-era infrastructure, including irrigation canals, roads, dams, bridges, and river embankments, has increased the populace's exposure to risks associated with extreme weather events and earthquakes.
- The reliance on hydropower leaves the electricity sector vulnerable to climate change. The country cannot fully meet the domestic demand for electricity, and there are frequent outages, especially during the winter months.
- In rural areas, 21 percent of the populace in 2019 still relied on surface water as their drinking source, and 90 percent was reliant exclusively on outdoor pit latrines.¹ In that same year, almost 90 percent of waste disposal sites did not meet sanitary epidemiological norms.² The existing drinking water infrastructure, predominantly built before the 1980s, is now in poor condition and very inefficient.
- Tajikistan has one of the world's highest trade costs because of its landlocked remoteness from major markets, inadequate transport infrastructure, and limited logistics support. Indeed, since the 2007 creation of the World Bank's Logistics Performance Index, Tajikistan's trade and transport infrastructure component has consistently ranked low on it.
- More than 80 percent of the country's roads were unpaved in 2019 and they are often impassable during winter in the mountainous terrain.
- For a country with an underdeveloped road network, air connectivity is crucial to economic development.³ Unfortunately, Tajikistan's air transport system and civil aviation services are expensive and inefficient, reflecting limited domestic competition, as state-owned enterprises (SOEs) and politically connected firms enjoy monopoly positions and pass on excessive costs to consumers. Consequently, the country ranked 111th on transport infrastructure and 121st on airport connectivity of 141 countries surveyed in the World Economic Forum's 2019 Global Competitiveness Index.⁴

¹ Tajikistan Systematic Country Diagnostics

<https://documents1.worldbank.org/curated/en/680151528479302248/pdf/TJK-SCD-WEB-v300518-06052018.pdf>

² Tajikistan Systematic Country Diagnostics

<https://documents1.worldbank.org/curated/en/680151528479302248/pdf/TJK-SCD-WEB-v300518-06052018.pdf>

³ Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus, 2019

<https://www.oecd-ilibrary.org/sites/5c0e575a-en/index.html?itemId=/content/component/5c0e575a-en>

⁴ https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

2. **Over the last 20 years, the government has achieved some progress in addressing infrastructure needs through state budget financing supported by external partners.** However, public investment is largely concentrated in one hydropower dam (Rogun Hydropower Plant), which limits fiscal space for other public investments. Indeed, the cost of remaining works for the under-construction Rogun Hydropower Plant (HPP) is estimated at \$6.1 billion (equivalent to 58 percent of gross domestic product in 2022),⁵ which is expected to be financed through a combination of state budget contributions, project revenue from the sale of early generation, and support from development financing.⁶ Other big-ticket investments include the Turkmenistan-China gas pipeline and the modernization of the TALCO aluminum plant.

3. **Broadly, the efficiency of many infrastructure investments appears low, reflecting a fragmented and inadequate public investment management regime.** Additionally, the state has not effectively mobilized the private sector either by ensuring a level playing field for private investments (as SOEs enjoy monopoly power in many sectors) or by creating clear avenues for public-private partnerships (PPPs).

4. **Squeezed by the large presence of the state and an unpredictable playing field, the private sector in Tajikistan has remained underdeveloped and has played a limited role in the economy.** While Tajikistan has a well-developed regulatory framework for investment, poor implementation of these regulations has led to an unpredictable and non-transparent operating environment for investors. Existing private firms are mostly small and do not reach their full potential across the firm lifecycle, while the informal sector of the economy is large and growing. Formal employment in the private sector represents 13 percent of total employment. Private investment has averaged only 4.4 percent of GDP since 2000, well below the Commonwealth of Independent States⁷ average investment rate of 21 percent. Tajikistan is also one of the only countries in the region where public investment is outpacing private investment.

Objective and Assessment Framework

5. **Tajikistan has the potential to substantially raise its economic growth and exports, improve service delivery, and better protect its citizens from the adverse effects of climate change—the prerequisites for which are substantial improvements in the efficiency of public investments and greater private investment.** To help the government address these challenges, this report outlines the infrastructure governance challenges that impede Tajikistan’s opportunities to attract private sector participation, especially in the aviation sector, and enhance both performance and value for money. It does so by applying selected principles of the World Bank’s Infrastructure Governance Assessment Framework (InfraGov), which are fleshed out in Annex 1. It then maps out the concrete steps that the government could take to fully realize the potential of the sectors’ opportunities, building on recent successful regulatory reforms regarding PPPs/concessions.

⁵ Unless otherwise specified, the currency cited throughout this report is the U.S. dollar.

⁶ Through the Technical Assistance for Financing Framework for Rogun Hydropower Project (P178819), the World Bank is supporting the government to strengthen the project’s financial and commercial frameworks, enhance its environmental and social sustainability, improve transparency, and support the establishment of Rogun HPP Project’s benefit-sharing program.

⁷ As of 2023 there are nine members of the CIS: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan.

6. **Both fiscal space and the scope for increasing tax revenues are limited, constraining investment potential.** Consequently, it will be critical to ensure that the efficiency of public investment is maximized, and that private financing is crowded-in, particularly in the transport and energy sectors. Thus, this report focuses on measures to improve both the performance of SOEs and PPPs/concessions (the latter as the main form of private sector participation and crowding in of financing). Increased private participation in certain sectors (airport, ports, independent power providers, highways, water provision) has a proven track record of success, but there are also substantial risks that have manifested themselves in failures across the world. This report takes its point of departure from the fact that private participation and finance should only be used where it makes sense—in terms of value for money (VfM), affordability, sustainability, and public legitimacy. The report highlights risks and potential mitigation measures, particularly regarding fiscal risks and unvetted unsolicited proposals, that the government should bear in mind.

7. **This assessment focuses upon key InfraGov dimensions across the project lifecycle, cross-cutting principles, and service delivery.** The chosen dimensions were prioritized together with the government and focus on the quality of the overarching public investment management (PIM) and PPP/concession frameworks and processes across the lifecycle of a public infrastructure project, and on the cross-cutting considerations in infrastructure of data transparency and climate-change resilience. It should be emphasized that these findings reveal barriers in the design, execution, and monitoring of all public infrastructure projects, independent of their funding source. The key governance challenges and the corresponding recommendations are summarized in the Table at the end of the Executive Summary. The project lifecycle dimensions covered in this assessment are (a) planning, preparation, and selection; (b) efficiency and VfM; (c) fiscal sustainability; and (d) procurement. Additionally, the principles of climate change-resilience and transparency are also incorporated into the analysis. Furthermore, SOE capacity in terms of service provision is analyzed, and an analysis of the digital sector is conducted.

Project Lifecycle

8. **Across the government, reforms should start with improving project development capacity, regardless of the financing mechanism of the project.** Strengthened project development, appraisal, and selection would help ensure that projects increase societal value. While the PIM legal framework broadly aligns with international best practice, its implementation does not fully serve the intended purpose, particularly with respect to project selection and prioritization. Until recently, regulation of PPPs/concessions only involved the procurement process.⁸ Effective implementation of a proposed new law may better result in projects that are sustainable and increase overall public welfare, balancing financial and nonfinancial considerations. Weak institutional functions and limited supporting regulations, methodologies, guidelines, and technical capacity in all relevant agencies—and poor integration with the publicly financed pipeline and the budget process—are some of the challenges.

9. **Public investment management in Tajikistan is fragmented and results in poor quality projects.** Investment in public infrastructure is split into four different sub-systems: (a) state budget-funded investments; (b) donor-funded investments; (c) the PPP program; and (d) foreign direct investment (FDI) or grants. The decision-making process around these various sources of financing is managed by different

⁸ Order of Government No. 161, 2018; and Order of Government No. 358, 2021.

government bodies without proper coordination or unified oversight. Three agencies—the Ministry of Economic Development and Trade (MoEDT), the Ministry of Finance (MoF), and the State Committee on Investment and State Property Management (SCISPM)—along with various line ministries have different responsibilities within these sub-systems. Investment proposals are consolidated into the five-year public investment program (PIP) to that guides the sub-set of state- and donor-funded projects,⁹ exclusive of investments that could potentially be financed from other sources (such as PPPs and FDI). While the PIP is theoretically underpinned by a unified framework for selecting and developing public infrastructure, in practice, budget- and donor-funded projects still undergo separate processes. Moreover, the quality assurance process and strategic prioritization of budget-funded projects is weak or non-existent (outside of the interested line ministry), resulting in the PIP becoming a lengthy wish list of potential projects seeking external funding (whether from grants or loans), rather than a strategically formulated program of high-priority public infrastructure investments. Given limited capacity to scrutinize projects for value for money and sustainability, the MoF asks each line ministry to select two to three priority projects for budget funding, with the remaining projects returning to the PIP for possible later resubmission. Maintenance costs are not required to be explicitly included in public investment development and funding for projects from the budget or financed from donors, limiting economic efficiency across the lifecycle of projects. The monitoring of project execution is still in its infancy.

10. While the regulatory framework for PPPs exists, the use of PPP projects has been limited.

Challenges include a lack of bankable projects, absence of dedicated project preparation funds, limited government capacity, and a lack of awareness on PPPs among official stakeholders. Moreover, a strong PPP pipeline requires national development and infrastructure planning processes and a strong PIM system. However, there is no systematized sector investment planning and no consistent sector policies to guide infrastructure investment strategy in general. The government lacks a clear strategy for application of PPPs, identification of priority sectors, or a clear understanding of the challenges in the framework, hindering attraction of the private parties or a solid path to increase the modest transaction record in the future. More work is needed to ensure that the PPP mechanism is used properly. The prevalence (six of nine existing projects) of unsolicited proposals (USPs) in the PPP portfolio underscores the modality's low profile for delivering effective infrastructure services. Instead, PPPs are often used to generate revenues for the government (some PPPs have a concessionaire payment to the grantor) and often used for commercially attractive deals, missing strategically important and socially needed projects not financially viable without government support. A PPP Center resembles more of an investment promotion agency as opposed to a policy developing and implementing body that enables private sector participation in infrastructure. Two laws in the field (Concession Law and PPP Law) create misalignment in terms of project selection and procurement. A new draft PPP Law that, among other things, amalgamates the two laws may help resolve some of these challenges.¹⁰ Foreign direct investment, governed by the new Investment Law, has funded some infrastructure investments but its potential appears limited given the country's weak investment climate, limited market size, and security concerns.¹¹

⁹ Although this is prescriptively accurate, in fact the PIP is overwhelmingly (more than 96 percent) composed of donor-funded initiatives.

¹⁰ At the time of this assessment, the draft law was being reviewed by the government and the World Bank did not have access to the draft.

¹¹ The law "On Investment Activities" was approved by the Tajikistan Parliament and signed into law by the President of Tajikistan, replacing the previous (2007) law on investment activities.

Transparency and Climate Change

11. **Tajikistan, highly vulnerable to climate-change effects and disaster risks, has made considerable progress in supporting the global climate-change agenda and is well integrated in the international climate-change institutional architecture.** Since 1998 it has ratified all the key international agreements on climate change. Its Committee on Environmental Protection (CEP) is the primary oversight agency for environmental impact assessments (EIAs), climate-related considerations in infrastructure, and for promoting a unified state policy on environmental protection. While regulations are aimed at ensuring that EIAs are conducted in an orderly and consistent manner, it is unclear whether these assessments adequately assess climate-change resilience. The CEP outsources EIAs to other sectoral institutions and double checks them, including the conclusions which could call for relocating or cancelling of a project. Apart from developing climate-change mitigation and adaptation strategies and plans, the government is building the institutional capacity to address climate-change considerations throughout the infrastructure project lifecycle.

12. **The availability of budget data and transparency of the budget process has improved but is still constrained by the limited collection of consolidated government financial statements.** Tajikistan has prioritized actions to improve budget transparency in recent years and has seen corresponding advances in its international rankings. The Court of Accounts (CoA), Tajikistan's supreme audit institution, has published audit reports and some audited financial statements of a few public entities on its website, and initial steps are being taken to retroactively publish previous reports. While this represents some progress, the reach of the CoA is currently constrained by legal limitations and a lack of consolidation of audit information. Specifically, the CoA does not currently audit annual financial statements of the relevant line ministries and agencies under its remit and cannot produce a comprehensive external audit report of the consolidated annual financial statements of the government sector. The MoF also does not collect consolidated information, and audits are not required under any regulatory framework or law in Tajikistan. There is also room for improvement to ensure cohesive public participation and civil engagement in the budget process. The ability for the public to participate in the budget process is subpar as there is no avenue for it to engage with the formulation of the budget, or to provide feedback on budget implementation. This is particularly restrictive for vulnerable and minority groups (by a wide margin, Uzbeks, followed by Kyrgyz), and/or nongovernmental and civil society organizations that represent such groups, limiting their ability to press for spending in infrastructure and other sectors reflecting their needs and priorities.

Service Delivery and Governance of State-Owned Enterprises

13. **Despite considerable improvements in the governance framework for SOEs, their management in Tajikistan is still characterized by a lack of transparency, inefficiencies, and weak corporate governance.** The SOE portfolio is large (631 entities) but there is no centralized ownership policy. Financial reporting is complex, and no single authority has a full overview of the entire SOE sector. SOEs pose considerable fiscal risks, particularly because of their quasi-fiscal deficits.¹² Financial oversight from the MoF is formalistic and limited to the 27 largest SOEs, while there are 100 wholly owned SOEs monitored

¹² Quasi-fiscal activities refer to operations that result in a net transfer of public resources to the private sector through nonbudgetary channels (e.g., utility companies that provide services at prices below cost-recovery levels); unreported, they distort a government's true fiscal position.

by the State Committee on Investment and State Property Management (SCISPM). SOEs in key infrastructure sectors, such as energy and transport, are consistently loss-making, reflecting underpricing, operational inefficiencies, and high debt burdens. Limited accountability and oversight weaken the incentives of SOEs to perform in the best interest of the public. An uneven playing field undermines private participation in the provision of services. There is significant potential for enhancing the service delivery of SOEs, particularly in the water, digital, and transportation sectors, where SOE service delivery is below regional standards. It is therefore important for the government to determine SOE viability and sustainability, in order to earmark those for restructuring, privatization, or winding-up.

Deep Dive in the Aviation sector

14. **Tajikistan's air connectivity is key to its economic development, but there are several major challenges in delivering quality infrastructure services in the aviation sector.** While Tajikistan has undertaken a series of aviation sector reforms in recent decades, multiple transport-related indices have rated Tajikistan's air connectivity and logistics poorly, compared with both regional and global benchmarks. Inadequate quality of airports and related infrastructure assets in the country's outlying regions, unaffordable tariffs, limited flights, and a lack of subsidies all contribute to poor domestic air connectivity, a fundamental problem in a country with an underdeveloped road's system. The country's geographical location could enable it to become a regional transit hub once its airports are expanded to accommodate bulk airfreight and passenger transfers but there is no strategic planning in this sector. Limited competition renders Tajikistan's air transport system expensive and inefficient. SOEs have monopoly control of air traffic safety control and navigation services, air fuel provision, the sale of air tickets, and in-flight catering services. The current regulatory model in the aviation sector does not incentivize cost efficiency, permitting these SOEs to earn up to a 35 percent profit margin, transferring costs downstream to consumers regardless of their economic justification. As a result, airfares from the country's capital, Dushanbe, are the highest in the region. Contractual arrangements between the government and the private sector could address many pressing airport infrastructure investment needs. However, the country's weak business environment and gaps in the legislative framework for PPPs severely limits private sector participation. For any investment to produce a good outcome, Tajikistan needs to strengthen its public investment management and prevent distorted decision-making. Strong corporate governance of contractors, including SOEs, is also crucial for the efficient and effective delivery of public investment and services. This report notes that Tajikistan has many opportunities to improve efficiency and quality of services in the aviation sector which can be attained if there is a comprehensive aviation policy and strategy in place interlinked and embedded with a transport sector strategy.

Tajikistan Infrastructure: Challenges, Recommendations, Timelines, Priorities, and Actors

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
A solid legal framework and the institutional capacity to plan, assess, prioritize, and select infrastructure projects is crucial in ensuring a coordinated infrastructure investment program				
<ul style="list-style-type: none"> While the PIP is theoretically underscored by a unified framework for selecting and developing public infrastructure, in practice, budget- and donor-funded / financed projects still undergo separate processes. The public investment system is misaligned and fragmented, and there are dispersed mandates over the various avenues of funding. The PIP is almost exclusively donor-funded/financed, highlighting the challenges Tajikistan faces to attract other financing sources. Gaps in the current PPP legislation and low capacities for PPPs preclude fully leveraging the PPP modality. The role of the PPP Center resembles more of an investment promotion agency as opposed to a policy developing and implementing body that enables private sector participation in infrastructure. There is limited consideration of climate-change resilience in project appraisal and selection processes. 	<ul style="list-style-type: none"> Collaborate with line ministries to develop a more cohesive and strategic pipeline (PIP) of future projects based on strategic need rather than available financing, and ensure that the projects within the PIP are quantitatively categorized based on (a) strategic importance; (b) economic justification; (c) social impact; and (d) financing sources and sustainability (including total cost of ownership). 	MT	High	MoEDT
	<ul style="list-style-type: none"> A Presidential Decree/Order of Government should redefine the institutional role of MoEDT as the lead agency responsible for developing the PIP and leading the selection and prioritization process of projects, in collaboration with line ministries. 	ST	High	MoEDT
	<ul style="list-style-type: none"> A Presidential Decree/Order of Government should clarify the role of the MoF as the traditional “fiscal gatekeeper” of the budget preparation process and avoid circumventing the role of MoEDT in filtering and selecting projects for budget funding. 	ST	High	MoEDT & MoF
	<ul style="list-style-type: none"> Build capacity through tools and workshops in line ministries to develop sufficient project proposals and feasibility studies. 	MT	Medium	MoF
	<ul style="list-style-type: none"> The government should formulate a strategic agenda for PPPs that starts with incorporating PPPs in the PIP. 	ST	High	SCISPM & MoF
	<ul style="list-style-type: none"> Require the incorporation of climate-change considerations into project appraisal and set clear and transparent guidelines and requirements for a climate-informed project appraisal and selection. 	MT	High	MoEDT & MoF

