

TAJIKISTAN: 2012 DEVELOPMENT FORUM

Presentation by Development Coordination Council (DCC)

11 December 2012

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I. INTRODUCTION

1. The overall objective of the Development Coordination Council (DCC) is to improve the efficiency and effectiveness of its members' development activities in Tajikistan—a goal that is anchored in the 2005 Paris Declaration on Aid Effectiveness and the subsequent 2008 Accra Agenda and 2011 Busan Partnership. To this end, it facilitates the exchange of information and promotes cooperation between members and, in addition, undertakes dialogue with the government on the country's development priorities. DCC support for Tajikistan's 3rd Poverty Reduction Strategy (PRS-3), whose commitments totaled just over \$1.3 billion during 2010-12 (cf. Annex 1), was guided by nine country-specific shared principles of aid effectiveness linked to the targets for 2010 set out in the Paris Declaration. Likewise, DCC support for the country's new medium-term Living Standards Improvement Strategy (LSIS) will be based on the updated list of ten Shared Principles for Cooperation attached to this report. These reflect not only the intent of the original Paris Declaration but also the four priorities agreed at the 4th High Level Forum in Busan last year, namely: country ownership of development; focus on results; inclusive development partnerships; and, transparency and mutual accountability.

2. This paper assesses what, in DCC development partners' view, were the principal outcomes of the PRS-3 (2010-12) and suggests key development challenges and policy priorities for the LSIS period (2013-15). Its final section besides re-affirming continued DCC support for Tajikistan's development, proposes several cross-sectoral, multi-partner initiatives designed to achieve measurable results by 2015 in the LSIS' six priority areas, namely: public administration and governance; private sector-led growth; development of human potential; energy independence; food security; and, transport connectivity

II. PRS-3 OUTCOMES—RETROSPECTIVE

A. Macroeconomic Trends—Steady progress

3. Tajikistan withstood the 2008-09 global downturn better than expected, thanks partly to prudent economic management and partly to timely support from development partners. The main effects of the crisis were twofold: a 30% decline in remittances from Tajik migrants in Russia (from \$2.3 billion in 2008 to \$1.6 billion in 2009); and lower international prices as well as reduced exports of aluminum and cotton. Consequently, GDP growth fell from 7.9% in 2008 to 3.9% in 2009. The authorities' two-pronged anti-crisis strategy comprised increased public spending, including on social programs designed to create jobs, and greater exchange rate flexibility to facilitate current account adjustment. At the same time, budget support totaling about \$288 million and technical assistance from several DCC members helped maintain public expenditures on education, health, and social protection and helped government efforts to mitigate the crisis' impact on poverty and vulnerability.

4. The economy recovered quickly following the 2009 slowdown and the medium-term outlook is favorable. Real GDP expanded by 6.5% and 7.4% in 2010 and 2011 respectively and by 7.5% during the first nine months of 2012, powered mainly by increased remittances—equivalent to 45% of GDP in 2011 and 46% in the first half of 2012—and, in turn, by services, which accounted for more than one-third of total growth in both 2011 and 2012. Growth in 2012 to date has been spurred by services (up 13%), industry (up 10.4%), and agriculture (up 9.8%). Looking ahead, most of the 6% average annual growth projected over the medium term is expected to be driven by construction, trade, and other services, with exports of non-cotton agriculture, energy, and mining likely to play an increasing role in the longer term.

5. Inflation has subsided but remains susceptible to higher global food and commodity prices. Thanks mainly to lower food prices offset partly by increased electricity tariffs, the consumer price index (CPI) rose by only 2.9 % in the first half of 2012, much less than the 9.3% recorded in 2011. However, this decline may not be sustainable, with smaller, drought-affected grain harvests in Russia, Kazakhstan, Ukraine, and the United States already resulting in higher global food prices in 2012-13. In this context, given Tajikistan's dependence on food grain imports and the fact that food items account for more than half the consumption basket, the government recently signed contracts with suppliers in Kazakhstan and Pakistan to replenish its reserves.

6. The fiscal deficit declined steadily, capital spending increased sharply, and social expenditures grew modestly. Energy and transport together accounted for 77% of public investment during 2007-11, more than double their 32% share in 2001-03. Spending on education, health, social insurance, and social protection increased from 36% of total public expenditures in 2001-03 to 43% in 2007-11 (excluding the public investment program). Meanwhile, thanks to higher revenues and tightened budgetary policy, the fiscal deficit (including the externally-financed public investment program) declined steadily, from 5.4% of GDP in 2009 to 3.5% of GDP in 2011.

7. Tajikistan's public and publicly guaranteed debt to GDP ratio continued to decline gradually. By end-2011, it was 32.6%, down from 34.4% in 2010. External debt is largely concessional and shared roughly equally between bilateral and multilateral creditors, with China accounting for about 43% of the total. Based partly on a detailed assessment undertaken in 2011, the Ministry of Finance's (MoF) public debt management strategy for 2012-14 reaffirms the government's commitment: (a) to keep public and publicly guaranteed debt below 40% of GDP; (b) to contract new loans only with a minimum 35% grant element; and (c) to undertake cost-benefit analyses of large investments.

