

# The World Bank in Tajikistan

## Country Snapshot



An overview of the World Bank's work in Tajikistan

April 2020

TAJIKISTAN	2019
Population, million	9.3
GDP, current US\$ billion	8.1
GDP per capita, current US\$	874
Life Expectancy at birth, years (2018)	70.6

### At a Glance

- Tajikistan's economic growth remained strong in 2019 at 7.5 percent. The poverty rate fell to 27.4 percent in 2018, reflecting a recovery in remittance inflows.
- However, the COVID-19 outbreak and the closure of Tajikistan's borders pose substantial risks to the outlook and will likely lead to a significant deterioration of the Tajik economy in 2020–21.
- In addition to major external risks, the construction of the Rogun Hydropower Plant from budget proceeds continues to present a serious domestic risk to macro-fiscal stability and to further squeeze social spending.

### Country Context

Over the past decade, Tajikistan has made steady progress in reducing poverty and growing its economy. Between 2000 and 2018, the poverty rate fell from 83 percent of the population to 27.4 percent, while the economy grew at an average rate of 7 percent per year.

However, the rate of job creation has not kept pace with the growing population, leaving the economy vulnerable to external shocks, and the private sector's role in the economy remains limited, contributing to only 13 percent of formal employment and 15 percent of total investments.

Non-monetary poverty indicators in rural areas remain high, as only 36 percent of the population in rural regions has access to safe drinking water. Tajikistan scores 0.53 in the Human Capital Index, which is lower than the average for its region but higher than the average for its income group.

Tajikistan's high vulnerability to climate change and natural disasters represents an additional challenge to successful economic management. Between 1992 and 2016, natural and climate-related disasters led to GDP losses of roughly US\$1.8 billion, affecting almost 7 million people.

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

## The World Bank and Tajikistan

Tajikistan joined the World Bank in 1993 and the International Development Association (IDA) in 1994. Since that time, the World Bank has invested over US\$1.4 billion to support the country's efforts to reduce poverty and improve people's lives.

The recently approved **Country Partnership Framework for 2019–23** supports Tajikistan's objective to complement its remittance-financed, import-reliant economic model with a focus on boosting private-sector development and exports.

Tajikistan has an opportunity to reconnect to the legacy of the ancient Silk Road and capitalize on its resources, including abundant water and hydro-energy supplies, agriculture and food processing, minerals, and tourism.

By improving the business environment and confidence among enterprises, Tajikistan can encourage private investments that would in turn create greater opportunities for its young and growing population.

Tajikistan is a recipient of additional financing under the Risk Mitigation Regime (RMR), with which it seeks to strengthen its resilience to the risks associated with fragility by creating better economic opportunities in vulnerable regions of the country.

### Key Engagement

The World Bank's current portfolio in Tajikistan comprises 15 investment operations with net commitments of US\$741 million.

Given Tajikistan's long history of power outages, particularly in winter months, its energy sector has been a priority area of engagement for the World Bank, with investments currently at approximately US\$450 million. For example, the Bank's co-financing of US\$226 million for the rehabilitation of the Nurek Hydropower Plant will allow the plant to increase winter generation by 33 million kWh.

### WORLD BANK PORTFOLIO

Number of Projects: 15

Commitment (IDA): \$741 Million

The cross regional Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000) will enable the country to export roughly 2,700 GWh of surplus hydropower-based energy and generate an estimated US\$140 million in annual export revenues.

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

As a result, the (actual) time it takes to register a business has been reduced from 24 days (in 2012) to five days (since 2017). In addition, e-filing for taxes has gained important traction, with 77.8 percent of registered individual entrepreneurs currently using the system.

Given the importance of agriculture and rural development to Tajikistan's economy, the World Bank is investing in key land reforms and increasing opportunities for farmers. Over 122,500 land use certificates were issued to over 350,000 rural residents, 43 percent of whom were women.

These certificates for land use rights strengthen tenure security for families and small businesses. Almost 1.4 million water users benefit today from improved access to irrigation, which has also led to improved food security. Water User Associations, supported by the World Bank, now service almost 33,000 farms.

