

The World Bank in Tajikistan

Country Snapshot



An overview of the World Bank's work in Tajikistan

October 2019

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

At a Glance

- Tajikistan's economy continued to grow during the first half of 2019. Growth is expected to remain relatively strong, supported by public investments and a gradual recovery of commercial lending.
- The poverty rate, based on the national poverty line, fell from 29.5 percent in 2017 to 27.4 percent in 2018, reflecting a recovery in remittances and wage increases.
- However, the slow pace of structural reforms and the volatile external environment pose significant downside risks to the medium-term outlook.

Country Context

Over the past decade, Tajikistan has made steady progress in reducing poverty and growing its economy. Between 2000 and 2017, the poverty rate fell from 83 to 29.5 percent of the population, 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 and 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 17 investment operations with net commitments of US\$655 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 US\$415 million. For example, the Bank's co-financing of US\$226 million in 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: 17

Commitment (IDA): \$655 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, strengthen the financial sector, and increase 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

Tajikistan's real GDP growth picked up from 7.3 percent in 2018 to 7.5 percent during the first half of 2019. Robust expansion of industry (12.5 percent), agriculture (11 percent), and services (9 percent) was the main driver of growth.

On the demand side, growth was supported by net exports and public investment. Private consumption has been muted because of the unchanged inflow of remittances thus far in 2019.

Tajikistan's export basket remains small and concentrated in metallic minerals, leaving the country highly vulnerable to fluctuations in international commodity prices.

Chinese investment in the mining sector helped lift foreign direct investment (FDI) from 0.9 percent of GDP in 2017 to 2.6 percent in 2018.

Except for two problem banks, the financial sector continues on its path of recovery from the 2016 banking crisis, with positive improvements in the quality of the credit portfolio. The share of non-performing loans declined from 30 percent in 2018 to 27 percent by June 2019.

The profitability of the banking sector continued to improve, and the level of dollarization continued to decline. The National Bank of Tajikistan advanced reforms of the country's banking supervision and deposit insurance scheme.

Poverty reduction based on the country's official poverty line has speeded up since the second half of 2017 and fell to 27.4 percent in 2018, reflecting the recovery of remittances.

Economic Outlook

Tajikistan's medium-term outlook reflects the projected slowdown in China and the Russian Federation and the volatility in international prices for major export commodities.

Growth is likely to be supported by the large public investment programs that the authorities have committed to implement before the country celebrates its 30th anniversary of independence in 2021.

In addition, the expected deepening of regional cooperation, connectivity, and trade should also help to sustain high rates of GDP growth, and remittances are expected to support private consumption.

Fiscal pressures are expected to remain high, as the country's elevated risk of debt distress indicates the need for fiscal consolidation throughout the medium term to restore macroeconomic stability. The long-awaited resolution of problem banks, once completed, would help lead to a gradual pickup in private credit and investment.

The FDI inflow is forecasted to remain modest, mirroring shortcomings in Tajikistan's business environment.

Domestic and external risk factors weigh down Tajikistan's economic growth prospects. Governance challenges in public enterprises present high quasi-fiscal risks and threaten the sustainability of public finances.

Delays in implementing reforms to improve the business environment will further dampen private sector development. Limited fiscal space and low policy buffers leave Tajikistan vulnerable to potential shocks. An escalation of global trade tensions or an economic slowdown in the region's large economies would negatively impact inflows of FDI and remittances.

Project Spotlight

Tajikistan Tax Administration Reform Project



A Tax Committee staff member assists a visiting taxpayer with an online application at the Contact Center in Dushanbe, Tajikistan.

An effective and service-oriented tax administration is essential to ensuring a healthy business environment and economic growth.

The Government of Tajikistan has therefore made tax reform a priority, though revenue collection continues to be a challenge. Poor quality taxpayer services, low institutional capacity, poorly integrated IT systems, and gaps

in tax policy analysis and revenue forecasting all contribute to the problem.

To support efforts to build a more efficient, transparent, and service-oriented tax system, the World Bank-financed **Tax Administration Reform Project** has supported the ability of Tajikistan's Tax Committee to operate more effectively in a newly automated environment. The modernization of IT infrastructure and introduction of a unified tax management system mean increased efficiency, with reduced physical interaction between tax officials and taxpayers.

As a result, the rate of e-filing is now as high as 87.4 percent, with 97.2 percent of all legal entities and 77.8 percent of individual entrepreneurs filing their tax returns electronically. The new system enables the Tax Committee to generate the data necessary for its analytical work and to improve reporting and tax assessments. Around 200 electronic kiosks are being built and equipped in remote locations to help taxpayers who wish to file electronically but do not have access to computers.

Thanks to these improved taxpayer services, the number of active firms and individual taxpayers filing taxes has doubled. The Tax Committee is now able to manage all human resources-related issues, such as recruitment, payroll, performance appraisal, benefits, and competencies, through a dedicated system. Moreover, an improved tax training institute with four regional training centers provides regular courses to enhance the professional capacity of staff throughout the country.

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