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Economic efficiency and VFM over the infrastructure lifecycle should be important criteria in the choice of infrastructure investments				
<ul style="list-style-type: none"> Maintenance costs are not required to be explicitly included in public investment development and financing for projects funded from the budget and from donors, limiting economic efficiency across the lifecycle of projects. The underdeveloped PPP portfolio has contributed to a lack of consideration on how the involvement of the private sector could enhance the economic efficiency and VfM for public infrastructure projects. 	<ul style="list-style-type: none"> Require explicit classification of recurrent and capital costs in project proposals, particularly within project concept notes and feasibility studies for high-risk projects. Raise awareness of PPPs and build capacity of line ministries to recognize and identify potentially suitable PPP projects and move away from a reliance on USPs, including with the creation of a project preparation fund. 	ST	High	MoF
		MT	Medium	MoF & SCISPM
Fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their lifecycle				
<ul style="list-style-type: none"> Project proposals submitted for budget funding are not required to be justified by any prefeasibility studies, which has adverse impact on the fiscal sustainability of projects. Given the domination of the Rogun HPP on the state budget, almost all other public infrastructure projects must seek donor-funding/financing sources. The prevalence of USPs in the portfolio, including as a major form of PPP identification, indicates that the government does not prioritize PPPs as a primary means of delivering infrastructure services. Fragmented systems for monitoring project execution make it difficult to accurately assess the fiscal affordability of projects throughout their life cycle. 	<ul style="list-style-type: none"> Expand and strengthen the Investment Project Registry, including an assessment of what information this database contains and monitors, and what features need to be improved to consolidate all project information from all funding sources. Fully integrate PPPs in the budgetary cycle to ensure unity and comprehensiveness of the public budget to support this modality; develop accounting and reporting mechanisms for PPPs; and ensure disclosure of information on PPP-related public liabilities. Develop guidelines and manuals to aid the project preparation process, and build the capacity of the PPP Center as the key coordinator and facilitator of the PPP program and across line ministries to fulfill its roles of project originator and implementor. 	MT	Medium	MoEDT & SCISPM
		MT	High	MoF & SCISPM
		MT	High	SCISPM & MoEDT
Public Procurement for infrastructure projects should be efficient, transparent, and support competition				
<ul style="list-style-type: none"> The draft Public Procurement law does not address potential conflicts of interest that may arise from the interdepartmental board. The dual regulatory framework for PPPs (Concession and PPPs laws) enables discretion in terms of procurement modalities. 	<ul style="list-style-type: none"> Create a separate and independent body to handle procurement complaints. Adopt the draft PPP law (which combines the concession and PPP laws), eliminating the duality of the framework (including for procurement). 	ST	Medium	GoRT
		ST	Medium	GoRT

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Incorporating environmental and climate-change considerations is important to ensure sustainable and resilient public infrastructure				
<ul style="list-style-type: none"> It is unclear whether the environmental impact assessments adequately assess climate-change resilience. The government is building the institutional capacity to address climate-change risks, but this is still in its preliminary stages. Increased attention must be given to the risks of climate change in public infrastructure projects. 	<ul style="list-style-type: none"> Reinforce efforts to integrate climate change in infrastructure planning by incorporating climate-change consideration into the environmental risk assessments required by law for every infrastructure project. 	ST	High	CEP
	<ul style="list-style-type: none"> Build capacity on climate-change mitigation and adaptation in CEP by establishing and deepening collaboration with leading international policy and academic institutions. 	ST	High	CEP
	<ul style="list-style-type: none"> Undertake a data readiness exercise for gaps in monitoring and screening infrastructure projects for climate-change risks. 	ST	High	CEP & CES
	<ul style="list-style-type: none"> Ensure adoption of annual climate-change action plans. 	MT	High	CEP
Strengthening budget accountability and transparency can promote better infrastructure strategies and projects				
<ul style="list-style-type: none"> There is still room for improvement in the budget process to ensure cohesive public participation and civil engagement. CoA has taken steps to improve transparency and accountability; however, it is constrained by the limited collection of consolidated government financial statements. 	<ul style="list-style-type: none"> Modify and amend CoA legislation to strengthen its mandate and scope. 	ST	High	CoA
	<ul style="list-style-type: none"> Require all ministries and agencies to submit annual financial statements to MoF. 	ST	High	MoF
	<ul style="list-style-type: none"> Ensure CoA has the needed information to audit all annual financial statements of all ministries and agencies. 	ST	High	CoA & MoF
	<ul style="list-style-type: none"> Develop an action plan to strengthen public participation in the budget, especially for the identification of investment needs or priorities. 	ST	High	MoF

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
The governance of SOEs should be transparent and efficient, with strong corporate governance mechanisms in place				
<ul style="list-style-type: none"> The governance of SOEs is still characterized by a lack of transparency, inefficiencies, and weak corporate governance. There is no centralized ownership policy for SOEs. The practice of financial reporting is complex, and no single authority has a full overview of the entire SOE sector. While SCIMSP has a prominent role in relation to public enterprises, the institution lacks capacity and policy instruments to fully act within its remit, particularly as far as state unitary enterprises are concerned. MoEDT plays a role in contributing to the SOE reforms, but its functions remain largely formalistic. Transparency and accountability in SOEs are lacking because of insufficient public disclosure of financial information. 	<ul style="list-style-type: none"> Develop and approve an SOE ownership policy and centralize the oversight function which is now led by the Executive Office of the President, MoF, SCIMSP, and line ministries. 	ST	High	MoF & SCISPM
	<ul style="list-style-type: none"> Broaden MoF oversight of SOE financial performance and fiscal risks to include all SOEs or at least a greater number of large SOEs. 	MT	High	MoF & SCISPM
	<ul style="list-style-type: none"> Ensure that SOEs publish their financial statements and audit reports. 	ST	High	MoF
	<ul style="list-style-type: none"> Publish annual aggregated and/or consolidated reports on the SOE portfolio's performance. 	ST	High	MoF & SCISPM
	<ul style="list-style-type: none"> Develop a comprehensive, multiyear action plan for better SOE governance. 	ST	Medium	MoF & SCISPM
	<ul style="list-style-type: none"> Ensure increased transparency about, and public access to, information on SOE performance and service delivery. 	ST	Medium	MoF & SCISPM
	<ul style="list-style-type: none"> Increase SOE commercialization and private sector participation in renewable energy, transport, and water sectors. 	MT	High	GoRT

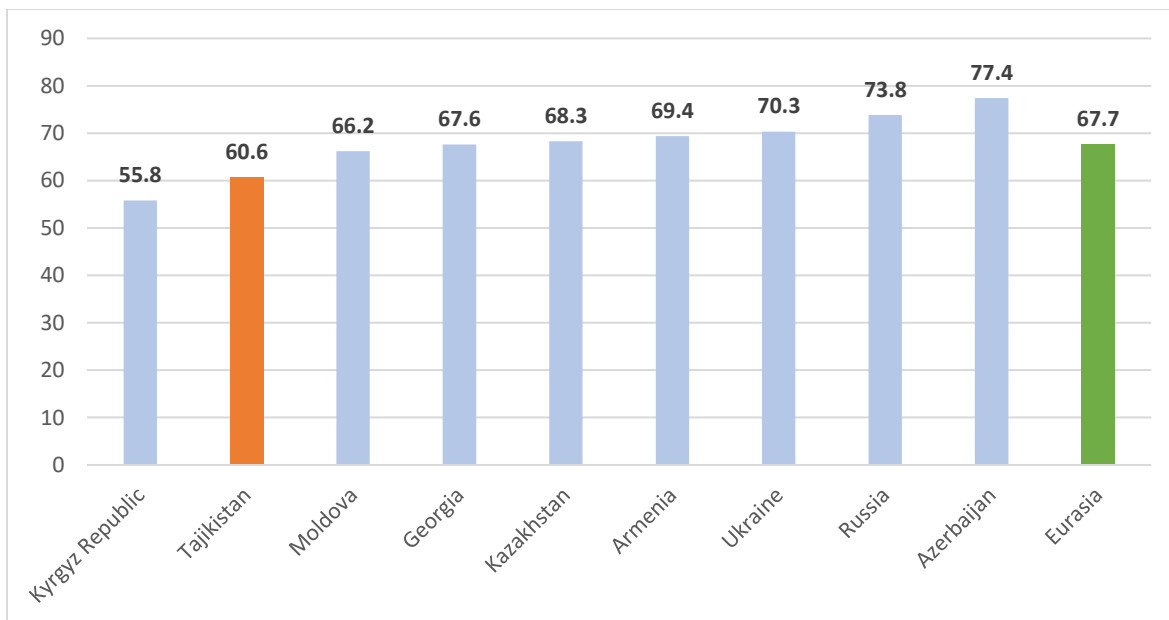
CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Good governance and strong competition in the aviation sector can support the delivery of high-quality infrastructure services				
<ul style="list-style-type: none"> • The lack of strategic planning for infrastructure needs is impacting the aviation sector. • The current regulatory model in the aviation sector does not incentivize cost efficiency. • Air transportation services remain unduly costly. • The country has taken steps toward the gradual liberalization of international aviation travel, but market access remains restricted, adversely impacting connectivity and airfares. 	<ul style="list-style-type: none"> • Align the institutional and regulatory framework (particularly regarding safety) in aviation with international best practices. 	MT	High	CAA
	<ul style="list-style-type: none"> • Prioritize initiatives to expand market access to key aviation subsectors, focusing on market access extensive margin (number and types of routes that could be operated), intensive margin (traffic rights, which set the maximum capacity allowed, given by frequency and the type of aircraft that could be used), and the level of market competition (number of carriers allowed per route). 	ST	High	CAA
	<ul style="list-style-type: none"> • Increase and prioritize investments in airport infrastructure, and enhance service delivery to focus on maintaining levels of service for passengers (especially Dushanbe at busy hours), improving its compliance with local and global safety and industry accreditation standards, and invest in staff building capacity. 	ST	High	GoRT

I. Introduction

Access to quality infrastructure services is limited and highly dependent on geographical location

1. **Despite some improvements in recent years, overall access to quality infrastructure services has remained limited in Tajikistan.** Tajikistan's infrastructure is substandard, despite gradual improvements in the past 20 years. Inadequate infrastructure, particularly in energy and transport, has contributed to the high trade costs, restricting the country's access to nearby markets, such as China and Afghanistan. Deteriorating Soviet-era infrastructure such, as irrigation channels, electricity transmission and distribution networks, roads, dams, bridges, and river embankments, has increased the populace's exposure to risks associated with extreme weather events and earthquakes.¹ The existing drinking water infrastructure, predominantly built before the 1980s, is now in poor condition and very inefficient, with technical water losses estimated at 60 percent on average.² Overall, the quality of infrastructure in the country remains one of the lowest in the region, according to the World Economic Forum (2019) as shown on Figure 1.

Figure 1: Quality of Infrastructure Scores



Source: Global Competitiveness Report, World Economic Forum (WEF), 2019.

2. **The inadequate quality and scale of infrastructure in Tajikistan poses a development challenge and presents health and environmental risks.** Although electricity is almost universally available, there are frequent and widespread outages. Currently, Tajikistan cannot guarantee to fully meet the domestic demand for electricity, the primary source of energy, especially during the winter months. Market accessibility mapping highlights the lack of infrastructure integration outside the largest cities. In 2019, in

¹ <https://www.oecd-ilibrary.org/sites/5c0e575a-en/index.html?itemId=/content/component/5c0e575a-en>

² <https://documents1.worldbank.org/curated/en/962981557781100857/pdf/Tajikistan-Country-Partnership-Framework-for-the-Period-of-FY19-FY23.pdf>, page 23.

rural areas, 21 percent of the population still relied on surface water as their main drinking water source, and 90 percent of the rural population was reliant exclusively on outdoor pit latrines. In 2019, almost 90 percent of waste disposal sites did not meet sanitary epidemiological norms.³

3. Insufficient infrastructure also exacerbates Tajikistan’s vulnerability to climate change. Tajikistan’s terrain and geological and hydrological features make it prone to many natural hazards such as floods, earthquakes, and landslides. Environmental degradation and deteriorating infrastructure have increased the population’s vulnerability to extreme weather events and seismic risks. As Tajikistan is regularly affected by natural disasters that tend to isolate communities for extended periods, air connectivity also serves as a critical lifeline for emergency situations. The country’s reliance on agriculture, the main employer in the economy, and hydropower makes the economy directly vulnerable to climate change.⁴

The country has limited fiscal space to respond to a large infrastructure gap

4. Tajikistan’s development strategy relies on large infrastructure projects. The remaining construction of the Rogun HPP is projected to cost \$6.1 billion (58 percent of 2022 GDP, in current US\$), with expected completion by 2035. The project will become the main pillar of Tajikistan’s electricity system and has significant potential to contribute to the decarbonization of electricity systems in Central Asian countries. Other large projects underway include the construction of the Turkmenistan-China gas pipeline (part of the Belt and Road Initiative) and the modernization of the TALCO aluminum plant.⁵ The National Development Strategy 2030 puts the highest priority on improving connectivity-related infrastructure at both the domestic and regional level.⁶ Public investment in Tajikistan has been dominated by energy and transport projects, identified in Figure 2.

³ <https://www.adb.org/sites/default/files/linked-documents/taj-cps-2021-2025-ld-01.pdf>

⁴ Tajikistan Systematic Country Diagnostics

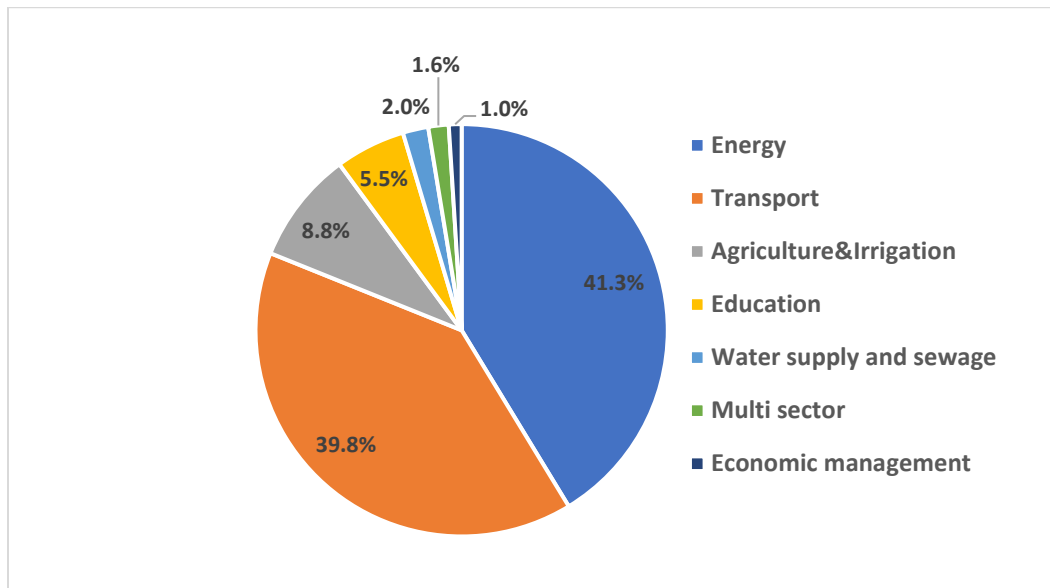
<https://documents1.worldbank.org/curated/en/680151528479302248/pdf/TJK-SCD-WEB-v300518-06052018.pdf>

⁵ IMF, Republic of Tajikistan: 2019 Article IV Consultation-Press Release and Staff Report, 2021

<https://www.imf.org/en/Publications/CR/Issues/2021/09/01/Republic-of-Tajikistan-2019-Article-IV-Consultation-Press-Release-and-Staff-Report-465051>

⁶ <https://documents1.worldbank.org/curated/en/680151528479302248/pdf/TJK-SCD-WEB-v300518-06052018.pdf>

Figure 2: Shares of Public Investment Projects Implemented by 2021 in Tajikistan



Source: Annex 1 to the Republic of Tajikistan Order of Government No. 358, 2021.

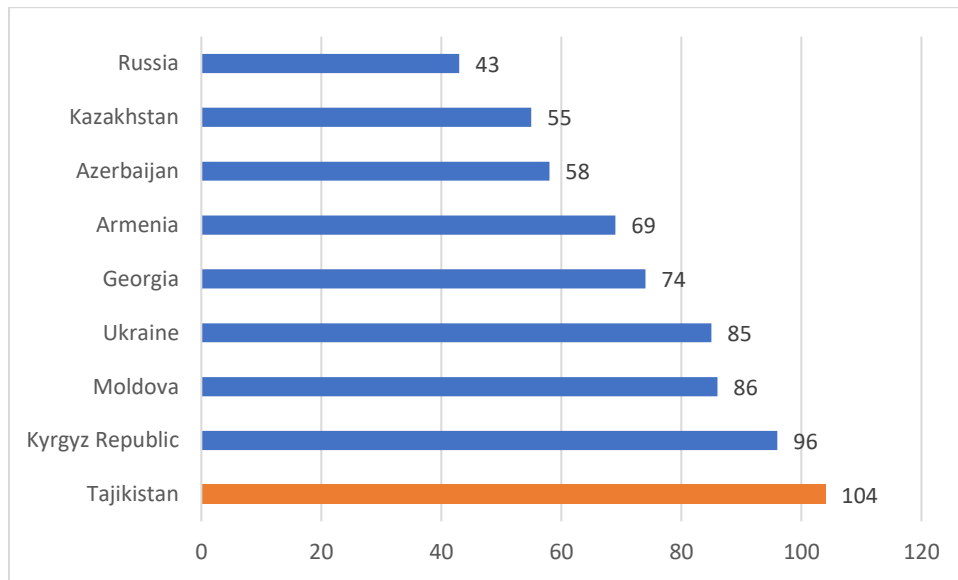
5. **Despite these investments, the economy faces large infrastructure gaps that constitute a constraint on the competitiveness of the economy, especially in the transport sector.** Tajikistan has one of the world's highest trade costs, reflecting its landlocked remoteness, inadequate transport infrastructure, and limited logistics support, which undermine the country's competitiveness and restricts access to nearby markets such as China and Afghanistan. In 2019, 83 percent of the roads in Tajikistan were unpaved.⁷ For a country with underdeveloped road networks (and mountains where roads are often impassable during winter), air connectivity is key to its economic development. However, air transport and civil aviation services are underdeveloped. Tajikistan's air transport system is expensive and inefficient, a consequence of limited competition. The country ranked 91 of 141 countries in the infrastructure subindex of the World Economic Forum's 2019 Global Competitiveness Index⁸ (see Figure 3), 111 on transport infrastructure, and 121 on airport connectivity. In 2023, the World Bank Logistics Performance Index also ranked Tajikistan 97 of 139 surveyed countries overall and 80 on trade and transport-related infrastructure.⁹

⁷ Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus, 2019
<https://www.oecd-ilibrary.org/sites/5c0e575a-en/index.html?itemId=/content/component/5c0e575a-en>

⁸ https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

⁹ <https://lpi.worldbank.org/>

Figure 3: Global Competitiveness Index Ranking, 2019



Source: WEF, 2019.