## Recent Economic Developments

According to official statistics, GDP growth remained strong in 2019 at 7.5 percent. A jump in exports and a recovery in remittances helped narrow the current account deficit to an estimated 4.3 percent of GDP in 2019. Export earnings rose by 9.4 percent, supported by higher shipments abroad of precious metals and electricity.

Delays in rolling out the Targeted Social Assistance (TSA) program to an additional 28 regions and slow progress on the decision to increase the TSA's budget by 10 percent have put this important anti-poverty measure on hold.

Except for two problem banks, the financial sector has continued on its recovery from the 2016 banking crisis, showing an improvement in the quality of the credit portfolio. The share of nonperforming loans stood at 26 percent at the end of 2019. Banking sector profitability also continued to improve, and the level of dollarization declined to 53 percent at the end of 2019 from a peak of 64 percent in 2015.

The poverty rate—using Tajikistan's official poverty line—fell to 27.4 percent in 2018, reflecting a recovery in remittance inflows. The rate of extreme poverty also fell steadily from 18 percent in 2013 to 12 percent in 2018.

## Economic Outlook

The COVID-19 outbreak and the closure of Tajikistan's borders with its neighbors pose significant risks to the economy. GDP growth is expected to fall to 1 percent in 2020 or lower, reflecting the implications of the pandemic and the slowdown in Russia and China.

These implications include a sharp decline in trade and lower commodity prices, a likely large drop in remittances, and worsened prospects for the transport and tourism industries. Growth will likely remain weak at about 3.5 percent in 2021–22, supported by public investment ahead

of Tajikistan's commemoration of 30 years of independence in 2021. Should the COVID-19 outbreak extend beyond the six months now underpinning the baseline scenario outlined above, the outlook will be much more negative.

Growth could be nil in 2020 or even negative, and the pressure on the current account and fiscal deficits will increase.

Prospects for poverty reduction will be undermined by the increase in food prices and the fall in the growth rate and remittances.

Structural challenges in the Tajik economy also weigh on the country's development prospects. Governance issues in the state-owned enterprises—including in key sectors of the economy—present high quasi-fiscal risks and threaten the sustainability of public finances.

Delays in implementing much-needed structural reforms to improve the business environment will continue to hinder private sector development.

The construction of the Rogun Hydropower Plant from budget proceeds continues to present a serious risk to macro-fiscal sustainability and to further squeeze social spending.

Tax reform efforts, the power utility rehabilitation program, and financial sector reform—if implemented successfully—could improve the country's fiscal management and business environment over the medium term.

The Government could accelerate progress in reducing extreme poverty by expanding the TSA to those regions currently not covered by the program and by augmenting the TSA to compensate poor households for utility tariff increases.

## Project Spotlight

### The Second Public Employment for Sustainable Agriculture and Water Management Project



"When I set up my dehkan farm in 2012, it was not easy. We saw the harvest dying, as we did not receive sufficient water for our crops," says farmer Zulfiya Ishmirzoeva. "Disputes over who will get water first were common among the farmers."

In Tajikistan, irrigated agriculture is critical for food security and for rural livelihoods. More than 90 percent of agriculture production is from irrigated lands and over half the workforce is engaged in the agriculture sector, contributing to almost 20 percent of GDP.

The **Second Public Employment for Sustainable Agriculture and Water Management Project (PAMP II)** supported the Government of Tajikistan in improving water resource management at the local, basin, and national levels.

Key to improved irrigation was the rehabilitation of irrigation and drainage infrastructure and support to Water Users Associations, which are community-based organizations linking farmers to an irrigation service provider.

The project also supported improved payment and financial accountability practices between the farmers, Water Users Associations, and bulk irrigation service providers through the introduction of a billing system. Training and new equipment for all these groups further helped to improve water planning and the delivery of irrigation services.

The US\$57.9 million for the project, financed by IDA and the Global Agriculture and Food Security Program, covered 17 of the most food insecure districts in Tajikistan.

Approximately 1.4 million people living in these districts have benefited from improved irrigation services and better water management.

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/tajikistan>



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