Feedback for the publication (updated version) on the topic:

**Tajikistan: channel remittances into investments?**

*(on the UN publication “Financial Analysis in Support of the Implementation of the Sustainable Development Goals in Tajikistan”)*

As we all know, in September 2015 at the 70th session of the UNGA, the UN member states unanimously approved the global Agenda 2030 with 17 Sustainable Development Goals (SDGs). In response, the Government of Tajikistan developed and approved in October 2016 the country's National Development Strategy for the period up to 2030 (NDS-2030) and its first phase - the Medium-Term Development Program for 2016-2020 (MTDP), which, along with industry-specific and sectoral programs are closely and relatively highly associated with the SDGs (by 78%). Moreover, the Government of the Republic of Tajikistan officially proclaimed a policy of reviving the country's industrialization as a general line of economic development.

To achieve the goals outlined in NDS-2030 and, therefore, the SDGs, the estimated financial resources required up to the end of 2030 make 118 billion USD, including 25.5 billion USD for the implementation of the MTDP until the end of 2020.

As we see, the NDS-2030 and the implementation of the SDGs in Tajikistan will require the mobilization of unprecedented investments both financial and actual. It is necessary to look for and find such funds in parallel, being in a difficult transition period from a centrally planned to a market economy.

Everyone clearly understands that the full funding of NDS-2030 and, therefore, the SDG is an extremely difficult task, it is a real challenge. A serious obstacle to the industrialization of the country is the low level of national savings. Therefore, people knowing this are reasonably concerned about the successful implementation of the planned strategic goals and objectives of sustainable development.

Probably for this reason in order to render consultative assistance to the Government of the Republic of Tajikistan the UN Office in Tajikistan on its own initiative conducted in 2018 a financial analysis to support of the implementation of the SDGs in Tajikistan.

The final report was published on 2 local websites of the United Nations and UNDP. The readers understand publication, which is a kind of public event, given the wide interest of the public in the development problems of Tajikistan. The relevance of this publication is also practically assured.

The feedback brought to the attention of readers, covers the results of a brief independent and free assessment (analysis) of the published report.

The UN report deals with the analysis of the current state of financial flows from different sources; various data is presented with the maximum completeness and objectivity, and recommendations are given for the subsequent preparation of a more comprehensive and in-depth Development
Finance Assessment (DFA) of Tajikistan. A draft Terms of Reference for the DFA was also developed. I think that the report will help in the preparation of a funding strategy, i.e. will create a platform for the comprehensive assessment.

There is no doubt that the publication will serve to a certain extent as an incentive for the further in-depth development of the issues of the comprehensive Development Finance Assessment. From this point of view, the authors' work deserves the highest praise. This is an essential advantage of the publication.

The authors draw a conclusion and write that “NDS-2030 represents many policy directions, however, in many cases without quantitatively designated goals. Many of the proposed actions are presented in general terms, with limited information on the costs of their implementation and the source of funding. Despite the relatively short period since the adoption of the strategy, there is no clear evidence on how these plans will be implemented.”

It is stated in the report that the attraction of financial resources by the Government of Tajikistan for the implementation of NDS-2030 and the SDGs is slower than expected for a number of reasons. Additional sources of funding are needed.

However, as noted in the publication, access to additional sources of funding requires reforms and institutional changes to improve public sector planning and management, as well as creating conditions for attracting funding for the private sector, including creating a more favorable environment for its development.

It is also noted that in Tajikistan the tax burden is high. Subsequently it is pointed out that "Improvement in the regulatory environment, in particular tax policy and administration, will serve for attracting additional and more competitive forms of financing than what the financial market of Tajikistan can offer today."

The main question, according to the authors of the study, is tax administration and inspection. They are disproportionately expensive for small and medium enterprises, which are a key subsector that, if necessary, will be able to raise incomes and employment, and therefore the future basis for tax revenues. “Tax policy and administration continue to be the main obstacle to growth, as reflected in the studies of the private sector of the Republic of Tajikistan,” stated in the publication.