6. **Public investment is high but inefficient, while debt vulnerabilities are rising.** The IMF estimates that public investment relative to gross domestic product (GDP) is the highest in the Caucasus and Central Asia region, while its quality is below the average for the region. The fiscal deficit is expected to remain high given the plans of the Government of the Republic of Tajikistan (GoRT) to increase spending on Rogun HPP and other large infrastructure projects through the state budget. While public investment in infrastructure has grown over the past five years, there is little fiscal space to continue such growth in investment and limited room to accommodate larger fiscal deficits without exerting upward pressure on public debt-to-GDP ratios. The scope for increasing tax efforts is also limited. This leaves a significant gap in investment and means that added emphasis is required to ensure that (a) the efficiency of public investment is maximized, and (b) private financing is crowded-in, particularly in the transport and energy sectors.¹⁰

External financing covers much of the total public investment but there is still a significant gap in infrastructure financing

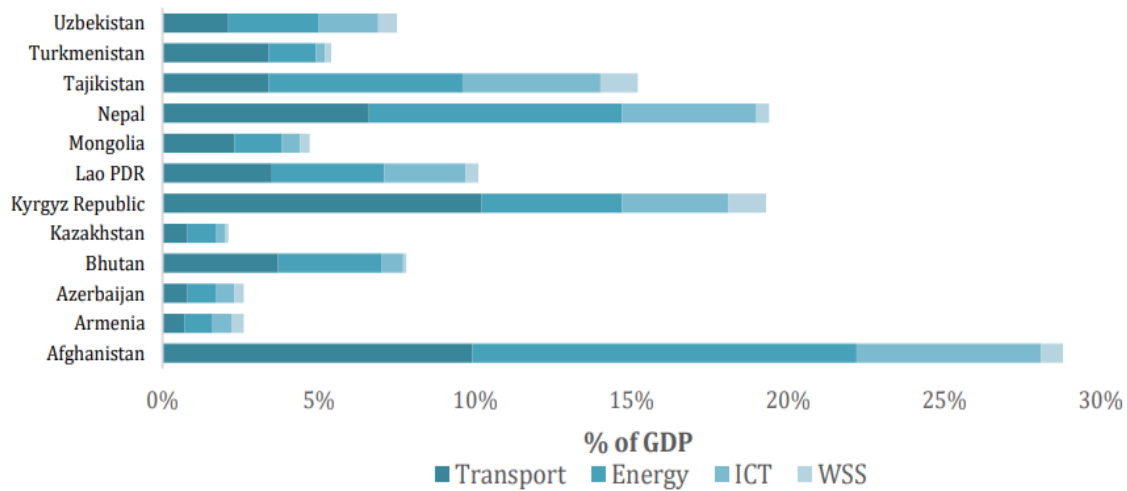
7. **Tajikistan's infrastructure needs in the next decade are among the highest in the region and, to date, they have mostly been covered with support from external partners.** As estimated by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP),¹¹ the 2019-2030 financing requirements needed to close the infrastructure gap in the transport, energy, ICT, and water and sanitation (WSS) sectors are estimated at about 16 percent of GDP per year (see Figure 4, with comparison to other UNESCAP Central Asian landlocked developing countries/LLDCs). Building productive infrastructure assets and improving service delivery will reduce costs for firms and improve competitiveness and thus bolster GDP growth over the medium to long term. Better transport infrastructure will be also essential for Tajikistan to successfully pursue an export-oriented growth

¹⁰ Tajikistan–World Bank Group Country Partnership Framework 2019-2023.

¹¹ UNESCAP 2022, Infrastructure Financing in Tajikistan.

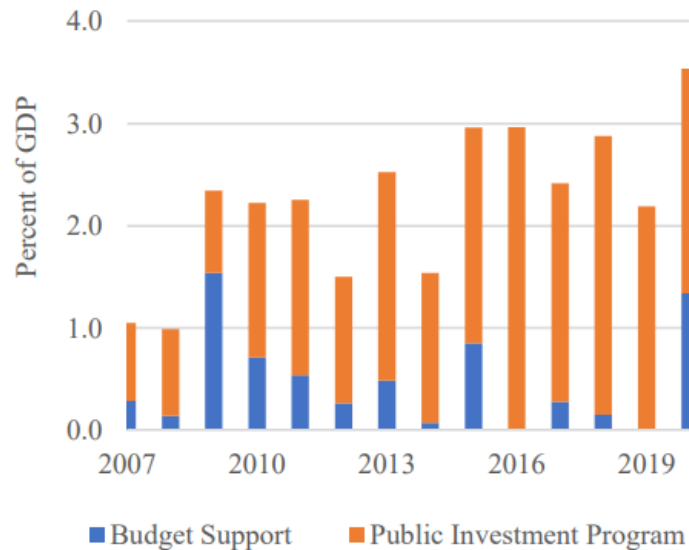
strategy, which contributes to its sustainable development given the small size of the domestic market. Donors—both multilateral and bilateral—have provided grants and loans to support the country in developing its physical infrastructure and to finance the general budget deficit. Public investment grants contributing to the country’s public investment program (PIP) equaled an average of 2.4 percent of GDP over 2016-2020, up from 1.1 percent in 2008-2010. In 2016-2020, public investment grants accounted for 87 percent of total grant support (see Figure 5).¹²

Figure 4: Infrastructure Financing Needs in Central Asian and Asian LLDCs, 2019-2030



Source: UNESCAP 2022, Infrastructure Financing in Tajikistan.

Figure 5: Donor Grant Support to Tajikistan, 2008-2020



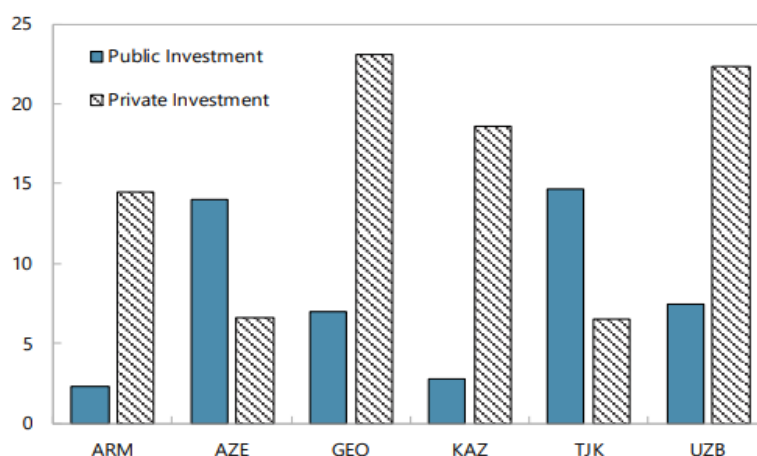
Source: World Bank Tajikistan Public Expenditure Review, 2021.

¹² World Bank, Tajikistan Public Expenditure Review, 2021. <https://documents1.worldbank.org/curated/en/099205106242240623/pdf/P172237055d557050b3d502de92e8761c2.pdf>

To meet the country's growing infrastructure spending needs without undermining debt sustainability, Tajikistan needs to attract private financing of infrastructure projects by improving the investment climate and governance

8. **Squeezed by the large presence of the state and an unpredictable playing field, the private sector in Tajikistan has remained underdeveloped and has played a limited role in the economy.** While Tajikistan has a well-developed regulatory framework for investment, the poor implementation of these regulations has led to an unpredictable and nontransparent operating environment for investors. For example, businesses are required to make irregular advance tax payments, and are often fined through retroactive tax audits.¹³ Very few new businesses are created each year. Existing private firms are mostly small and do not realize their potential across the full lifecycle, while the informal sector of the economy is large and growing. Formal employment in the private sector represents 13 percent of total employment. Private investment has averaged only 4.4 percent of GDP since 2000, well below the Commonwealth of Independent States average investment rate of 21 percent.¹⁴ When compared to selected UNESCAP Central Asian countries, Tajikistan is also one of only two in which public investment is outpacing private investment (see Figure 6).

Figure 6: Public vs. Private Investment in Tajikistan and Selected UNESCAP States (Share of GDP, 2018)



Source: IMF, Republic of Tajikistan: 2019 Article IV Consultation-Press Release and Staff Report, 2021.

9. **Good economic governance in areas such as regulations, business licensing, and taxation is crucial for private sector development.** The 2019 World Bank Enterprise Survey identified the tax regime and tax administration as obstacles in the business environment. In addition, the “time tax” imposed by regulations in Tajikistan, which is the percentage of time spent by senior management dealing with regulatory compliance, was higher than the average indicator for the World Bank’s Europe and Central

¹³ <https://www.oecd-ilibrary.org/sites/5c0e575a-en/index.html?itemId=/content/component/5c0e575a-en>

¹⁴ World Bank, Tajikistan Systematic Country Diagnosis 2018: <https://documents1.worldbank.org/curated/en/680151528479302248/pdf/TJK-SCD-WEB-v300518-06052018.pdf>

Asia region and for low-income countries.¹⁵ These findings are consistent with other surveys, including the World Economic Forum Global Competitiveness Index, where Tajikistan, in 2019, ranked 127th of 141 countries surveyed for the incidence of corruption, 106th for administrative requirements for businesses, and 120th in innovation capability.¹⁶ It should be noted that on January 1, 2022, a new edition of the Tax Code was adopted and made effective. Supported by the World Bank, the updated Tax Code now includes principles on tax certainty, fairness, and transparency, with the goal of simplifying and streamlining tax administration in Tajikistan.

10. **Aiming to support the Government of Tajikistan in improving its quality of infrastructure services, the World Bank conducted a diagnostic assessment, applying a governance lens, through the InfraGov assessment framework (see Annex 1 for the InfraGov methodology).** The assessment provides a high-level overview of the widespread issues facing the governance of infrastructure in the country, as well as actionable recommendations. This report presents the findings and recommendations of the InfraGov assessment in the next sections. Chapter II presents the results of the assessment of Tajikistan’s infrastructure performance and governance according to seven of the InfraGov’s 11 dimensions. Chapter III analyzes the aviation sector, given its criticality to Tajikistan’s growth path. Annex 2 assesses progress against previously identified key challenges moving forward, while Annex 3 provides a glossary of relevant public infrastructure-related terms used in this report.

II. Infrastructure Performance and Governance

11. **The following section identifies the key governance challenges within each InfraGov dimension assessed in this report and provides actionable recommendations.** The assessment covers the four project lifecycle dimensions of planning, preparation, and selection; efficiency and value for money (VfM); fiscal sustainability; and procurement; while also applying the cross-cutting principles of climate-change resilience and transparency, and the service provision dimension of SOE capacity.

A. Project Lifecycle

State of Play: Public and Private Investment in Infrastructure

12. **Public infrastructure in Tajikistan is financed through a variety of sources.** Investment in public infrastructure in Tajikistan is currently devolved into four different sub-systems: (a) the state budget-funded investment program, (b) the donor-funded/financed public investment program (PIP); (c) the public-private partnership (PPP) program; and (d) foreign direct investment (FDI) or grants.

13. **The decision-making process around these various sources of funding and financing for public infrastructure development are managed by different government bodies.** Three agencies—the Ministry of Economic Development and Trade (MoEDT), the Ministry of Finance (MoF), and the State Committee on Investment and State Property Management (SCISPM), along with various line ministries, have

¹⁵ World Bank Enterprise Survey 2019. N.B.: In the World Bank’s 2020 income classification, Tajikistan moved into the lower-middle-income ranks (without, however, any dramatic change in its infrastructure challenges), because “a large increase in exports of gold led to an increase in GDP and in Atlas GNI per capita.” See <https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2021-2022>

¹⁶ World Economic Forum 2019, Global Competitiveness Report 2019.

different responsibilities within these sub-systems. MoEDT is the primary agency responsible for the development of the PIP, which is the primary document consolidating public infrastructure needs in Tajikistan. Formally, the MoEDT's functions include (a) collecting project proposals from sectoral ministries and subnational regions; (b) prioritizing projects based on three nonformalized criteria: political, technical, and financial; (c) assessing project cost estimates; (d) preparing a draft list of proposals for public investment to be submitted to the MoF; and (e) ensuring that the overall investment portfolio does not exceed the investment expenditure ceiling set by the MoF at the initial stage of budget preparation. The MoF is responsible for development and execution of fiscal policy, treasury management, budget preparation and implementation, internal audit, and accounting and reporting. The MoF also sets the investment expenditure ceiling at the initial stage of annual budget preparation, based on the priorities indicated by line ministries. SCISPM is the investment arm of the government, which attracts and facilitates investments in the economy through the PPP mechanism and FDI.

14. **Investment proposals are consolidated into the five-year public investment program (PIP) to guide state- and donor-funded/financed projects;¹⁷ the PIP does not include investments that could potentially be financed from other sources (such as PPPs and FDI).** The PIP aims to help the government (a) meet its strategic targets, (b) achieve the United Nations' Sustainable Development Goals by mobilizing external financial resources for the priority sectors of the national economy, and (c) identify new sources of financing outside the state budget. It is intended to serve as a unified framework for selecting and developing public investment. The PIP includes projects with confirmed funding and/or financing, projects with partial confirmation (projects under negotiation), and new proposals for grants and technical assistance, which are opened for donor/investor financing. In 2016, a five-year PIP framework replaced the previous three-year program, with the primary objective of guiding both the government and donors in identifying the most important points of intervention during that period. The list of the projects is updated annually based on the Government Resolution "On Amendments to the 2016-20 State Investment Program."¹⁸

15. **PPPs in Tajikistan are governed by the PPP Law¹⁹ and the Concession Law.²⁰** The PPP law provides a framework for collaboration between the public and private sectors in the delivery of public services, including infrastructure development, maintenance, and operation. PPP projects are typically structured as long-term partnerships between the government and private sector partners, where risks and rewards are shared between the parties (see Box 1 for the definition around PPP models). The PPP law allows for a range of procurement methods, including build-operate-transfer, build-own-operate-transfer, and build-own-operate. In contrast, the concession law provides a framework for the government to grant concessions to private sector partners to develop and operate public infrastructure assets for a specified period. Concession agreements are typically structured as a lease of public assets to the private sector

¹⁷ Although this is prescriptively accurate, in fact the PIP is overwhelmingly (more than 96 percent) composed of donor-funded initiatives.

¹⁸ <https://www.worldbank.org/en/country/tajikistan/publication/per-2022>

¹⁹ Law of the Republic of Tajikistan on Public-Private Partnership, #907, from December 28, 2012.

²⁰ Note that the legal framework for concessions in Tajikistan has evolved over time, with the most recent law being Law No. 783, "On Concessions," which was adopted in 2017. Two decades earlier, Tajikistan adopted the Law "On Foreign Investment," which established the legal framework to attract foreign investment, including the legal principles for the protection of foreign investment in Tajikistan and guidelines for the regulation of foreign investment activity in the country.

partner, who is responsible for the development, operation, and maintenance of the asset during the concession period. Box 1 provides a definition of these two mechanisms, per the legislation in Tajikistan.

Box 1: Definitions of Concessions and PPPs in Tajikistan

Concession: According to Law 783 “On Concessions,” a concession is a contractual agreement between the state or a state-owned company and a private entity or consortium, under which the private entity is granted the right to operate a public service or implement a public infrastructure project. The concessionaire is responsible for financing, constructing, operating, and maintaining the project; in return, it receives a right to collect revenue from the project, such as user fees or tolls, for a specified period. Therefore, the main source of revenue for the concessionaire is the fees collected from the users of an infrastructure service. The Law on Concessions in Tajikistan defines the rights and obligations of the concessionaire and the state or state-owned company, as well as the procedures for selecting and awarding concession contracts. The law also establishes the legal mechanisms for resolving disputes that may arise during the implementation of a concession project.

PPPs: According to Law 907 on PPPs, adopted in 2012 and amended in 2017, PPPs are defined as a long-term contractual agreement between the government or public sector entity and a private sector partner, in which the private sector partner provides financing, construction, operation, or maintenance services for a public infrastructure project or service. Private partners in a PPP arrangement in Tajikistan can earn revenue from the following sources:

- Fees paid by the government agency or public entity for services provided by the private partner.
- Payments made by end-users of the public services or facilities provided through the PPP project.
- Revenue generated by the private partner from commercial activities conducted through the PPP project, such as leasing or sub-leasing of facilities or equipment.
- Revenue generated from the sale of assets or services related to the PPP project.
- Any other revenue sources agreed upon by the parties in the PPP agreement.

The specific revenue sources available to the private partner will depend on the details of the PPP agreement between the private partner and the government agency or public entity involved in the project.

16. **The PPP Law established a regulatory framework for PPPs as well as institutional arrangements for PPP projects.** It establishes three key levels of decision-makers: the PPP Center housed in SCISPM, the PPP Council,²¹ and the executive branch of the government.²² The PPP Center is tasked with policy development, identification and promotion of the investments, preparation, and contract monitoring during the implementation stage. Projects with an investment value below 20 million Somoni²³ are only reviewed by the line ministry overseeing the project. However, the PPP Center may still provide technical support and advice to the line ministry or agency responsible for reviewing and approving the project. The PPP Council is the key decision-maker in all major milestones of the PPP project development and implementation. Upon review, it either approves or rejects projects from further development. The

²¹ The Council is chaired by the first Deputy Prime Minister and comprises a deputy chairman (from SCISPM), and ministers from the Ministry of Justice, MoF, MoEDT, the Director of the Agency on Construction and the Architecture, and the Chairman of the Committee on Land and Geodesy. The Director of the PPP Center acts as the Secretariat.

²² The PPP Council provides annual reports on its activity to GoRT.

²³ 20 million Somoni = 1.8 million USD.

decision is guided by whether the project is prepared according to the PPP law, supports infrastructure development, and will create a positive impact on economic development.

17. **The current PPP portfolio includes nine projects, of which six are directly negotiated unsolicited proposals (USPs).** The total investment value of the portfolio is around \$34 million. The first contract was signed in 2016²⁴ and the latest commercial close occurred in December 2021.²⁵ Although the PPP Center confirmed that the PPP pipeline contained nearly 100 projects, most of these are in the early initiation stage or just represent a potential project list. The most recent (the 13th) meeting of the PPP Council took place on February 27th, 2023, for a review and discussion of five projects in waste management, drinking water, health, and transport.²⁶ The previous meeting of the PPP Council took place more than two years ago, emphasizing the modest track record and lack of solid proposals worth being presented to decision-makers. Most of these projects are implemented by the local private sector in local currency. Only one project attracted a foreign investor (the Construction of Transmission lines in Danghara). Chinese Shanxi Coal Chemical Corporation won the tender and financed the deal using hard currency (\$22.8 million). Another project implemented by a domestic private operator but financed using hard currency is an electronic payment system in urban transport in Dushanbe (\$2.6 million) by Avesto Group LLC.

Table 1: PPP Projects under Implementation

Sector	Number of projects	Total contract value (USD)
Energy	1	22.8 million
Transport	1	2.4 million
Health and social	5	5.1 million
Communications	1	2.7 million
Education	1	0.8 million
Total	9	33.8 million

Source: State Committee on Investment and State Property Management.

18. **FDI is another source of private investments in infrastructure in Tajikistan** (see Box 2).²⁷ Increasing FDI is a cornerstone of the Government of the Republic of Tajikistan’s private sector-led economic growth strategy, particularly with respect to the infrastructure sector. In 2021, overall FDI doubled to \$342 million, with Chinese investments, which now account for 40 percent of all FDI, increasing by 75 percent, to \$211 million. Iran (\$32.6 million) was the second-largest source of FDI in 2021, followed by Turkey (\$25.1 million) and Switzerland (\$21.5 million).²⁸ To stimulate FDI in the infrastructure sector, the government has established special economic zones, which offer tax breaks and other incentives to foreign investors. The government has also signed several bilateral investment treaties and free trade agreements with other countries, to further promote investment and trade. Despite a rising trend line,

²⁴ Reconstruction and management of a daycare facility in Dushanbe (investment value of \$730,000).

²⁵ Establishment of the center for primary syphilis screening (investment value of approximately \$412,000) and the creation of a single center for the supply and disinfection of reusable medical devices and quality control of disinfection (investment value of approximately \$1.6 million).

²⁶ <http://ppp.tj/sovet-po-gosudarstvenno-chastnomu-partnerstvu/>

²⁷ The law “On Investment Activities” which replaces the previous (2007) investment law, was approved by the Tajikistan Parliament and signed into law by the President of Tajikistan.