B. Millennium Development Goals (MDGs)—Uneven progress

8. Strong growth over the past decade has helped reduce poverty substantially, although Tajikistan remains the poorest country in Europe and Central Asia. According to the latest data (based on statistical modeling), the poverty headcount dropped from 47% in 2009 to 39.6% in 2012, or by almost half since 2003. Several non-income dimensions of living standards also improved: primary and lower secondary enrollment is now almost universal (though gender disparities remain at secondary and tertiary levels); and infant and under-5 mortality had dropped to 52 and 65/1,000 live births respectively by 2010. Further, according to 2006 and 2010 EBRD-World Bank Life in Transition Surveys (LITS), Tajikistan enjoys one of the highest rates of life satisfaction in Europe and Central Asia: over 75 percent of respondents said that the economy in 2010 had improved compared to 2006; 70 percent of households reported that they live better than in 2006; and almost 60 percent were satisfied with their financial situation.

9. On the other hand, Tajikistan's progress towards achieving its Millennium Development Goals (MDGs) remains uneven. According to the most recent (2010) UNDP progress report, 13 of 32 MDG target indicators for 2015, or 40%, are likely to be achieved; an additional 13 are still possible; but six are unlikely. Moreover, four of the latter relate to gender: maternal mortality (one of the highest in Europe and Central Asia), the ratio of girls to boys in upper secondary and especially tertiary education, the share of women in non-agricultural employment, and the number of female members of parliament. These indicators confirm recent World Bank findings that gender disparities in Tajikistan remain significant. For example, although women constitute 45% of the labor force, their average monthly earnings are barely half those of men. Finally, access to safe drinking water remains a serious challenge, especially in the countryside where only 48% of rural communities have access to water supply and 63% of supplied water does not meet local or World Health Organization standards.

10. Access to essential public services and their quality, in particular electric power, education, and health, require significant improvement. A recent survey of 2000 households in the country's five regions found inter alia that: (a) for electricity, while nearly all respondents were connected, over 80% nationwide experienced unscheduled outages; (b) for education, satisfaction with quality is very low, with only 1/3 of urban households and 19% of rural households satisfied or fully satisfied; and (c) for health, access to both ambulatory and in-patient hospital services was inadequate, averaging 36% and 29% nationwide respectively, with the quality of services rated very poorly—only 16% of households were satisfied with ambulatory care and 19% with inpatient hospital services. A more detailed summary of this survey's findings is attached to this report (Annex 2).

C. Private Sector—Important laws adopted, but implementation now critical

11. Tajikistan is expected to become a member of the World Trade Organization (WTO) by mid-2013. In October 2012, the Tajikistan Working Party on WTO Accession agreed the terms and conditions of membership, which include enactment of a package of reforms to the country's trade régime, and its recommendation is expected to be considered and approved by WTO's General Council on December 11. Tajikistan's membership of WTO will thus mark a significant step towards establishing a more transparent and predictable trade and foreign investment environment.

12. The recently approved land code is one of the most important achievements of the ongoing overall agrarian reform process. Approved in July 2012, the amended land code provides for land use rights to be life-long, inheritable, exchangeable, and marketable—all essential preconditions for small farms and rural households to make their own production decisions, as well as to stimulate private sector development in agriculture. Effective implementation, however, will require continued issuance of land use certificates, definition of land valuation methods, further improvements to the mortgage law, and strengthening of the unified registration and cadastre land market systems.

13. The revised tax code, approved by parliament September 5, 2012 and effective commencing 2013, will simplify tax administration, making it more efficient and, indirectly, enhancing incentives for private investment. By consolidating individual taxes for related purposes, their number was reduced from 21 to 10. In addition, to help improve the business environment: (a) the VAT threshold was raised from TJS 200,000 to TJS 500,000, (b) corporate income tax rates will be reduced from 25 and 15 percent to 23 and 13 percent respectively by 2017; and (c) the road user tax will be phased out by 2017. Besides these and other detailed improvements, the new Code reduces or eliminates the red tape involved for private businesses in fulfilling their tax obligations by reducing the frequency of filing, combining filing forms, and aligning filing thresholds for small and medium-sized enterprises. The main challenge going forward will be implementation in key areas such as: protecting private enterprises from harassment and unnecessary inspections; improving dispute resolution procedures; ending corruption and improving performance by tax officials; and ensuring that Tax Committee decisions are respected not only by all state bodies, but also at all levels of tax administration.

14. The law on public-private partnerships was submitted to parliament in August, 2012. Public private partnerships are a viable option to attract investment in key sectors such as energy, infrastructure, transport, and, potentially, health and education. While there is a law on concessions and other investment-related legislation, passage of a public-private partnership law and creation of a dedicated institution or agency can reduce constraints such as poor transparency and oversight over concessions, limited capacity to negotiate with international investors, and slow processing of individual transactions.