It is emphasized in the publication that in order to attract additional forms of financing it would be necessary to make improvements in the public finance management (PFM) and the business climate in general. Both are necessary to attract additional forms of financing for development, which are important and diverse, however this would require the fulfillment of basic conditions and terms regarding PFM and the business climate. It is hoped that the main difficulties associated with the business climate will be resolved.

The report pays great attention to many other new aspects of financing issues and contains constructive suggestions.

However, the essential distinctive aspect of the publication is the following:

The published UN report presents the clear and understandable position of the authors regarding the remittances received in Tajikistan. The authors state that **Remittances are a very large source of financing in Tajikistan.** Tajikistan’s GDP growth is driven by consumption, funded by remittance inflows — the report says.
“Remittances to the country are at an exceptionally high level compared to the average with countries with lower than average income, which is Tajikistan. Despite the declining trend in recent years, remittances still play an important role in financing household investment and consumption. However, such remittances are less used for savings and / or investment in productive (performing) assets. Nevertheless, the highest growth rate is observed in the construction sector, mainly due to remittances,” the report says.

Indeed, most of cash is used by the population for the purchase and consumption of food, the repair of housing and the holding of various events related to customs and rites. Money for this part of the expenses are mainly moved around the population.

Another part of cash, which remains free after meeting current material and cultural needs, is saved at home in case of unemployment, illness, disability, old age, inflation, crisis, etc. There are also savings of a targeted nature, which are intended for the purchase of durable goods (cars, furniture), apartments, both for themselves and for the younger generation of households (each household could consist of both one family and several) for self-taxation. People almost do not have deposits in banks.

However, according to the authors, remittances are the least used for savings (in banks) and / or investing in productive, performing assets. Thus, they raise a question for research: if there is an opportunity to channel this source of financing into productive investment? This issue is directly related to addressing the issues of improving the business climate, the introduction of new financial intermediaries and tools in the financial sector. The authors believe that large remittances, if properly channeled in an improved business environment, could lead to much higher long-term investments.

A good example is Vietnam, where remittances have become a powerful source for the development of private sector enterprises. Thus, 120 billion USD were sent to Vietnam from 1999 to 2015. Previously used mainly to support family members, foreign money transfers in Vietnam are currently used to invest in small and medium-sized businesses. In 2015, only 6% of the money transfers from Ho Chi Minh City (Saigon) were used to support families, while 72% of the funds were channeled into creation and expansion of local types of business. Another 22% of remittances were used to invest in real estate. In Vietnam as a whole, in 2015, about 70% of remittances were assigned to business development. The authors of the report attribute this development mainly to the change in the Vietnamese business climate. However, the report does not provide information on exactly what specific changes occurred in the business climate of Vietnam.

The authors conclude that “improving the business climate and introducing new financial intermediaries and tools for the private sector could potentially channel some remittances into an additional source of financing investments for the development of Tajikistan.” Very subtly and extremely carefully said.

The quotation is read and perceived as follows: the financial intermediary in this particular case is a financial institution (bank, investment fund, etc.) that accumulates a part of household cash deposits and provides accumulated funds for other persons - borrowers for investment in development, in particular, to create new productive assets. Of course, this should not mean the mobilization of the financial resources of one part of the population and channeling them to the other. Apparently, here lies the meaning of creating conditions for the direct investment of a part of remittances by the population itself and its use for development by the same persons upon
request. In any case, before making a decision, the issues of centralized attracting remittances to
development are open and widely discussed.

Of course, the experience of Vietnam and other countries should be widely and comprehensively
studied, but in no case be imported as it is. We have different production relations, a different
environment, other historical and natural climate conditions, a different culture. Experience, if
applied, should be adapted to our conditions.

Request: I kindly ask you to review the feedback, accept and find the possibility of publishing it in
any publication and / or on any United Nations / UNDP website.

Thank you!

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