²⁸ <https://www.state.gov/reports/2022-investment-climate-statements/tajikistan/>

FDI in infrastructure in Tajikistan has been limited. The country's weak investment climate, limited market size, and security concerns have been cited as factors that have deterred foreign investors from entering the Tajik market.

Box 2: Investment Law and PPP Law in Tajikistan

The PPP Law (2012) and the Investment Law (2020) in Tajikistan have different objectives, focus on distinct aspects of investment, and complement each other in attracting private investment to Tajikistan. The PPP Law governs the collaboration between the public and private sectors in the delivery of public services, including infrastructure development, maintenance, and operation. In contrast, the Investment Law aims to create an enabling environment for investment and promote economic growth in the country, including both foreign and domestic investment.

The PPP Law provides a framework for the government to engage with private sector partners to develop infrastructure projects, while the Investment Law creates a legal and regulatory framework to facilitate and protect investment in Tajikistan. The latter law provides for the protection of the rights of investors and establishes rules for the registration, licensing, and monitoring of investment activities. Both PPP and investment projects can be initiated by the government or the private sector.

The PPP Law outlines the procurement methods and the requirements for the selection and evaluation of private sector partners. The Investment Law, on the other hand, focuses on creating a favorable investment climate by providing incentives, such as tax breaks, customs exemptions, and other benefits to investors.

Key Challenges: Public and Private Investment in Infrastructure

Dimension 1. Planning, Preparation, and Selection

It is important to have a solid legal framework and the institutional capacity to plan, assess, prioritize, and select potential infrastructure projects.

Planning of projects should be based on a national vision for infrastructure development and/or infrastructure and sectoral plans. The screening, assessment, prioritization, and selection of projects should reflect rigorous technical methodologies in a transparent, data-driven manner. Moreover, some form of systematic comparison of projects should also take place, which is necessary for project prioritization and selection. Selection is perhaps the most critical stage of the project cycle, and often it is the point where political and evidence-based viewpoints intersect. A strong gatekeeping function can therefore ensure that the most legitimate criteria and the public interest are used for project selection

19. **While the PIP is theoretically underpinned by a unified framework for selecting and developing public infrastructure, in practice, budget- and donor-funded projects still undergo separate processes.** MoEDT is tasked with undertaking a political, technical, and financial review of all submitted projects, but this does not happen in practice. Given the low threshold currently in place for the submission of a project proposal, MoEDT annually receives more than 800 proposals from different government agencies at both national and subnational levels and from private actors, which it cannot fully review nor prioritize given the lack of a clear criteria or framework. As a result, the MoEDT team of six compiles proposed projects

into an extensive list (approximately 890 projects in 2022) and submits it to MoF to identify which of these projects should receive budget funding.

20. **This dispersed mandates over the various avenues of funding and financing results in misalignment and fragmentation of the public investment system.** As previously noted, separate government departments have distinct responsibilities for the various sources of financing for public investment, and there is limited coordination among them, which results in a high degree of fragmentation. There is no overarching project management and coordination unit to oversee the selection and implementation of projects and ensure there is no duplication of efforts and funding. For example, the coordination of some government-to-government grants and financing for large infrastructure assets (for example, from the Russian Federation) go directly through line ministries, whereas MoF manages grants received from the People’s Republic of China. These processes are completely separated from the management of PIP projects managed by MoEDT and MoF, and which receive final approval from the Committee for Selection of Investment Projects.²⁹

21. **The PIP is almost exclusively donor-funded/financed, highlighting the challenges Tajikistan faces to attract other financing sources.** Table 2 categorizes the sources of fundings for the 2016-2020 public investment program and underscores GoRT’s limited ability (3.6 percent) to finance its own public infrastructure. Furthermore, given that the PIP is effectively just a lengthy wish list rather than a prioritized program highlights the degree to which public infrastructure in Tajikistan is developed based on funding source, rather than on need.

Table 2: Funding Sources of Public Investment Program, 2016-2020

Source	\$ Million	Share
Asian Development Bank	856.1	24.30
World Bank	757.0	21.50
European Bank for Reconstruction and Development	638.6	18.10
People’s Republic of China	331.4	9.40
Islamic Development Bank	163.3	4.60
European Investment Bank	117.9	3.30
Saudi Development Fund	90.0	2.60
Asian Infrastructure Investment Bank	87.5	2.50
OPEC Fund	72.0	2.00
KfW (Kreditanstalt Für Wiederaufbau)	55.4	1.60
International Fund for Agricultural Development	53.1	1.50
Other IFIs or donor countries	140.7	4.00
Government of Tajikistan	128.5	3.60

²⁹ Established by Order of Government No. 161, dated March 27, 2018, the Committee for Selection of Investment Projects is charged with selecting the projects for the PIP. According to this decree, the committee’s tasks include: (a) evaluation of the accuracy and quality of the competitive selection of projects; (b) review of project proposals’ relevance to priority areas [previously established by GoRT]; (c) evaluation of the relevance and viability of projects (outcomes, and sectoral, regional, and human impact); (d) analysis of economic efficiency indicators of projects; (e) evaluation of attracted funds and the assessment of their sources of funding; and (f) review of jobs creation and project impact.

Source	\$ Million	Share
Other sources	36.3	1.00
Total	3,527.8	100.00

Source: Annex 1 to the Republic of Tajikistan Order of Government No. 358, 2021.

22. **Climate change is not adequately incorporated into project appraisal.** Currently, there are no guidelines or requirements in place to undertake climate-informed appraisals of potential infrastructure projects. While environmental impact assessments (EIAs) are commonplace in Tajikistan, there are no formalized requirements to include climate-change mitigation and resilience during the appraisal and selection of PIP projects. Additionally, there is no requirement to control or monitor for the impacts of climate change during the infrastructure’s lifecycle.

23. **Although the regulatory framework for Tajikistan’s PPPs is in place, addressing gaps in current legislation and strengthening PPP capacities both at the center and in sectors will better leverage the PPP modality.** The development of a strong PPP pipeline is generally a function of national development and infrastructure planning processes and a strong public investment management (PIM) system. However, in Tajikistan there is no systematized sector investment planning and no consistent sector policies to guide PIP infrastructure investments. The government lacks a clear plan or strategy for application of PPPs, and there is little evidence of identification of priority sectors. Moreover, while the PPP law outlines procurement methods and the requirements for the selection and evaluation of private sector partners, there remains a lack of a clear understanding of the challenges in the framework that limit the attractiveness for private participation in infrastructure. The coexistence of the Concession Law and the PPP Law creates a duality in the system and misalignment in terms of project selection, and it is unclear whether a prospective project should be structured under which of these laws. GoRT has a draft PPP Law that, among other things, amalgamates the two laws, which may help resolve some of these challenges.³⁰

24. **The role of the PPP Center resembles more of an investment promotion agency as opposed to a policy developing and implementing body that enables private sector participation in infrastructure.** According to the PPP Law (2012), the PPP Center’s role is that of a center of excellence, a policy-making body that also facilitates the development and implementation of PPP projects and leverages private sector expertise and investment to deliver infrastructure and public services. In practice, the PPP Center’s level of authority suggests that it focuses more on identifying and promoting investments rather than functioning as a typical PPP unit. PPP units are usually located within a Ministry of Finance, Planning, or Economy to have broader authority and alignment with the country’s investment needs and demand for infrastructure services. The placement of the PPP Center under SCISPM contributes to its limited remit.

Dimension 2. Efficiency and Value for Money

Economic efficiency and value for money (VfM) over the infrastructure lifecycle are important criteria in the choice of infrastructure investments.

³⁰ At the time of this assessment, the draft law was being reviewed by the government and the World Bank did not have access to the draft.

Design a process that agnostically guides the decision on how to provide the infrastructure service, and the role of the private sector, prioritizing VfM. This can be achieved by considering the total project cost over its lifecycle (planning, design, finance, construction, operation and maintenance, and possible disposal), compared to the value of the asset and its economic, environmental, and social benefits. Using this approach helps choose between repairing or upgrading an existing infrastructure, or launching a new project, as well as choosing among financing modalities. An initial VfM assessment should be carried out by the implementing agency during early stages of project planning and business case development. Later this assessment should be updated at the feasibility stage, when more information on the project becomes available (financial model or the feasibility study).

25. **Maintenance costs are not required to be explicitly included in the development phase for public investment projects funded either from the budget or financed from donors, limiting economic efficiency across the lifecycle of projects.** There is currently no requirement or guidance in Order of Government No. 161 “Procedure for Development of Public Investment Projects” (dated March 27, 2018) that mandates the explicit inclusion of operating or maintenance costs into the financing needs of infrastructure projects included in the PIP. The consequences of this are compounded by the disjointed nature of the budgeting process between line ministries’ budget and technical departments, whereby medium-term forecasting of capital expenditures funded from budget and external sources does not include such lifecycle operating and maintenance costs. This has resulted in many of the investment projects listed under the PIP—which in reality include (and require) a combination of operations and maintenance expenses, such as salaries of consultants and/or contractors, infrastructure repairs throughout the lifecycle of the asset, training, payments for communication services, and purchases of goods and services—being funded through capital expenditures, instead of recurrent expenditures. This leads to inefficient use of funds and their improper accounting in the treasury system.

26. **The underdeveloped PPP portfolio has contributed to a lack of consideration of the ways in which involvement of the private sector could enhance the economic efficiency and VfM for public infrastructure projects.** The many challenges around PPP preparation include, among other things, a lack of bankable projects, absence of dedicated project preparation funds, limited capacity compounded by a lack of awareness on PPPs among government stakeholders, and gaps in the enabling environment related to doing business in Tajikistan. Given these issues, the choice of modality to deliver the infrastructure asset—e.g., through crowding in the private sector—is significantly underdeveloped. This has the potential to limit the economic potential and efficiency gains for public infrastructure, as introducing more competition or enlarging the scope for the private sector creates a more vibrant and competitive market economy.

Dimension 3. Fiscal Sustainability

The fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their lifecycle.

For specific projects to be fiscally affordable, it is essential that the appraisal and selection process is linked to the budget cycle, even though the project evaluation cycle may run along a different timetable. Multiyear budgeting facilitates this integration by allocating funds for project implementation over the medium term. The macro-fiscal implications of individual projects should be

carefully assessed—i.e., their impact on a country’s fiscal deficit, its gross and net debt, and the stock and flows of nondebt liabilities and contingent liabilities for the government within the context of an adequate institutional setting (i.e., providing enough authority to MoF). Finally, during the lifecycle of infrastructure projects, proper control, monitoring, and reporting mechanisms on public commitments and contingent liabilities are key, in particular for PPPs. All this will contribute to the fiscal sustainability of projects, including those that aim to crowd in more private investments.

27. Project proposals submitted for budget funding are not required to be justified by any prefeasibility studies, which has adverse impact on the fiscal sustainability of projects. MoEDT submits a consolidated list of project proposals gathered from line ministries to MoF for consideration, even though these projects have not undergone any methodological prefeasibility or appraisal assessments. As MoF has limited capacity to scrutinize projects for VfM and sustainability, it asks each line ministry to select two to three priority projects for budget funding, with the remaining projects returning to MoEDT for inclusion in the PIP. There is no standardized guidance on how line ministries should select their priority projects, and no legislation which outlines the fiscal affordability analyses that should be undertaken. Additionally, MoF’s role (in asking the line ministries to submit the two to three priority projects) also seems to circumvent MoEDT’s role in the overarching prioritization of public infrastructure projects.

28. Given the scope of the Rogun HPP’s impact on the state budget, almost all other public infrastructure projects must seek donor-funding/financing sources. In general, there is little space for public investment through the state budget, since the estimated impact of the Rogun HPP development annually requires 80 percent of the total state budget for investment. The fiscal affordability and financial sustainability of Rogun should be considered in the prioritization of other potential infrastructure projects, particularly regarding its contingent liabilities and macro-level debt sustainability.

29. Further work is needed to ensure that the PPP mechanism is strategically viable for private parties and can therefore be used to deliver fiscally sustainable public infrastructure. The prevalence of USPs in the portfolio, including as a major form of PPP identification (as opposed to PPPs originating from line ministries), indicates that the government does not prioritize PPPs as a primary means of delivering infrastructure services. Instead, PPPs are often used to generate revenues for the government (some PPPs have a concessionaire payment to the grantor) and are only used for commercially attractive deals. However, oftentimes, strategically important and socially needed projects may not be financially viable without government support, and thus do not attract the private sector.³¹ While in Tajikistan government-pay PPPs are not considered a norm, this may be a more appropriate mechanisms for socially significant projects.

30. Fragmented systems for monitoring project execution make it difficult to accurately assess the fiscal affordability of projects throughout their lifecycle. According to Government Regulation No. 590, dated December 28, 2006,³² regarding the State Committee on Investments and State Property

³¹ Government support such as provision of sovereign guarantees or Viability Gap Funding (VGF) in the form of capital grants, for example, and going beyond provision of land and tax exemptions.

³² Amended by Decree No. 13, dated March 3, 2011; Decree No. 296, dated May 31, 2012; Decree No. 488, dated September 13, 2012; and Decree No. 167, dated April 1, 2017.

Management of the Republic of Tajikistan, the agency is responsible for the supervision and monitoring of state investment projects (state budget-funded and donor-funded/financed projects), and for the maintenance of the public project database called Investment Project Registry (IPR).³³ However, significant duplication of project monitoring currently exists, as MoF and sectoral line ministries are also required to provide financial monitoring of project implementation and execution, through monthly project implementation reports. MoEDT also has a similar role in monitoring donor-funded/financed investment projects. This duplication of efforts is economically inefficient and complicates an already arduous process of project implementation and reporting. Additionally, the IPR database had not been fully developed at the time of this assessment, and it is unclear what information will be placed within this database and which agencies will have access to it. Coordinated and standardized control, monitoring, and reporting mechanisms on public commitments and contingent liabilities are key to ensuring the fiscal sustainability of infrastructure projects, and can inform decision-making for future projects.

Dimension 6. Public Procurement

Infrastructure procurement and contract management systems should be efficient, of high quality, and should support competition and transparency.

Ensure the quality and VfM of projects through competitive procurement. Whether infrastructure projects are delivered using public procurement, or through PPPs and other types of hybrid arrangements, a high-quality process will ensure that infrastructure projects provide good value for money, are safe and effective, and that investment expenditures are not diverted inappropriately. Creating a level playing field in procurement ensures that the government receives strong proposals/bids of high quality and that it can award the contract to the most advantageous bidder. To this end, the government must ensure that procurement documents are of high quality, set competitive bidding conditions, use transparent evaluation criteria that are fit for purpose, implement integrated e-procurement solutions, and efficiently manage the contract. Competitive bidding requires the convergence of several criteria, such as a good level of technical depth in the requests for proposals, enough time to prepare the proposals, rigorous evaluation of proposals, pre-disclosed contract conditions and risks, etc. Bidders should be treated equally and fairly, the rules of the game need to be clear and adhered to, and the process needs to be conducted transparently. E-procurement systems should be implemented to promote efficiency, integrity, and transparency of infrastructure governance, and to provide an interface with financial management systems to enhance commitment controls. The systems have to be clear, straightforward, and user-friendly, and they must cover the core functions throughout the procurement and contract management cycle.

31. **The public procurement framework in Tajikistan has been significantly improved as part of the recent PFM reforms, with the new law promoting market competition.** Modernization of the country's public procurement system has been a priority under the PFM reform agenda in recent years and has been supported by the World Bank. The establishment of the e-procurement system and framework in 2019, including introducing an electronic procurement portal, improving IT-based business processes, and enhancing the capacities of the Agency for State Procurement of Goods, Works and Services are some of the many achievements. Additionally, a new Public Procurement Law is currently undergoing legislative

³³ According to Government Resolution No. 83, dated March 1, 2020, on the "Procedure to Maintain the IPR and Article 16 of the Tax Code of the Republic of Tajikistan."

review and is expected to be signed by the president shortly. Key elements of this new law include expanding the scope of the law to apply to agencies implementing and executing state investment projects, as well as promoting the use of electronic means for publication of announcements and invitations, sending out solicitation documents and submission of tender proposals, and applications for participation in prequalification or shortlisting. The previous article that provided favorable treatment for domestic producers has also been removed, allowing for greater competition. The draft new law also introduces an Interdepartmental Board of Grievances, to improve handling of grievances in a timely and independent manner.³⁴ In its current form, however, the draft law does not address potential conflicts of interest that may arise from the Interdepartmental Board (e.g., department representatives addressing complaints in another's departments could lead to back-channel negotiated decisions). It would be preferable to create a separate, independent mechanism for handling complaints. It will also be important to ensure that standard bidding documents are updated based on the new legislation, and that training and capacity building is provided for all procuring entities.

32. **The dual regulatory framework for PPPs (Concession and PPP laws) also enables discretion in terms of procurement modalities.** The concession law allows for both competitive bidding and direct negotiation. Alternatively, PPP agreements tend to be more flexible in terms of the procurement model, allowing for a wider range of options for private sector participation. One other main difference between the two laws is the duration of the agreement. PPP agreements tend to be longer-term partnerships between the government and private sector, while concession agreements tend to be shorter-term leases of public assets.

Recommendations

33. **GoRT should**

- **Reform the PIP to create a more cohesive and strategic pipeline of future projects based on need rather than available funding/financing.** Instead of presenting the five-year PIP as a long list of projects that currently lack funding through the state budget, the PIP should be reformed to present projects in a prioritized way based on the pre-established four main selection criteria: (a) strategic importance; (b) economic justification; (c) social impact; and (d) financing sources and sustainability (including total cost of ownership). This will require quantitative categorization, as well as significantly enhancing MoEDT capacity and that of line ministries. The PIP should then be presented and distributed (in an online format in Tajik, Russian, and English) to bilateral and multilateral donors and the private sector, in a way that underscores which projects require the most urgent development.
- **Clarify MoF's role as the fiscal gatekeeper and strengthen and redefine the role of MoEDT in the development, selection, and prioritization of PIP projects that are state-budget funded.** A well-structured governance system ensures that decisions are made through processes that identify and evaluate the costs and benefits and assess the suitability of project financing by applying a consistent set of criteria, while a coordinating ministry leads project prioritization and selection and MoF acts as gatekeeper by ensuring affordability, assessing fiscal sustainability, and

³⁴ Public Procurement Law of Tajikistan (forthcoming).

monitoring contingent liabilities. In Tajikistan, MoEDT should be the lead agency responsible for developing the PIP and leading the selection and prioritization process of projects. During the first stage of the budget preparation process, MoEDT—in collaboration with line ministries—should present a detailed list of forecasted projects that are within the budget ceiling to MoF. In the second stage, MoEDT should be directly involved in discussions with MoF and line ministries to confirm the final list of projects for funding. The role of the MoF should be the traditional “fiscal gatekeeper” of the budget preparation process and should not circumvent the role of MoEDT in filtering and selecting projects for budget funding. This will require reforming and increasing the staffing numbers and capacity of MoEDT.

- **Require the incorporation of climate-change considerations into project appraisal, and develop guidelines to enhance the capacity of line ministries.** Tajikistan needs to shift the focus from reactive disaster recovery to the proactive creation of adaptive infrastructure that can mitigate the impacts of climate change throughout the asset’s lifecycle. Climate-related criteria should be evaluated during the project appraisal and selection phase of PIP development. This will require additional regulations and/or Order of Government. Supporting guidelines and templates should also be developed to support line ministries developing project concept notes and appraisal documentation. The capacity of line ministries needs to be developed to screen and analyze potential projects for physical and transition risks related to climate change.
- **Amend the regulatory framework to require the explicit classification of recurrent and capital costs in the initial development stage of a PIP project.** This would require modifying Order of Government No. 161 “Procedure for Development of Public Investment Projects.” Forecasting of recurrent costs should be included into the project appraisal stage, through inclusion in project concept notes and within feasibility studies for significant/high-risk projects. This will require significant capacity building for line ministries on ways to successfully allocate recurrent and capital costs.
- **Enhance the Investment Project Registry.** Increased integration and awareness are needed to improve the functionality and application of the IPR. An assessment should be undertaken to understand what information this database contains and monitors, and what features need to be improved to consolidate all project information from all funding sources.
- **Formulate a strategic agenda for PPPs that starts with incorporating PPPs in the strategic planning process.** The implementation of a PPP program should become a policy decision taken within the context of the government’s strategy to address its infrastructure development and investment needs. Identification of potentially suitable PPP projects should emanate from the PIP processes. PPPs should be selected based on bankability, a strong PPP policy rationale, and support for GoRT’s efforts to implement infrastructure investment based on an efficient allocation of available public, concessional, and private financing.
- **Increase the capacity of line ministries to recognize and identify potentially suitable PPP projects, reducing a reliance on USPs and encouraging government-initiated projects.** Availability of project preparation funds and strengthened capacity in public agencies will further aid this process. While occasional USPs in highly specialized sectors represent a norm, it is

recommended to use transparent and competitive tender processes to increase the VfM for the public partner. A shift away from reliance on USPs will require renewed political and line ministry commitment to infrastructure planning and project prioritization, as well as increased capacity to identify and prepare PPP projects.

- **Develop clear guidance within the PPP Law on how government support would be analyzed and incorporated into the budget.** There should be full integration of PPPs in the budgetary cycle to ensure unity and comprehensiveness of the public budget to support this modality. MoF's function should be clearly stipulated to transparently assess fiscal risks and affordability of such government commitments as an integral component of a sustainable PPP framework. GoTJ should also develop accounting and reporting mechanisms for PPPs and ensure disclosure of information on PPP-related public liabilities.
- **Build capacity in the PPP Center as the key coordinator and facilitator of the PPP program and across line ministries to fulfill its roles of project originator and implementor.** Lack of capacity within the MoF and PPP Center will have long-term adverse impacts for the PPP program in Tajikistan, given their role in ensuring the development of high-quality, robustly prepared PPP projects.
- **Establish a separate, independent body for handling public procurement complaints.** This body would be independent from the Interdepartmental Board of Grievances and would allow public procurement-related complaints to avoid any conflicts of interest that may arise from an interdepartmental board.

B. Cross-Cutting Governance Issues

Dimension 5. Climate-Change Resilience

Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.

GoRT's climate-change and/or disaster-risk management frameworks should be factored in when designing infrastructure, throughout the project lifecycle. A climate-informed project appraisal is an important part of assessments. The government should ensure effective use of environmental and/or specific climate-change evaluations to identify, mitigate, and manage projected risks and impacts of infrastructure projects, including those related to climate change. This includes physical risks related to extreme weather events and gradual changes in climate and risks related to the transition to a low-carbon economy, resulting from changes in policy, technology, and consumer preferences. Extreme weather and disaster management should be considered during the pre-assessment of the project, as well as be controlled and monitored during the infrastructure's life cycle. Climate objectives should be integrated into asset management policies and practices. Infrastructure investments need built-in adaptability and resilience against risks of natural and man-made disasters, public outcry, and pandemics. Moreover, climate change and environmental sustainability considerations should not create unreasonable administrative burdens for business, and assessment and monitoring should be optimized where possible.

State of Play

34. **Tajikistan is highly vulnerable to climate-change effects and disaster risks, including drought, landslides, river flooding, soil degradation,³⁵ and earthquakes.³⁶** The country was ranked 71st of 191 surveyed countries in the INFORM 2023 Risk Index, which provides a risk assessment for humanitarian crises and disasters.

35. **Tajikistan has made considerable progress on supporting the climate-change agenda and is well integrated in the international climate change institutional architecture.** In 1998, Tajikistan ratified the UN Framework Convention on Climate Change (UNFCCC). In 2008, the country ratified the Kyoto Protocol, becoming a non-Annex I Party to the Convention. In October 2015, Tajikistan submitted its estimated Initial Nationally Determined Contribution, aligning with decisions made during the 19th and 20th Conference of Parties of the UNFCCC, including the Lima Call on Climate Action from December 2014. The Paris Agreement to the UNFCCC was ratified by Tajikistan's Parliament in 2017. In 2019, Tajikistan submitted its First Biennial Updated Report on Greenhouse Gas Inventory, following Non-Annex I Guidelines for Biennial Reports. The National Strategy for Adaptation to Climate Change for the period up to 2030 was adopted by GoRT in October 2019. Additionally, an updated Nationally Determined Contribution was prepared in October 2021, with plans to meet the unconditional and conditional targets, provided that the necessary financial and technical support is received.

36. **The Committee on Environmental Protection (CEP) is the primary oversight agency for environmental assessments.** CEP is also responsible for promoting a unified state policy in environmental protection and organizing and conducting environmental monitoring. It is also charged with the implementation of the unified state environmental policy, state supervision, compliance with the requirements of national legislation and regulations in the field of environmental protection, and the contribution and control over the creation of a unified system of state environmental monitoring and its promotion.

Key Challenges

37. **Although Tajikistan has established environmental regulations that aim to ensure that environmental impact assessments are conducted in an orderly and consistent manner in project proposals, it is unclear whether these assessments adequately assess climate-change resilience.** Decree No. 532 outlines the general procedure for conducting EIAs and Decree No. 161 includes a provision establishing that government agencies must include an environmental section within project proposals. CEP is tasked with checking the compliance of each proposal against the aforementioned laws and with issuing a no-objection decision for the project to proceed. CEP does not actually conduct assessments but outsources them to other sectoral institutions, which are responsible for conducting investigations and producing documentary proofs of environmental impacts. Instead, CEP's role is checking that the assessments from other stakeholders are provided in a timely fashion and contain the right information

³⁵ World Bank, 2021. Tajikistan: Climate Risk Country Profile. https://climateknowledgeportal.worldbank.org/sites/default/files/2021-09/15919-WB_Tajikistan%20Country%20Profile-WEB.pdf

³⁶ European Commission. Climate Change Country Profile: Tajikistan. <https://drmhc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Country-Risk-Profile>

and, in line with the conclusions of the assessments provided, demanding a particular course of action in relation to a given project, including relocating or cancelling it. While the current format of the EIAs is adequate and thorough in assessing environmental impacts of infrastructure projects, there is no formal requirement to undertake a climate-change and/or disaster-risk assessment during project appraisal, either within the EIAs or separately. Rather, the Law on EIA No 1448 of July 18, 2017, includes a generic reference to climate change when defining the scope of environmental impacts.³⁷

38. GoRT is building the institutional capacity to address climate-change risks, but this is still in its preliminary stages. CEP is the main institution focusing on climate-related considerations in infrastructure. More specifically, CEP has a department of climate-change mitigation and adaptation and is the national authority for collaboration with the Green Climate Fund and Global Environment Facility. The Tajik Committee of Emergency Situations (CES) is the government agency responsible for identifying natural hazards, preventing and coordinating responses to natural disasters, and building public awareness on existing risks and disaster-safe behavior. CES is tasked with preparing and implementing disaster-risk reduction strategies, coordinating emergency response efforts, and conducting search-and-rescue operations in a natural disaster or emergency. The agency works closely with other government agencies, international organizations, and local communities to ensure effective disaster preparedness and response. However, CES is not involved in the approval processes for public infrastructure development and does not assess a potential project's climate-change resilience. More could be done to incorporate both CEP and CES into this process, particularly in collaborating with MoEDT to ensure that projects included in the PIP include resilience and mitigation considerations on the impacts of climate change. Overall, GoRT is open to collaborating with international partners to improve institutional capacity in this field. In particular, the National Adaptation Plan Global Support Program and the United Nations Development Program (UNDP) provide in-country assistance on climate-change related topics.³⁸ For instance, together with the United Nations Economic Commission for Europe, the government is developing a tool for climate-change adaptation and mitigation by introducing climate-change considerations into development planning.³⁹ Overall, work on climate-change considerations in infrastructure is still at the preliminary stages, but there is a willingness to embed such considerations into EIAs.

39. While the government has developed several strategic documents related to climate-change resilience, increased attention must be given to the risks of climate change in public infrastructure projects. The relevant strategies on climate change include (a) the National Disaster-Risk Reduction Strategy for 2019-2030 (developed with the help of UNDP);⁴⁰ (b) the National Strategy for Adaptation to Climate Change until 2030 adopted in 2019;⁴¹ and (c) the Strategy for the Development of the Green Economy for 2023-2037 (developed by MoEDT). The National Action Plan of the Republic of Tajikistan for

³⁷ <http://ncz.tj/content/>

³⁸ UN, 2022. Progress in the process to formulate and implement national adaptation plans. United Nations Framework Convention on Climate Change, p. 48.

³⁹ UNECE, 2021. Tajikistan: Needs Assessment and Action Plan. <https://unece.org/sites/default/files/2021-12/TAJ%20SEA%20report%20ENG%20final%20Nov2021%20clean.pdf>

⁴⁰ Government of the Republic of Tajikistan (2019) National Strategy of the Republic of Tajikistan on Disaster-Risk Reduction for 2019-2030. Dushanbe: Government of the Republic of Tajikistan.

⁴¹ <https://repo.mel.cgiar.org/handle/20.500.11766/10876>

Climate Change Adaptation under the UNFCCC was adopted in 2003.⁴² In 2018-20, GoRT received assistance from the Green Climate Fund to formulate and implement a national action plan, which was implemented by the UNDP.⁴³ In some sectors, action plans incorporating these strategies have been recently developed. For instance, in the case of sandstorms, the UN has developed the National Action Plan for Adaptation to Sandstorms for 2022-2030⁴⁴ to identify key government priorities. A comprehensive Risk Management National Adaptation Plan for Tajikistan is expected to be developed by 2024 and implemented by 2030. While GoRT is promising to have these strategies and action plans in place or in the pipeline, there remains an absence of climate-change mitigation and adaptation measures incorporated throughout the infrastructure lifecycle, particularly at the planning stage. CEP is largely focused on overarching environmental impacts, and while the department of climate-change mitigation and adaptation has been established within CEP, there is still a disconnect between this department and line ministries/private parties actually developing public infrastructure projects. There is currently no requirement for line ministries/private parties to include climate-change risk assessments within project appraisal documentation (such as feasibility studies). As a result, the technical requirements needed to undertake such assessments are lacking, and significant capacity building within both CEP and line ministries will be required.

Recommendations

40. **GoRT should**

- **Continue its work on integrating climate-change considerations into infrastructure planning.** Climate-change mitigation and adaptation measures should be incorporated in the infrastructure lifecycle. Collaboration with international partners should be further encouraged, to ensure that the country is well-versed in managing climate-change-related processes. Climate-change considerations should be incorporated in the environmental risk assessments required by law for every infrastructure project. Projects should be screened and analyzed for physical and transition risks related to climate change. To complement this work, CEP should develop guidelines for a climate-informed appraisal.
- **Provide the necessary capacity building for the climate-change mitigation and adaptation department at CEP.** Given that the climate-specific work within CEP has been introduced recently, there are additional needs for more highly trained staff, as well as for establishing and deepening collaboration with the leading international policy and academic institutions. While support from international organizations in this sphere can be fruitful, GoRT should ensure that there is sufficient domestic capacity to incorporate climate-change considerations into EIAs for infrastructure projects, at both a national and subnational levels. GoRT is advised to conduct a survey within CEP with the participation of other affected stakeholders to identify the department's most pressing needs.

⁴² UNFCCC, 2023. https://unfccc.int/sites/default/files/resource/4NC_TJK_eng_0.pdf

⁴³ UN, 2022. Progress in the process to formulate and implement national adaptation plans. United Nations Framework Convention on Climate Change, p. 30.

⁴⁴ UN Convention to Combat Desertification, 2021. <https://carececo.org/publications/zasuha/Russian/Taj/>

- **Conduct a data readiness exercise to identify gaps in monitoring and screening of infrastructure projects for climate-associated risks.** There is an urgent need to ensure that the work conducted as part of the overarching EIAs and other climate-related assessments is not affected by technical limitations. As incorporating climate-change risk assessments into EIAs would represent an additional assessment area under the mandate of CEP, it will be important to understand if the required technical supplies or databases are available within it and the line ministries/private parties conducting the relevant environmental checks. Efforts should be made to ensure that such technical needs are addressed.
- **Ensure the adoption of relevant annual action plans to support climate-related strategies.** GoRT should ensure the timely implementation and monitoring of the action plans relevant for the key climate-related national strategies, namely the National Disaster Risk Reduction Strategy for 2019-2030, the National Strategy for Adaptation to Climate Change until 2030, and the Strategy for the Development of the Green Economy for 2023-2037. There is a pressing need to translate policy goals into specific targets and organize the workstream for climate-change considerations in infrastructure, given the importance of climate-change mitigation and adaptation for Tajikistan’s development. GoRT should ensure that the Risk Management National Adaptation Plan covering the period (at least) until 2030 is developed promptly.

Dimension 8. Data Availability and Transparency

Transparent access to adequate information throughout the project cycle is key for project performance and accountability.

The availability of adequate information and data on projects and service delivery is essential for ensuring accountability, improving project performance, strengthening the investment climate, and maintaining public confidence in the private sector. The government needs to invest in collecting, monitoring, and analyzing high-quality and integrated data that can serve as the basis for project management, decision-making, consultation, and accountability. The degree to which data are made public should be determined by a disclosure framework that weighs the trade-offs of transparency and confidentiality. The framework should be enforced, and relevant public institutions scrutinized on their performance in complying with transparency requirements. Disclosed data should be easy to access, navigate, and analyze.

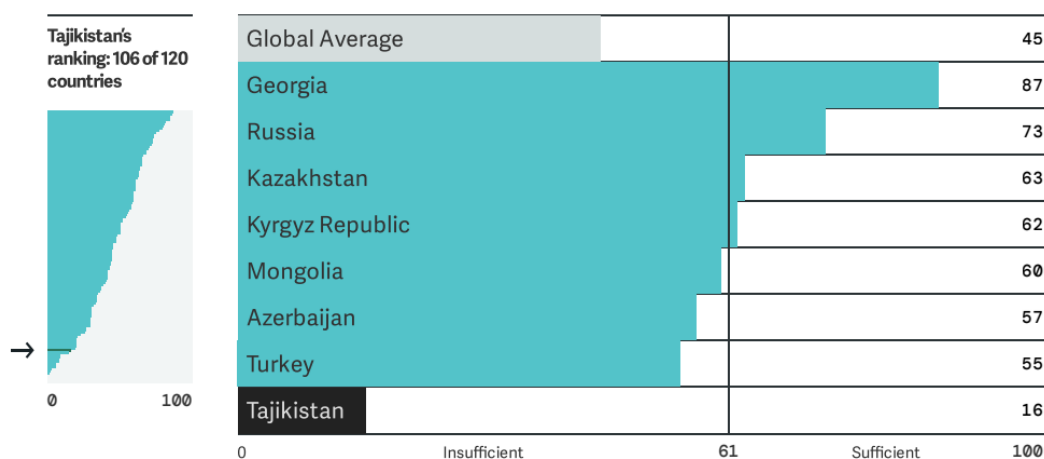
Key Challenges

41. **Tajikistan has prioritized actions to improve budget transparency in recent years and has seen corresponding advances in its international rankings.** According to the Public Expenditure and Financial Accountability (PEFA) assessment of 2022,⁴⁵ while the comprehensiveness of budget documents (score ‘A’) and public access to fiscal information (score ‘B’) has improved since 2017, there are remaining budget

⁴⁵ PEFA is a methodology for assessing public financial management performance. The PEFA Performance Measurement Framework is an integrated monitoring system that allows measurement of PFM performance over a specific time period. The Performance Measurement Framework covers 31 performance indicators (PIs), with 94 dimensions. The PEFA framework applies a scoring system to the PIs (and to each of their dimensions) using methodologies, guidance, and practical tools prescribed or issued by the PEFA Secretariat and available at the PEFA Secretariat website: www.pefa.org

classification issues across recurrent and capital expenditure categories in the public investment program (score 'B'), and most ministries and agencies do not publish their performance and service delivery information (score 'D').⁴⁶ In the Open Budget Survey (OBS) of 2021, the country scored relatively well on the comprehensiveness of key documents, such as the pre-budget statement and enacted budget, but received a score of 16 out of 100 for transparency (or a rank of 106 out of 120 countries) based on the timeliness and online availability of documents such as the year-end report and audit report (see Figure 7).⁴⁷ MoF is addressing these OBS and PEFA recommendations through capacity-building activities with other development partners, such as Switzerland and the World Bank, the latter through the Public Financial Management Modernization Project Two.⁴⁸

Figure 7: Budget Transparency in Tajikistan, Compared to Selected UNESCAP Counterparts



Source: Open Budget Survey 2021.

42. **There is still room for improvement to ensure cohesive public participation and civil engagement in the budget process.** On September 30, 2020, MoF issued Order #108 approving the Methodological Guidelines for ensuring transparency and public access to information on the budget process and the list of information available on its website. This is an important regulatory document that determines public access to fiscal information and describes how MoF interacts with the public. In the past, MoF also sporadically published a 'citizens budget,' which is a simpler and less technical version of the government's Executive's Budget Proposal or the Enacted Budget, designed to convey key information to the public. However, this document does not seem to have been published since 2021. In general, the public's ability to participate in the budget process is subpar. There is no avenue for the public to engage in the formulation or implementation of the budget, or to provide feedback or comments on infrastructure needs and priorities. This is particularly restrictive for vulnerable and minority groups (by a wide margin, Uzbeks), and/or nongovernmental and civil society organizations, that represent such

⁴⁶ <https://www.pefa.org/node/5068>

⁴⁷ <https://internationalbudget.org/sites/default/files/country-surveys-pdfs/2021/open-budget-survey-tajikistan-2021-en.pdf>

⁴⁸ <https://documents1.worldbank.org/curated/en/848101607223659077/pdf/Tajikistan-Second-Public-Finance-Management-Modernization-Project-Additional-Financing.pdf>

groups in Tajikistan, as the lack of public participation limits the ability for the budget to actively reflect the needs all communities.

43. **The Chamber of Accounts is the supreme audit institution in Tajikistan.** It is responsible for reviewing public financial management (PFM) and providing an audit opinion in relation to the draft state budget, the execution of the budget, and extra-budgetary funds as well as the utilization of public resources by state and local enterprises.⁴⁹ In general, the audit activity of the CoA covers government revenues, expenditures, and debt (i.e., obligations of the government), and identifies deficiencies and shortcomings in public finances. Following its audits, CoA issues recommendations to the audited institutions. According to the 2022 PEFA (see Table 3), the number of audits at the local government level rose over the period from 2018 to 2020 while audits of the central government and SOEs declined for the same period.

Table 3: Entities Audited by the Chamber of Accounts of the Republic of Tajikistan, 2018-2020

#	Entity	2018	2019	2020
1.	Ministries, departments, and agencies, budget institutions, and state funds (central government)	256	225	117
2.	Enterprises, institutions, and other state economic actors (subnational governments)	24	37	54
3.	Investment companies, insurance brokers, joint stock companies (JSCs), joint ventures, banks, other non-governmental entities (SOEs)	58	308	41
Total		338	308	272

Source: Public Expenditure and Financial Accountability (PEFA) assessment of Tajikistan, 2022.

44. **Although CoA has improved its transparency and accountability, it remains constrained by the limited collection of consolidated government financial statements.** CoA has published on its website audit reports and some audited financial statements of a few public entities, and initial steps are being taken to retroactively publish previous reports. However, only 32 are currently published, and these are only available in the Tajik language. The aforementioned MoF Order #108 also stipulates the publication of audited financial statements by audited entities in coordination with CoA. While CoA applies its own regulations and national audit standards, it has developed audit methodologies and guidelines to align with International Standards for Supreme Audit Institutions, has piloted performance audits for the first time, and is actively working to expand its audit coverage. While this represents satisfactory progress, CoA’s scope is constrained by legal limitations and a lack of consolidation of audit information. Specifically, CoA does not audit all annual financial statements of relevant line ministries and agencies under its remit, and as a result cannot produce a comprehensive external audit report of the consolidated annual financial statements of the government sector. This is because MoF does not collect this consolidated information, and these audits are not required under any regulatory framework or law in Tajikistan.

⁴⁹ CoA’s mandate is detailed in Articles 1 and 5 of the Law of the Republic of Tajikistan “On the Chamber of Accounts of the Republic of Tajikistan” (2011).

Recommendations

45. GoRT should

- **Develop an action plan to strengthen public participation in the budget process.** MoF should prioritize increasing citizen engagement within the budget process, especially for the identification of investment needs or priorities, and develop an action plan that prioritizes how such public participation can be strengthened throughout the budget process.
- **Update legislation to clarify CoA’s mandate and broaden its scope, to enable it to audit annual financial statements of the entire government sector.** Article 65 of the Law of the Republic of Tajikistan “On Public Finances” or Article 28 of the Law of the Republic of Tajikistan “On the Chamber of Accounts of the Republic of Tajikistan” should be amended to (a) require all government entities to submit their annual financial statements to MoF, and (b) mandate CoA to audit this information and produce a comprehensive external audit report of the consolidated annual financial statements of the government sector to be submitted to Parliament on an annual basis. Capacity building will be needed in MoF to collect this additional information.

C. Service Provision

Dimension 11. SOE Governance and Performance

SOEs should operate on market terms where possible, with clear reporting and corporate governance standards, and sound approaches to human resources and financial management.⁵⁰

Corporate governance provides the structure for defining, implementing, and monitoring a company’s goals and objectives and for ensuring accountability. Good SOE corporate governance ensures there are clear ownership rules and responsibilities, strong SOE oversight entities, independent and professional boards, robust performance monitoring mechanisms, and a high level of disclosure of financial and audit reports.

State of Play

46. **SOEs play a significant role in Tajikistan’s economy and in the delivery of services to citizens.** While there is a lack of publicly available up-to-date and consolidated information on the SOE sector, the latest data suggests that there are 631 SOEs, defined by a 50+ percent state-equity-ownership.⁵¹ According to the recent iSOEF assessment, SOEs in Tajikistan operate across 19 sectors and are significant players in output production and the labor market. In terms of service delivery, SOEs are the primary market players in the energy, aviation, rail, roads, gas, telecommunications, and WSS sectors.

⁵⁰ This section is based on Dimension 11 of the InfraGov Assessment Framework, which is aligned with Module 4 on Corporate Governance and Accountability Mechanisms of the World Bank’s Integrated State-Owned Enterprises Framework (iSOEF), which can be found here:

https://worldbankgroup.sharepoint.com/sites/gsg/CGFR/Documents/iSOEF/iSOEF%20Guidance%20Note%20Module%204_Final.pdf.

⁵¹ iSOEF, (forthcoming).

47. **Tajikistan is continuing to advance reforms to improve the governance framework for SOEs.** The regulatory framework for SOEs in Tajikistan aims to promote transparency, accountability, and sound governance in the management of state-owned assets, and to encourage the development of a competitive and dynamic business environment. Several laws and regulations are in place, including the Law on State Property, the Law on Joint Stock Companies, and the Law on State Enterprises (see Table 4). In addition to these laws, SOEs are subject to oversight and regulation by government agencies, such as the Ministry of Finance, the State Committee on Investments and State Property Management, and the Antimonopoly Committee. These agencies are responsible for ensuring that SOEs comply with applicable laws and regulations, and for monitoring SOE financial performance and overall management.

Table 4: Key Laws Governing SOE Sector in Tajikistan

Law and amendments	Description
<p>Law of the Republic of Tajikistan No. 237, March 7, 2007</p> <p>Latest Amendments: Law of the Republic of Tajikistan No. 2007, July 19, 2022</p>	<p>The Law on Joint Stock Companies regulates the management and operation of joint stock companies, which includes some SOEs. The law requires the companies to have a board of directors and supervisory board, which are responsible for overseeing the company’s management and operations. The law also requires the companies to be regularly audited and to provide financial reports to shareholders.</p> <p>The latest amendments to the Law on Joint Stock Companies, introduced in 2022, aim to improve the governance and transparency of joint stock companies, including some SOEs. The amendments require companies to hold regular shareholder meetings, provide greater disclosure of financial information, and establish rules for the election and removal of board members.</p>
<p>Law of the Republic of Tajikistan No. 426, October 6, 2008; No. 659, December 29, 2010; No. 1679, January 2, 2020</p> <p>Latest Amendments: Law of the Republic of Tajikistan from January 2, 2020</p>	<p>The Law on State Enterprises provides for the establishment, management, and privatization of state enterprises. The Law defines a state enterprise as a legal entity established by the government, which is engaged in commercial activities and operates under the principles of profitability and self-sufficiency.</p> <p>The 2020 amendments to the Law on State Enterprises, introduced in 2016, focus on promoting the efficient and profitable management of state enterprises, including SOEs. The amendments establish rules for the appointment and removal of SOE management and require SOEs to develop strategic plans and report on their performance (Article 11). The changes also institutionalized supervisory boards. The list of state enterprises in which the supervisory board and the head of a state enterprise are created and appointed by GoRT is reflected in Articles 7, 10, 11, and 25.</p>
<p>Law on Privatization of State Property No.1402, February 24, 2017</p>	<p>The Law regulates relations between the authorized state bodies and legal entities and individuals in the process of privatization of state property. The Law clearly states that state property that cannot be privatized includes (a) property that is the exclusive property of the state in accordance with Article 13 of the Constitution of the Republic of Tajikistan, (b) property of historical heritage and national heritage, (c) buildings and structures of state bodies, (d) drinking water supply systems, (e) defense enterprises, (f) radioactive waste disposal enterprises and property of hydroelectric power station “Nurek.” The state maintains its right to use the special “golden share” right to protect its strategic interests, which cannot be exchanged for shares in joint stock companies (JSCs). The special “golden share” right is valid until GoRT decides on its termination. Simultaneous consolidation of the shares of a</p>

Law and amendments	Description
Latest Amendments: Law No. 1686, February 28, 2020	<p>JSC in state ownership and the use of a special right (“golden shares”) in relation to it are not permitted.</p> <p>Ensuring that the radioactive waste disposal SOEs and the property of hydroelectric power station “Nurek” are not subject to privatization.</p>
Other relevant laws include: The Law of the Republic of Tajikistan On Accounting and Financial Reporting; The Resolution of the Government of the Republic of Tajikistan dated April 3, 2012, № 154 On additional measures for regulating accounting and financial reporting; The Resolution of the Government of the Republic of Tajikistan dated December 28, 2019, № 632 On large state-owned enterprises and companies whose shares belong to the state; The Resolution of the Government of the Republic of Tajikistan dated November 23, 2022, № 547 On the medium-term program for 2023-2027 for managing fiscal risks of large state-owned enterprises and companies whose shares belong to the state.	

48. **SOEs pose considerable fiscal risks, particularly with respect to their quasi-fiscal deficits (QFDs).**⁵² While the overall public debt is seen as sustainable, the IMF ranked Tajikistan negatively on QFDs (IMF 2021 Debt Sustainability Analysis). Public debt levels are likely to remain elevated over the long term because of the finance required to complete the Rogun HPP (\$6.1 billion or 58 percent of 2022 GDP, in current \$). QFDs have contributed to a large accumulation of liabilities by SOEs, resulting in the inability of SOEs to adequately invest in the maintenance, repair, and upgrading of their capital assets. In turn, this has adversely affected the quality of services delivered by SOEs.

49. **There is significant potential for enhancing the service delivery of SOEs, particularly in the WSS, digital, and transport sectors.** There are shortcomings in the delivery of water and sanitation services, with limited access to clean water and sanitation facilities, particularly for the two-thirds of the populace residing in rural areas. In the telecommunications sector, slow Internet speeds and higher prices can be attributed, in part, to limited competition and the monopoly held by SOE Tajik Telecom for buying and selling of international Internet traffic. Meanwhile, Tajikistan’s overall transportation infrastructure is among the least developed in comparison to its regional counterparts. Improvements are needed in areas such as road connections, air transport efficiency, airport links, and railway density. Despite the liberalization of air traffic rights in the country, the existing aviation policy still imposes restrictions on market competition (e.g., the number of carriers per route), leading to increased air transportation expenses.

Key Challenges

50. **Despite recent improvements, the management of SOEs in Tajikistan is still characterized by a lack of transparency, inefficiencies, and weak corporate governance.** In general, an uneven playing field undermines private participation in the provision of services, and limited accountability and oversight weaken the incentives for SOEs to perform in the best interest of the public. In Tajikistan, the lack of financial transparency in SOEs has made it particularly difficult for GoRT to accurately assess their financial

⁵² Quasi-fiscal activities refer to operations that result in a net transfer of public resources to the private sector through nonbudgetary channels (e.g., utility companies that provide services at prices below cost-recovery levels); unreported, they distort a government’s true fiscal position.

performance and identify potential risks.⁵³ International partners, including the IMF and the World Bank, have pointed to the large debt burdens of some SOEs in Tajikistan, which are seen as a risk to the country's overall fiscal stability. These international organizations stress the need to improve the management of SOEs' debt, including by implementing more robust debt management policies and strengthening the financial oversight of SOEs.⁵⁴ Another area of concern is the failure of some SOEs to achieve profitability, causing additional strain on the government budget. SOEs in key infrastructure sectors, such as energy and transport, are consistently loss making because of underpricing, operational inefficiencies, and high debt burdens.⁵⁵ It is therefore important for GoRT to determine SOEs' viability and sustainability, in order to earmark those for restructuring, privatization, or winding-up.

51. **While the SOE portfolio is considerable, there is no centralized management or financial reporting and oversight policy.** According to the TajStat database, there are currently 631 SOEs in Tajikistan, based on the 50+ percent state-equity-ownership definition. MoF's SOE Monitoring Department (MD) undertakes fiscal risk analyses for the 27 largest SOEs, all of which are 100 percent state-owned. The SOE MD receives the financial results from these SOEs and assesses their budgetary implications. Although this is good practice, particularly in minimizing fiscal risks, the SOE MD has no overview of the fiscal impacts of the entire SOE portfolio, as it exclusively focuses on large SOEs. Other SOEs are technically placed under the authority SCIMSP, which holds the formal ownership rights to the state property and which has its own SOE department. Among SCIMSP's 'holdings' are 100 or so wholly owned JSCs, with the result that some SOEs report to both MoF and SCIMSP, if they are both large and are fully state-owned. The remaining SOEs—those which are not fully state owned and are not defined as 'large'—are not monitored as closely by the central government, although all SOEs with 50+ percent state ownership submit both financial and project-based reporting to their line ministries.

52. **Although SCIMSP has a prominent role in relation to public enterprises, the institution lacks the capacity and policy instruments to fully act within its remit, particularly as far as State Unitary Enterprises (SUEs) are concerned.** SCIMSP has legal ownership of all SUEs, which are SOEs that are 100 percent state-owned and play a role in delivering public services. In practice, this typically means that while the Committee owns a national-level SUE, it is under the oversight of a line ministry or another government body. Typically, SUEs lack a board of directors, as SCIMSP lacks the capacity to initiate and oversee such a function; moreover, the strained financial situation at several SUEs precludes financing such a function.

53. **MoEDT plays a role in contributing to SOE reforms, but its functions remain largely formalistic.** Given the presence of SUEs across all economic sectors, the workstream related to them is internally considered a prominent part of MoEDT's remit. In addition, MoEDT analyzes the state debt of SOEs, assesses their efficiency, and provides recommendations and analysis of their economic activity. MoEDT stated that a range of SOE-related issues, including policies to reduce indebtedness, and advance market reforms, privatization, and corporate governance practices would be the focus for its future work

⁵³ This was noted by the IMF in IMF, 2021. Republic of Tajikistan: Selected Issues. <https://www.elibrary.imf.org/view/journals/002/2021/201/article-A001-en.xml>

⁵⁴ Ibid.

⁵⁵ <https://www.adb.org/sites/default/files/publication/648676/adbi-wp1192.pdf>

program. MoEDT also claims to have undertaken a range of SOE sectoral analyses; however, it is unclear what these analyses entail or their impact.

54. **Insufficient public disclosure of financial information reduces the degree of transparency and accountability of Tajikistan’s SOEs.** Annual financial statements and management reports of SOEs are not made available to the public, and there is no functional company registry that provides access to key information. While MoF has published audited financial statements of some large SOEs and an annual SOE fiscal-risk report on its website, corporate websites provide incomplete and unstructured information, which falls short of international disclosure standards. Additionally, there is no annual aggregate reporting system that provides complete and comprehensive information on the financial and nonfinancial performance of economically significant SOE portfolios. The lack of a clearly defined SOE portfolio and exceptions in centralized monitoring pose significant challenges to enhancing transparency and monitoring the performance of SOEs. Moreover, while the existing Law on Public Procurement establishes a unified procurement framework for all public sector entities, SOEs are not required to use the available electronic procurement system, which undermines transparency of their operations. SOEs’ compliance with public procurement requirements is low.⁵⁶

Recommendations

55. **GoRT should**

- **Improve the governance of SOEs by establishing clear lines of accountability and decision-making, and by ensuring that SOE management is subject to effective oversight and control mechanisms.** Given that the SOE sector is loss-making, there is an acute need to identify the sources of losses in each case and ensure that there are appropriate corporate governance structures at an SOE level (including but not limited to professional management and supervisory boards) that are equipped to improve the financial standing of SOEs.
- **Improve financial transparency of SOEs by publishing their financial statements and audit reports, and by establishing clear rules for the accounting and reporting of SOE finances.** There should be more clarity on the reporting requirements for SOEs regardless of the ownership body and line ministry subordination. To level the playing field between the public and the private sector, it is important to ensure that SOEs are subject to similar legal and regulatory frameworks as private companies, and to improve the oversight and monitoring of SOE performance.⁵⁷
- **Broaden the scope of aggregate reporting for large SOEs, so that MoF is able to properly monitor SOE financial performance and fiscal risks.** Although MoF analyzes the financial performance of the 27 largest SOEs, aggregate reporting should cover a broader range of SOEs that are a source of contingent liabilities, both explicit and implicit. GoRT could consider expanding MoF’s work on fiscal risks associated with SOEs to the 100 largest enterprises, or adapting a different criterion to ensure that the government is better informed about the financial performance of individual SOEs and the sector as a whole. One step could be to impose criteria for which SOEs are defined as

⁵⁶ iSOEF 2023 (forthcoming).

⁵⁷ See IMF, 2020. Article IV Consultation Staff Report, October 2020.

large, depending on the last year's financial reporting. Developing a centralized internal information system and providing the public with greater information on the SOE portfolio's performance through an online portal would be a major step forward.

- **Increase SOEs' commercialization and private sector participation in key infrastructure sectors, such as renewables, energy, transport, and WSS.** There should be strategic consideration as to the reasons for keeping an asset in state ownership. This would allow for the optimization of the state sector and also the identification of opportunities for private sector participation.
- **Ensure SOE reforms move forward with a focus on improving transparency and public accessibility of information about SOEs and their operations.** As highlighted by the IMF (2022), it is crucial to (a) resume the meetings of the Coordinating Council for Fiscal Risk Management, (b) publish the annual SOE Fiscal Risk Statement, (c) finalize the new SOE fiscal-risk management reform strategy,⁵⁸ and (d) implement the risk management manual, with particular attention to enhancing transparency, governance, and risk-management frameworks. The revised SOE Law should also be fully implemented, focusing on disclosing quasi-fiscal activities and adopting international reporting standards.⁵⁹

III. Sectoral Analysis: Aviation Sector

56. **In addition to examining governance issues relating to the InfraGov dimensions, an analysis of the aviation sector was conducted given its relevance to economic development in the country.** The sector was specifically examined through a governance lens so as to avoid replicating previous or ongoing sector work undertaken by other units of the World Bank.

State of Play

57. **For a landlocked country with an underdeveloped road network, Tajikistan's air connectivity is key to its economic development.** The country's geographical location and landlocked status creates dependency on air links to maintain essential connectivity with international destinations. However, the air transport sector is underdeveloped, inefficient, and expensive because of limited competition and market scale, with only a few major international airlines flying operating in Tajikistan.⁶⁰

58. **Tajikistan has undertaken a series of aviation sector reforms in recent decades with support from the World Bank.**⁶¹ In 2008, Order of Government No. 491 on "Reorganization of the Tajik Air State Unitary Aviation Enterprise" split up the national airline, airports, and air traffic control into separate

⁵⁸ IMF, 2022. Republic of Tajikistan: 2021 Article IV Consultation. Country Report No. 2022/053. <https://www.imf.org/en/Publications/CR/Issues/2022/02/17/Republic-of-Tajikistan-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-513280>

⁵⁹ See IMF, 2021. Republic of Tajikistan: Selected Issues. <https://www.elibrary.imf.org/view/journals/002/2021/201/article-A001-en.xml>

⁶⁰ <https://documents1.worldbank.org/curated/en/680151528479302248/pdf/TJK-SCD-WEB-v300518-06052018.pdf>

⁶¹ Support was provided under the World Bank-financed six Programmatic Development Policy Grant Projects (2006-2013).

state-owned companies.⁶² Order of Government No. 707 of 2009⁶³ transformed the international airports into JSCs. The Department of Civil Aviation under the Ministry of Transport became the authorized government body in charge of safety and security oversight and policy-making functions per the 2005 amendment to the Air Code of 1998. In 2007, per Order of Government No. 107, safety oversight responsibilities were reassigned to the State Supervisor and Regulatory Service in Transportation under the Ministry of Transport. This entity covers all transport modes, but it does not enjoy financial independence from the ministry. Finally, approval of airport and air navigation charges is the responsibility of the Antimonopoly Committee, whereas MoF retains a supervisory role regarding SOE performance and associated fiscal risks.

59. **In 2017, per Decree No. 596, the Civil Aviation Authority (CAA) was established, transferring responsibilities for aviation safety and security oversight and policy-making and monitoring from the Ministry of Transport to this new autonomous state body; while in 2018, per Decree No. 536, the responsibilities for airports and navigation service were also transferred from the ministry to CAA.**⁶⁴ While the ministry may provide suggestions to it, CAA is an independent body, reporting directly to the Prime Minister's Office. CAA's responsibilities include implementing state aviation policy; developing plans and programs; organizing the use of airspace; developing common standards, licensing, and certification for civil aviation; and monitoring tariffs and fees—a wide remit for an entity with only 28 staff. The International Civil Aviation Organization has systematically noted CAA's limited capacity to fulfill its obligations in terms of (a) acquiring sufficient funding to conduct oversight activities, and attract, train, and retain proficient experts; and (b) adopting specific operating regulations emanating from the International Civil Aviation Organization Standards and Recommended Practices; and (c) complying with its surveillance obligations in the sector. CAA intends to develop an aviation strategy (with international support) and update relevant laws and regulations.

60. **Tajikistan has four international airports (Bokhtar, Dushanbe, Khujand, and Kulyab), which are JSCs.** They are wholly owned by the government and operate as independent commercial enterprises. Dushanbe International Airport serves the capital (Tajikistan's largest city), with 1,422,204 passengers recoded in 2019 (see Figure 8).⁶⁵ It is the de facto hub airport of the country and seeks to become the hub airport of the region.⁶⁶ It has a new terminal built in partnership with France. Its air service operations strongly rely on the Russian market, reflecting temporary labor migration. (It also manages Khorog Airport, which falls under the former's balance sheet.) Tajikistan has other domestic airports (e.g., Isfara) that are managed by local authorities.

⁶² http://portali-huquqi.tj/publicadliya/view_qonunhoview.php?showdetail=&asosi_id=10564

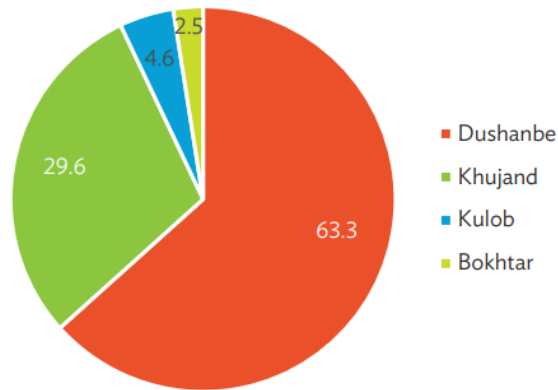
⁶³ http://portali-huquqi.tj/publicadliya/view_qonunhoview.php?showdetail=&asosi_id=11573

⁶⁴ http://portali-huquqi.tj/publicadliya/view_qonunhoview.php?showdetail=&asosi_id=25007

⁶⁵ <https://www.adb.org/sites/default/files/institutional-document/755636/tajikistan-transport-sector-assessment.pdf>

⁶⁶ <https://www.eways-aviation.com/blog/what-are-the-key-airports-of-central-asia#:~:text=Dushanbe%20International%20Airport&text=Located%20in%20Dushanbe%2C%20Tajikistan%2C%20it%20hub%20airport%20of%20the%20region>.

Figure 8: Passenger Traffic by International Airports in Tajikistan, 2019



Source: Asian Development Bank.

61. **Tajikistan is currently serviced by two domestic and 15 foreign airlines.** Somon Air is a private company established in 2008. Its fleet consists of eight Boeing aircraft, which operate flights from Dushanbe and Khujand to Almaty, Dubai, Frankfurt, Istanbul, New Delhi, Tashkent, Urumqi, 12 locations in the Russian Federation, as well as between Dushanbe and Khujand. International airlines operate up to 80 percent of the flights and carry approximately two-thirds of air passengers. The Russian low-cost Ural Airlines, S7 Airlines, and Nordwind Airlines are the most active and serve multiple airports. Turkish Airlines and Fly Dubai provide regular international flights to and from Dushanbe. Domestic operations between Dushanbe and Khujand are sparse, regular commercial flights to Khorog have been long discontinued, and the domestic airline component faces other challenges.⁶⁷

62. **Other air infrastructure and ancillary services are either natural monopolies or operate without competition.** Tajik Air Navigation (Tajik Aero Navigatsiya) is an SUE that provides air traffic safety control and navigation services. JSC Toplivo-Zapravochnaya Kompaniya is the monopoly aviation fuel provider. CJSC Sky Catering is the only in-flight catering company in the country and operates at the four major airports.⁶⁸

Key Challenges

Infrastructure Issues

63. **In Tajikistan's regions, inadequate airport quality and that of related infrastructure assets, unaffordable tariffs, limited flights, and a lack of subsidies all contribute to poor domestic air connectivity.** Multiple transport-related indices have rated Tajikistan's air connectivity and logistics poorly, compared with both regional and global benchmarks (see Table 5). Improving road connectivity and availability of personal vehicles also contribute, even if minimally, to the limited number of domestic

⁶⁷ Open JSC Tajik Air stopped operating in 2019 and is now going through bankruptcy proceedings. The Execution Service under GoRT froze Tajik Air's bank accounts in July 2022 to recover the \$20 million demanded by Lithuania's Skyroad Leasing for unpaid leasing fees. The President of the Republic recently appointed a new company head to lead its recovery. See <https://www.asiaplustj.info/en/news/tajikistan/economic/20221011/new-top-manager-of-tajik-national-air-carrier-is-savior-or-liquidator>

⁶⁸ <http://skycatering.tj/>

flights and their financial unviability. However, since 95 percent of the country is mountainous and during winter months roads become impassable, air travel is the only option for travel and freight movement.

Table 5: Tajikistan’s Aviation Infrastructure Assessment in International Rankings

Index	Findings
International Air Transport Association	With respect to air connectivity, Tajikistan ranked 143 of 219 states rated in 2019, reflecting a limited degree of integration into the global air transport network.* While other countries in the region, such as Kazakhstan and Uzbekistan, had strong connectivity growth rates, Tajikistan experienced a 12 percent decline in its air connectivity between 2014 and 2019. * See https://www.iata.org/en/iata-repository/publications/economic-reports/air-connectivity-measuring-the-connections-that-drive-economic-growth/
World Economic Forum Global Competitiveness Index	Tajikistan ranked 91st of 141 countries in the infrastructure subindex of the World Economic Forum’s 2019 Global Competitiveness Index, and only 111th on transport infrastructure and 121st on airport connectivity.** ** See https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf
The World Bank Logistics Performance Index	In 2023, the World Bank Logistics Performance Index ranked Tajikistan 97th of 139 countries overall and 80th on trade and transport-related infrastructure.*** Since 2007 Tajikistan’s trade and transport infrastructure component was systemically ranked lower than the Europe and Central Asia region average, with the gap widening since 2014. *** See https://lpi.worldbank.org/

64. **The lack of strategic planning for infrastructure needs impacts the aviation sector.** Despite recent renovations to the passenger terminal, Dushanbe International Airport is still in need of improved operational efficiency as it is not able to cope with the demand of passengers and airlines. The current passenger terminal can handle 500 passengers hourly, but there is no facility to accommodate transfer passengers. With public projects prioritized based on available financing rather than need, there is no strategically itemized plan outlining which aviation-related investments are the most essential, along with little alignment or coordination with wider transport strategies or plans. To date, all investment support to the Dushanbe airport has been provided by the Japan International Cooperation Agency. In the regions, airports require more basic infrastructure investments, such as runways, reconstruction, and rehabilitation to maintain safety and security standards, and to ensure minimal access for small aircrafts. Aviation has not traditionally been the focus of external financing, with only three development partners providing either grants or loans from 2000-2020 (see Table 6).

Table 6: Development Partner Financing in the Transport Sector, 2000-2020

Development Partner	Road		Air		Rail		Total
	Grant	Loan	Grant	Loan	Grant	Loan	
Multilateral Partners							
Aga Khan Foundation	7.8	-	-	-	-	-	7.8
Asian Development Bank	609.6	155.3	-	-	-	-	764.9
Asian Infrastructure Investment Bank	-	27.5	-	-	-	-	27.5
European Bank for Reconstruction and Development	2.5	219.0	-	10.9	-	-	232.4
Islamic Development Bank	-	85.2	-	-	-	-	85.2
OPEC Fund for International Development	-	106.5	-	-	-	-	106.5
World Bank	148.2	145.8	-	-	-	-	294.0
Bilateral Partners							
France	-	-	-	26.5	-	-	26.5
Japan	145.6	-	24.2	-	-	-	169.8
Saudi Arabia	-	56.0	-	-	-	-	56.0
People's Republic of China	32.9	551.0	-	-	-	72.0	655.9
Iran	21.0	21.2	-	-	-	-	42.2
Kuwait	-	58.8	-	-	-	-	58.8
United Arab Emirates	-	35.0	-	-	-	-	35.0
United States	28.0	-	-	-	-	-	28.0
Total	995.6	1,456.3	24.2	37.4	-	72.0	2,585.5
		2,451.9		61.6		72.0	

Source: Asian Development Bank.

65. **Airports need substantial investments to deliver significant improvements.** The Ministry of Transport proposes investments in airports that include the rehabilitation of Khujand International Airport (\$11.7 million), Bokhtar International Airport (\$57.5 million), and the domestic Panjakent Airport in the center-west of the country near the border with Uzbekistan (\$5.2 million).⁶⁹ The government is also evaluating the construction of a greenfield international airport in Danghara. Construction of Danghara Airport is part of the National Development Strategy to 2030 and the State Target Program on Development of Transport Complex until 2025 to promote infrastructure and provide material and technical upgrades. The projected investment volume is \$138 million.⁷⁰

66. **Contractual arrangements between GoRT and the private sector could address many pressing aviation infrastructure needs; however, private sector participation is limited, reflecting a weak business environment and gaps in the legislative framework for PPPs.** For any investment to produce a good outcome, Tajikistan needs to strengthen its public investment management and prevent distorted decision-making. Strong corporate governance of the contractors, including SOEs, is also crucial for the efficient and effective delivery of public investment and associated services.

⁶⁹ <https://www.adb.org/sites/default/files/institutional-document/755636/tajikistan-transport-sector-assessment.pdf>

⁷⁰ <https://www.oecd-ilibrary.org/sites/5c0e575a-en/index.html?itemId=/content/component/5c0e575a-en#section-d1e24878>

67. **Several factors contribute to the aviation sector operating at low efficiency with unaffordable prices, the main one being the current economic regulatory model, which does not incentivize cost efficiency.** The Antimonopoly Committee is mandated to enforce competition and regulate charges for airport services, air navigation infrastructure services, and domestic air transport services. Under the current “cost-plus” regulatory model, tariffs of domestic transport organizations (airports, airlines, air navigation company, fuel) are allowed to support up to a 35 percent profit margin. The present environment lacks incentives for seeking cost efficiency, as all costs can be transferred downstream, regardless of their economic justification.⁷¹

68. **Despite the recent changes in the regulatory and institutional approach, air transportation services in Tajikistan remain very costly.** Turnaround infrastructure costs (fees levied on carriers and passengers for international flights) in Dushanbe, Khujand, and Kulyab International Airport are in the top four most expensive airports in the region (see Figure 9). Monopoly for jet fuel (which is heavily taxed by the government) has also contributed to unaffordable prices, making the fuel prices the second-most expensive after Tashkent in 2017 (see Figure 10). As a result, more passengers are using airports in neighboring countries to fly to Moscow. Jet fuel costs have already reached almost \$2,000 per ton, the highest in the region and twice the price in Kazakhstan. There is still only one company engaged in supplying jet fuel in Tajikistan.

Figure 9: Infrastructure Turnaround Costs

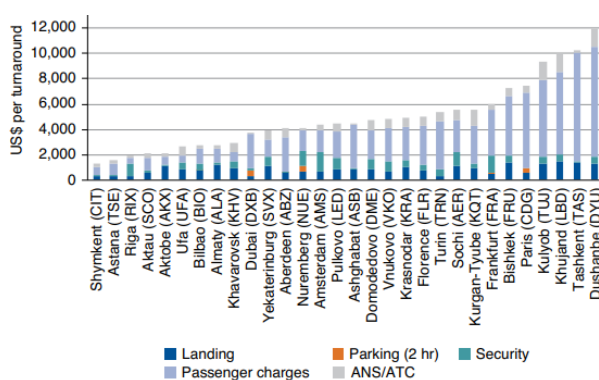
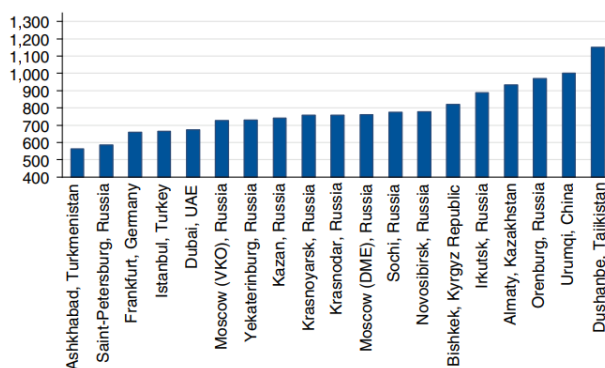


Figure 10: Jet Fuel Prices, 2017 (\$USD per ton)



Source: Tajikistan Country Economic Memorandum, 2019.

Market Access and Competition

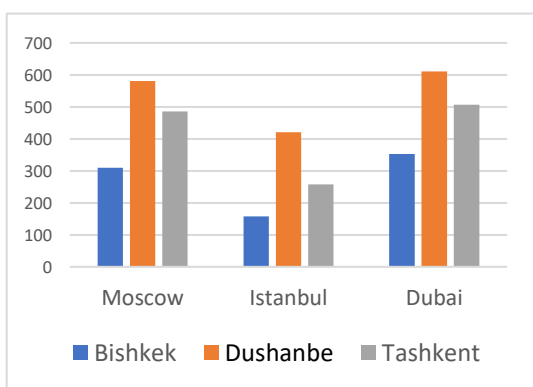
69. **Market access in the aviation sector remains restricted, adversely impacting connectivity and airfares.** A private carrier, Somon Air, currently holds about 30 percent of Tajikistan’s total seat capacity. Somon Air cannot compete with international airlines with its small fleet, especially if Tajikistan intends

⁷¹ Tajikistan Country Economic Memorandum Nurturing Tajikistan’s Growth Potential, 2019 (hereafter Tajikistan Country Economic Memorandum, 2019).. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/283081560956198220/tajikistan-country-economic-memorandum-nurturing-tajikistan-s-growth-potential>

to maintain a 1:1 ratio (flight parity) for the number of flights operated by domestic and international airlines. International carriers hold the rest of the market share. Three large Russian airlines accounted for almost 40 percent of the Tajik market in 2019. Of the 22 routes operating from Dushanbe prior to the Covid-19 pandemic, 12 were served only by one carrier.⁷²

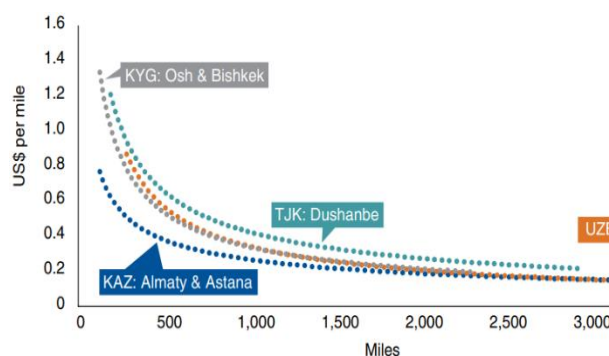
70. **As a result, airfares from Dushanbe are the highest in the region.** The Moscow-Dushanbe route represents 46 percent of the seats offered in the market. It has tightly protected and agreed capacity, which was left unchanged for almost 10 years, constraining market growth and inflating airfares (see Figures 11 and 12). Following the resolution of bilateral disputes, only three additional frequencies were added from Dushanbe to Moscow’s Zhukovsky International Airport. Some capacity expansion was allowed from secondary airports to Moscow, but these were quickly curtailed to prevent a diversion of air traffic from Dushanbe. Tajikistan also maintains a protective stance with Turkey and Dubai; this translates into limited services and aircraft types serving the route.

Figure 11: Air Ticket Prices (\$) to Major Airports, 2020



Source: <https://cabar.asia/en/open-skies>

Figure 12: Average Lowest Available Airfare, 2019



Source: Tajikistan Country Economic Memorandum

71. **Changes are needed to make the aviation sector more attractive to potential investors.** In 2019, the World Bank reported that despite previous reforms in air transportation to unbundle airport services, air navigation, and air transportation, the current aviation policy remained restrictive: rules prevented entry and expansion in the provision of international passenger transport, jet fuel provision was not contestable, and regulation of monopoly services—particularly airport services—was ineffective to incentivize efficiency and reduce transport costs.⁷³ However, in December 2022, in his annual speech on domestic and foreign policy, the President of Tajikistan mandated GoRT to undertake actions on introduction of “Open Skies,”⁷⁴ aiming to expand the country’s transit opportunities and improve the quality and competitiveness of civil aviation services.⁷⁵ With this top-down, presidential impetus, CAA is

⁷² Ibid.

⁷³ Ibid.

⁷⁴ The Open Skies policy is a regulatory framework that allows airlines to operate more freely across international borders with fewer restrictions on routes, capacity, and pricing. The International Air Transport Association defines Open Skies as “a bilateral air services agreement that liberalizes the rules for international aviation by allowing airlines from each country to fly freely to any point in the other country’s territory, without restrictions on the number of flights, the types of aircraft used, or the prices charged.

⁷⁵ <http://www.president.tj/en/node/29825>

now considering deregulation of Air Transport Services as a next important step in the reform process, which should be interlinked and embedded with a transport sector strategy.

Recommendations

72. **GoRT should**

- **Ensure that the institutional and regulatory framework is better aligned with international good practices.** CAA should focus more on ensuring flight safety measures and delegate other industry functions to specialized bodies. Ownership, monitoring, and governance of state-owned enterprises in Tajikistan is fragmented and at some points duplicated across agencies, resulting in an unclear picture of how SOEs reforms should be undertaken. This overall challenge in the SOE framework affects the effective operation of the aviation sector. As a result (complementing the recommendations on SOE governance) a strategic analysis should be undertaken to understand the reasons for maintaining state ownership of aviation related SOEs and their accompanying assets. This would allow for optimization of the state sector, while also identifying opportunities for private sector participation.
- **Prioritize the development of an Open Skies policy that expands market access in key aviation subsectors.** With the enhanced focus on the Open Skies policy in Tajikistan, key areas of focus should include the market access extensive margin (number and types of routes that could be operated), intensive margin (traffic rights, which set the maximum capacity allowed, given by frequency and the type of aircraft that could be used), and the level of market competition (number of carriers allowed per route).
- **Increase and prioritize investments in airport infrastructure and service delivery to improve air connectivity.** To address the issue of poor domestic air connectivity, challenges arise in terms of maintaining an essential air services program to ensure accessibility and affordability. Basic infrastructure on airside, landside, and air navigation is also in need of rehabilitation. Airports in general should also focus on maintaining levels of service for passengers (especially Dushanbe at busy hours), improving their compliance with local and global safety and industry accreditation standards, and investing in strengthening staff capacity. Inevitably, Dushanbe will face competition with existing hubs (such as in Almaty and Tashkent). The use of PPPs in developing aviation-related infrastructure should be explored.

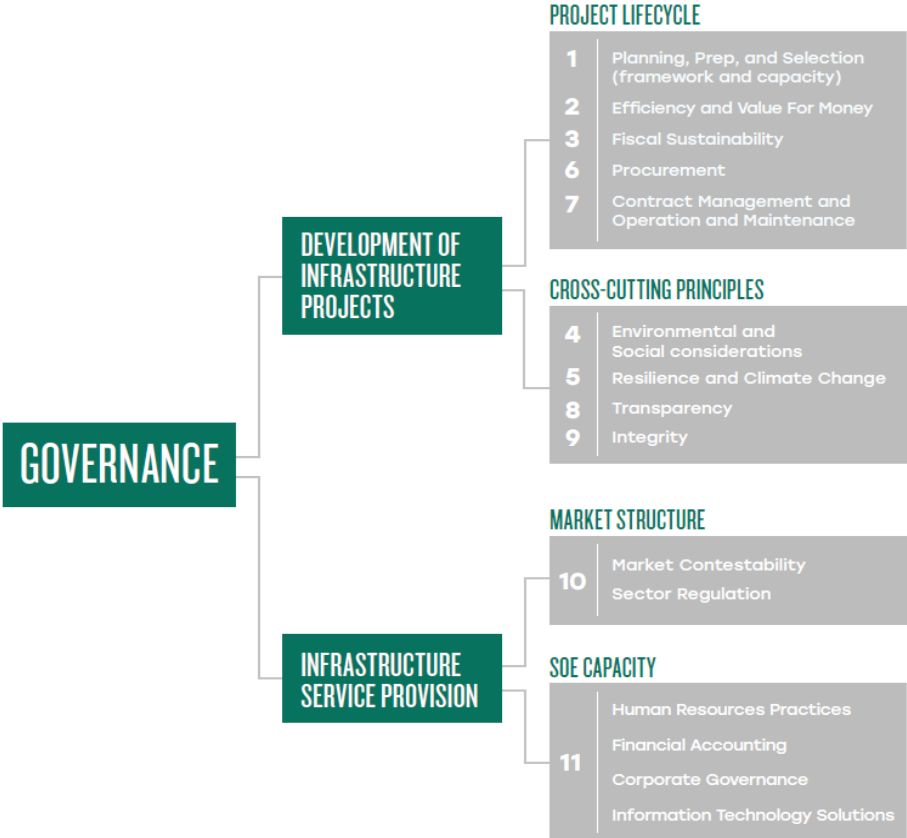
Annex 1. Methodology

- 1. Sustainable, affordable, and cost-efficient infrastructure services are a fundamental pillar of long-term development.** Evidence shows that weak governance arrangements for infrastructure decision-making and implementation impede asset creation and operation. Governance of infrastructure sectors is a critical driver of sector performance, as well as a key determinant of the fiscal risks and investment climate for private finance. Governance of infrastructure sectors is complex and multifaceted, posing significant challenges along various stages of the infrastructure supply chain, and encompassing both regulatory and institutional dimensions.
- 2. The economic crisis arising from COVID-19 has heightened the importance of sound infrastructure governance.** The pandemic and its associated economic downturn have simultaneously increased demand for certain types of infrastructure (whether new or retrofitted), reduced resources available for investment, and intensified the need for value for money (VfM) in infrastructure service provision, including through state-owned enterprises (SOEs). Infrastructure investment is likely to feature as a key component of economic recovery packages. Increased transparency and integrity will be critical given that there may be pressure to accelerate spending. In addition, investment will need to pay increased attention to social benefits, including employment generation, climate and environmental aspects, and impact on economic growth. Planning capacities and the governance of infrastructure planning, procurement, and delivery will also be critical in making infrastructure an effective part of economic recovery initiatives.
- 3. The Infrastructure Governance Assessment Framework was developed in 2019 by the World Bank's Governance Global Practice and the Public-Private Partnership, Infrastructure Finance and Guarantees Group and Infrastructure Chief Economist.** The purpose of applying the InfraGov assessment framework is to help countries address governance challenges around infrastructure service provision and enable them to achieve VfM. The InfraGov forms one of the three pillars of the Infrastructure Sector Assessments Programs (InfraSAP) framework, a World Bank-extended core diagnostic, providing a diagnostic approach covering 11 key governance dimensions that contribute to good delivery of infrastructure services.
- 4. The framework provides an overview of the governance that leads to quality infrastructure, and offers resources and methodologies for conducting such an assessment.** The aim is to provide actionable recommendations that result in concrete policy changes. The set of dimensions outlined in this framework builds on existing standards, drawing on the Quality Infrastructure Investment principles developed and endorsed by the G20, MAPS methodology, the World Bank's integrated State-owned Enterprise (iSOE) Framework, Infrastructure Governance for Maximizing Finance for Development, previous InfraSAPs, more than 100 public investment management (PIM) assessments, the 2017 Organization of Economic Cooperation and Development framework "Getting Infrastructure Right," International Monetary Fund (IMF) research, and national government good practices.
- 5. Broadly speaking, the InfraGov framework assesses three major areas of infrastructure governance.** The first area relates to the lifecycle of an infrastructure project, focusing on selection, design, procurement, and implementation of investment projects. The second identifies key cross-cutting issues for good infrastructure, including integrity, transparency, and consideration of social,

environmental, and climate-change risks and opportunities. The third area concerns the ways in which infrastructure services are provided to consumers. It encompasses market structure and competition, the regulatory framework for addressing natural monopoly activities, and corporate governance and governance arrangements around SOEs.

6. **The relevance of these broad areas and dimensions may vary depending on the specific governance arrangements in place for different sectors in different countries.** They are only meant to offer an analytical framework that helps uncover governance issues affecting the provision of infrastructure assets and services. They are not intended to prescribe specific systems or institutions; rather they highlight functional behaviors likely to deliver good infrastructure outcomes, acknowledging that there are many different ways to stimulate these behaviors. This governance assessment framework is illustrated in the Figure below.

Figure 13: Infrastructure Governance Framework



Source: WBG, Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

7. **Recognizing the distinct needs of Tajikistan, , the assessment is methodologically aligned, but not uniform, in terms of coverage of the 11 dimensions of the Infrastructure Governance Framework, allowing for some tailoring to the needs and opportunities present.** Based on the country profile, previous assessments undertaken, and on the reform priorities of the country, seven dimensions were identified, and one specific infrastructure sector was chosen to be the focus of this InfraGov assessment

within the Tajikistan (see Table 7 below). These applied dimensions and sectors were selected following a desk-based research, internal consultations, and discussion of the strategic priorities of the country. As the dimensions captured in InfraGov Assessment Framework spans several topics that are relevant to other areas and sectors within the World Bank (and IMF), this assessment built upon such previous analyses and did not duplicate any work previously undertaken. Annex 2 summarizes the recommendations within these reports and provides an update on progress made on implementing these recommendations. This work complements sector-based analysis with the application of a governance lens.

Table 7: Dimensions and sectors chosen for the Tajikistan InfraGov Assessment

APPLIED DIMENSIONS AND SECTORS		
<i>Applied InfraGov Dimensions</i>	Project Lifecycle	Dimension 1: There should be a solid legal framework and institutional capacity in place to plan, assess, prioritize, and select potential infrastructure projects.
		Dimension 2: Economic efficiency and value for money (VfM) over the infrastructure life cycle are important criteria in the choice of infrastructure investments.
		Dimension 3: The fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their life cycle.
		Dimension 6: Infrastructure procurement and contract management systems should be efficient, high quality, and should support competition and transparency.
	Cross cutting principles	Dimension 5: Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.
		Dimension 811: Transparent access to adequate information throughout the project cycle is key for project performance and accountability.
Service provision	Dimension Eleven: SOEs should operate on market terms where possible, with clear reporting and corporate governance standards, and sound approaches to human resources and financial management.	
<i>Identified Sectors</i>	Aviation	

8. **This report summarizes the findings from applying the InfraGov Assessment Framework to Tajikistan** This report was generated following a benchmarking exercise, discussions with World Bank Country Staff, a review of previous reports from Development Partners on PIM, and two in-person fact-finding missions to Tajikistan. Annex Two outlines the progress made on recommendations made in other public infrastructure / investment related assessments (including the 2022 PEFA assessment, the 2021 Public Expenditure Review and the 2018 Public Private Partnerships Framework Diagnostic). When benchmarking infrastructure service delivery in Tajikistan against economies in the same region or with the similar level of economic development, the framework looks at efficiency of institutions and processes in their delivery of investments and related services, through the review of studies, collection of new data, and a series of interviews/focus groups with government officials and private sector investors.

Annex 2. Progress on Public Infrastructure-related Recommendations

Source	Recommendation	Progress Report
2021-PER	Strengthen the existing Public Investment Management (PIM) Governance Framework by upgrading PIM procedures into a PIM manual, with general guidelines for the economic appraisal of investment projects.	No progress - No PIM methodology is in place covering economic analysis of investment proposals, project selection, costing, and monitoring.
2022-PEFA	Publish economic appraisal reports or feasibility studies for major projects.	No progress - Economic appraisal reports or feasibility studies are not always published, except for donor-supported projects. This is a challenge that deters effective investment programming, project appraisal, and prioritization.
2022-PEFA	Undertake prioritization of all public investment projects that are included under the Public Investment Program (PIP).	Partial progress - Prioritization of public investment projects is undertaken for most major investment projects, but not all of them. This is caused by the absence of sufficient staff and resources to undertake the full screening and prioritization of all investment proposals that are submitted to the Ministry of Economic Development and Trade (MoEDT). In practice, priority is sometimes given based on political grounds, especially for presidential programs, such as those announced during the president's annual address to Parliament. Some construction projects are also approved after the regular selection procedure has closed.
2021-PER	Formalize the role of key performance indicators in the context of PIM.	Partial progress - The Resolution of the GoRT #161, dated March 27, 2018, introduces some principles of performance indicators in the assessment and evaluation of the investment projects, but the specific modalities for monitoring and evaluation of projects are not fully elaborated. Reporting includes physical progress but is only based on disbursement profile and not on performance indicators.
2021-PER	Management responsibilities should be clearly defined within the PIM system.	No progress - The institutional fragmentation of the PIM process between the MoEDT, Ministry of Finance (MoF), and State Committee on Investment and State Property Management (SCISPM) restricts adequate monitoring and evaluation of projects, particularly domestically funded projects.
2021-PER	Improve the programming of capital investment financing to take account of recurrent operating and maintenance costs by (a) harmonizing the budgeting process between line ministries' budget and technical departments; and (b) strengthening medium-term forecasting of capital expenditures funded from budget and external sources.	No progress - PIP does not disaggregate overall project costs by recurrent and capital expenditure.

Source	Recommendation	Progress Report
2018-PPP Framework Diagnostic	Value for money (VfM) assessment and cost-benefit analysis of PPP projects should be conducted.	Partial progress - The formulation and evaluation of the current PIM system includes both PIP and public-private partnership (PPP) operations. Economic appraisals of projects include cost-benefit analyses and social return on investment, but these were only performed for some large projects. In 2020, economic appraisals were available for only three large investment projects, such as the Rogun Hydropower Project (HPP) construction, Regional Power Transmission Project (CASA-1000), and Rehabilitation of Nurek HPP.
2022-PEFA	Roll out program classification across the whole government sector.	Partial progress - Program classification was introduced on a pilot basis in six sectors (agriculture, education, energy, health, ICT, social protection, and transport) and corresponding program classifications were developed and published as an annex to the annual budget legislation. This has not been rolled out across the whole government sector.
2022-PEFA	Introduce performance budgeting across the whole government sector.	No progress - Performance budgeting has not been introduced, and thus no independent evaluations have been conducted to date of the efficiency and effectiveness of service delivery. Most ministries, departments, and agencies either do not have and/or do not publish their performance information.
2021-PER	Adopt new public procurement legislation and strengthen integration of the e-procurement system with the Tax and Financial Management Information System and tax administration.	Good progress - New Law on Public Procurement is scheduled to be adopted in 2023. Since the beginning of 2021, 100 percent of procuring organizations have conducted procurement activities through the Unified Public Procurement Portal.
2021-PER	Adopt International Financial Reporting Standards (IFRS) across all public interest entities and improve state-owned enterprise (SOE) legislation.	Partial progress - Annual financial reports of budget entities are not always consistent with International Public Sector Accounting Standards (IPSAS) and, for SOEs, with IFRS. Some progress is being made, but it requires time and significant human resources to help SOEs raise the bar in terms of their financial accountability and corporate governance standards.
2021-PER	Reform public procurement by improving the electronic public procurement system, including e-complaints mechanism and capacity development in the Public Procurement Agency and other procuring entities.	Partial progress - The procurement complaints management system is at its preliminary stages of development and, until the new public procurement legislation is in place, is not independent.

Source	Recommendation	Progress Report
2014-Fiscal Risks from SOEs (World Bank)	The public should have access to information on public services or goods provided by SOEs and should be aware of the actual costs and how they are financed.	Partial progress - The financial statements submitted by the 27 largest SOEs to the MoF include information on revenue, expenditure, financial and nonfinancial assets, liabilities, guarantees, and long-term obligations. All other SOEs report to respective line ministries and other central government bodies, although there is an account of the presence and quality of annual financial statements. The majority of the remaining SOEs, which are not monitored by MoF, do not publicly disclose their financial statements. These statements are also rarely audited annually.
2014 Fiscal Risks from SOEs (World Bank)	Disclosure of material fiscal risk factors and measures taken to manage them and operationalize the draft methodology for fiscal risk assessment of large SOEs.	Partial progress - MoF is developing the SOE Fiscal Risk Management Strategy, but other risks arising from explicit contingent liabilities remain unaddressed.

Annex 3. Glossary

Term	Definition
Accountability	Accountability refers to being held responsible for correctly carrying out a defined set of duties or tasks, and for conforming with rules and standards applicable to a particular post.
Bid	An offer or proposal for goods and/or services submitted in response to a government agency's invitation.
Capital expenditure	Consists of investments (i.e., gross capital formation and acquisitions, less disposals of nonfinancial, non-produced assets) and capital transfers (i.e., investment grants and subsidies in cash or in kind made by subnational governments to other institutional units).
Central government	Consists of all administrative departments of the state and other central agencies whose responsibilities cover the whole economic territory of a country.
Climate-change adaptation	The process of adjustment of human and natural systems to actual and expected adverse effects of climate variability and change.
Climate-change resilience	The capacity of human and natural systems to learn, adapt, and transform in response to risks induced or exacerbated by climate variability and change.
Climate risks	A function of the interaction between (a) environmental hazards triggered by climate variability and change; (b) exposure of human, natural, and infrastructure systems to those hazards; and (c) the systems' vulnerabilities (e.g., its sensitivity or susceptibility to hazards, and the constraints on capacity to adapt and cope).
Corruption	The abuse of public office for private gain.
Digitalization	The use of digital technologies and data and interconnection resulting in new or changes to existing activities.
Efficiency	The extent to which the intervention delivers, or is likely to deliver, results in an economic and timely way.
Environmental Impact Assessment (EIA)	A procedure that evaluates a project's potential environmental risks and impacts in its area of influence; examines project alternatives; identifies ways of improving project selection, siting, planning, design, and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive impacts; and includes the process of mitigating and managing adverse environmental impacts throughout project implementation.
Environmental protection	Includes all activities and actions that have as their main purpose the prevention, reduction, or elimination of pollution as well as any other degradation of the environment.
Feasibility study	A preliminary exploration of a proposed project or undertaking to determine its merits and viability.
Financing	The way in which the resources required to undertake the upfront investment are raised. Financing increases public debt and must be repaid to the financing source.
Fixed assets	Categories of fixed assets include buildings and structures, including all amounts payable for site clearance and preparation and the cost of all fixtures, facilities, and equipment that are integral parts of buildings and structures; machinery and equipment (when separate from buildings and structures); other fixed assets, including

Term	Definition
	intellectual property products, such as research and development and computer software and databases; and weapons systems.
Foreign direct investment (FDI)	Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.
Funding	Funding comes either from users or taxpayers that pay for the infrastructure services, either directly or through the government and or government subsidies. Grants are a form of funding.
Governance	The process by which authority is conferred on actors, who make or modify and then enforce rules and regulations.
International financial institution (IFI)	IFIs are entities established by two or more countries whose remit revolves around international financial issues (e.g., balance of payments distortions, promotion of sustainable economic development) and which are subject to international, not national, law. Perhaps the two most influential IFIs are the Bretton Woods institutions (IMF and World Bank).
Institutional framework	The systems of formal laws, regulations, procedures and informal conventions, customs, and norms that shape activities and behavior of an entity.
Joint Stock Company (JSC)	A legal entity that issues shares to raise funds for its operation.
Lifecycle costs	Total cost of ownership (including maintenance) of public infrastructure assets.
Monitoring	A continuous process of collecting and analyzing information to better understand how well a program is operating against expected outputs/outcomes.
Monopoly	A situation where there is a single or dominantly influential seller in the market.
Project	A group of activities (and associated expenditures) with clearly defined objectives and outputs implemented over a fixed time schedule and within a fixed budget.
Project lifecycle	All the stages during the lifetime of a public asset, starting from planning, prioritization, and funding, to design, procurement, construction, operation, maintenance, and decommissioning.
Public integrity	Public integrity refers to the consistent alignment of, and adherence to, shared ethical values, principles, and norms for upholding and prioritizing the public interest over private interests in the public sector.
Public investment	Investment in physical infrastructure (e.g., roads, government buildings, etc.) and soft infrastructure (e.g., innovation support, research, and development, etc.) with a productive use that extends beyond a year.
Public investment management (PIM)	According to <i>the PIM Reference Guide</i> ,* a PIM system should be concerned with the acquisition (or major improvement) of fixed assets, which is synonymous with capital expenditures. The PIM system should deal with investment delivered through projects. *See https://openknowledge.worldbank.org/handle/10986/33368
Public-Private Partnership (PPP)	A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility.

Term	Definition
Public procurement	The process of purchasing goods, services, or works by the public sector from the private sector.
State-owned enterprise	An entity has its own, separate legal personality; is at least partially controlled by a government unit; and which engages in commercial or economic activities and/or has public service obligations to deliver noncommercial services.
State unitary enterprise (SUE)	Unitary enterprises are business entities that have no ownership rights to the assets that they use in their operations. This form is possible only for state and local enterprises that respectively operate state or local property.
Sustainable development	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
Tender	The process through which a government invites bids for a purchase or project.
Total cost of ownership	The purchase price of an asset plus the costs of operation.
Transparency	Transparency refers to an environment in which the objectives of policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to policies, and the terms of agencies' accountability are provided to the public in a comprehensible, accessible, and timely manner.
Value for Money	The optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirements.