Online Consultation for the Preparation of the Tajikistan Systematic Country Country Diagnostic

Dushanbe, Tajikistan
March 2017
The Systematic Country Diagnostic (SCD):

• Designed to be the main analytical input into the Country Partnership Framework (CPF), which outlines the World Bank Group’s (WBG) medium term engagement strategy in a country

• Is an analysis produced by WBG teams, benefitting from consultation with external stakeholders, such as civil society, private sector, government, development partners, think tanks, academics, youth and other audiences

• Lays out country opportunities and challenges to:
  • Eradicating extreme poverty AND/OR
  • Boosting “shared prosperity” by promoting income growth for the poorest 40 percent of the population.

Main analytical questions for Tajikistan include:

• How can Tajikistan achieve growth which yields better outcomes?
• What strategy maximizes the potential for achieving higher living standards for all groups of population, while minimizing volatility?
• What strategy is achievable and sustainable by Tajikistan?
CHALLENGES
Facts

- Landlocked
- 93% covered in mountains
- 35% agricultural land
- 7% arable land
- 73% of population lives in rural areas

Endowments

- Water
- Young labor force

In 2015

- Population of 8.5 ml
- GDP of $7.8 bl
- GNI per capita of $1240
- Remittances 33.5% of GDP (2015)
Economic and social consequences of the civil war remain until now

The civil war...

• Accelerated economic decline
• Led to the degradation and destruction of infrastructure and irrigation systems
• Resulted in internal displacement of people

Long-term consequences are...

• Lost period of economic growth that Tajikistan has not yet fully recovered from
• Market reforms were delayed
• Long-term impact on governance and social cohesion

Tajikistan's income per capita has yet to recover
(Index of GDP per capita in constant LCU)
Poverty rates have fallen dramatically but remain high and volatile.

- Poverty rates declined from 73% to 31% in 2003-2015 using the national poverty line
- Rural poverty is higher than urban poverty (35% vs. 24%) and 81% of the poor are in rural areas
- Strong seasonality of poverty rates reflect fluctuating incomes, especially in rural areas
- Churning of poor (people move in and out of poverty in a short period of time) so 13% of the population is poor (using the national poverty line) in all 4 quarters of the year
- Though poverty fell, there are large regional variations in poverty ranging from a low of 20-22% in Dushanbe and Sugd to 39% in GBAO
- Poverty reduction has been driven by income growth rather than income re-distribution during 2013-2015
- Tajikistan experienced shared prosperity as the poorest 40 of the population have seen a rise in their income at rates comparable to those of the better-off 60 percent of the population
Non-monetary poverty is high reflecting inadequate access of the population to basic social and infrastructure services.

- Poverty has resulted in increased incidence of **stunting, wasting and undernourishment**.
- **Water borne** illnesses are one cause of stunting along with insufficient food quality and diversity.
- Not sufficient spending on health (2% of GDP) and **private health expenditures are high** (5% of GDP)
- **Access to basic public services is low** and falling due to lack of investment as well as the difficulty of providing services to a dispersed population.
- **Household energy expenditures are high** with the poorest quintile spending about 20% of disposable income on energy
Households are increasingly reliant on domestic labor markets, but wage growth may be unsustainable—raising the question of what will lead to poverty reduction?

- From 2003-2013, many residents of Tajikistan went to work abroad. Their **remittances** helped fuel poverty reduction.
- However, beginning in 2014 the **regional slowdown** led to return migration and lower remittances.
- Increasing **wages** were an important source of household income for both rural and urban households.
- Though **productivity** appears to be rising steadily, wages have grown at a much higher rate.

**Wages are the main contribution to income**

**The wage and productivity gap is growing**

Source: TJK Jobs Diagnostics
Growth and job opportunities are mostly in low productivity sectors—raising questions about Tajikistan’s growth model

Most jobs were created in low productivity sectors, 2000-14

- Agriculture
- Industry
- Construction
- Transport and communication
- Trade & material production
- Other services

Growth was largely driven by services

- Job destruction
- Job creation

Source: Tajikistan Jobs Diagnostic and Strategy

- The economic structure shifted to being dominated by services
- About 66% of all workers are in the agriculture sector though productivity is low
- Critical agricultural reforms such as the resolution of the cotton debt crisis and land reform have improved incentives and led to faster sectoral growth
- Industrial growth has stagnated limiting the availability of high paying formal sector jobs in the economy
- Agglomeration remains low which will limit growth in productivity
Remittance-led growth has stymied the diversification of the economy increased its vulnerability to shocks

- Though remittance-led growth initially resulted in poverty reduction, it has also had negative consequences due to the “Dutch Disease” phenomenon and made Tajikistan less competitive.
- Exports of goods and services are low at 11% of GDP (2015) - though comparable to LICs (Low Income Countries), much lower than Kyrgyz Republic (38%).
- The export basket is concentrated in a few commodities and dominated by low value-added goods.
- Exports could be grown by increasing market access to neighboring countries through better connectivity.
- However, despite rapid growth in consumer demand, food imports rather than domestic food production have filled the demand.
- Furthermore, international trade is cumbersome in terms of reliability of supply chain and service delivery as seen from Tajikistan’s Logistics Performance Index rank of 153 in 2016.


Exports have remained low for over a decade

Tajikistan’s Export Basket is concentrated in a few commodities

Investment Climate Reform Agenda is yet to be Completed

Doing Business: Distance to Frontier

<table>
<thead>
<tr>
<th>Topics</th>
<th>DB 2017 Rank</th>
<th>DB 2016 Rank</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>128</td>
<td>130</td>
<td>↑ 2</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>85</td>
<td>52</td>
<td>↓ 33</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>162</td>
<td>160</td>
<td>↓ 2</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>173</td>
<td>175</td>
<td>↑ 2</td>
</tr>
<tr>
<td>Registering Property</td>
<td>97</td>
<td>99</td>
<td>↑ 2</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>118</td>
<td>109</td>
<td>↓ 9</td>
</tr>
<tr>
<td>Protecting Minority Investors</td>
<td>27</td>
<td>25</td>
<td>↓ 2</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>140</td>
<td>173</td>
<td>↑ 33</td>
</tr>
<tr>
<td>Trading across Borders</td>
<td>144</td>
<td>142</td>
<td>↓ 2</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>54</td>
<td>55</td>
<td>↑ 1</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>144</td>
<td>144</td>
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</tbody>
</table>

The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each Doing Business indicator. An economy’s distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

Source: Doing Business Database
Private investment has not taken off

Tajikistan is far from the competitiveness frontier

Governance Indicators are far below the CIS and Europe and Central Asia region averages

- Low private domestic investment at 5% of GDP
- The top business environment problems quoted by the private sector: tax rates, tax administration, rule of law, access to finance (particularly local currency), customs, and lack of skilled labor (private sector inputs March 2017)
- A strong disincentive for rural investment is the lack of rural land tradeable rights
- Agricultural commercialization is low with only 1/3 of crops being sold
- Despite economic growth and poor agricultural policies, the urbanization process is stagnant
- Credit market distortions hamper growth of domestic firms, which are generally small
Market accessibility is important and Tajikistan is geographically well placed to take advantage of regional markets

• Access to markets has a significant role in development with regards to connectivity and mobility.

• The capital region, Dushanbe and the northern region, Sugd Oblast have high market to access indices. Sugd Oblast integration with the Ferghana valley (Uzbekistan and Kyrgyz Republic) being important.

• Tajikistan is close to larger markets such as Kazakhstan, Russia, Pakistan, and Russia
Tajikistan is the most vulnerable country to climate change in the Europe and Central Asia region

• Despite Tajikistan’s relatively moderate exposure to climate change events, other factors drive its vulnerability

• Tajikistan’s lack of adaptive capacity (i.e., its ability to successfully respond to climate shocks) increases its vulnerability to shocks.

• High reliance on hydropower and agriculture increases Tajikistan’s sensitivity to climate change

Source: Adapting to Climate Change in Europe and Central Asia, World Bank. 2009.
**Macroeconomic and fiscal sustainability is at risk—raising concerns of an economic downturn**

<table>
<thead>
<tr>
<th>Macroeconomic sustainability/ Sources of growth</th>
<th>Fiscal sustainability</th>
<th>Vulnerability and resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Low national savings</td>
<td>▪ High capital expenditure needs</td>
<td>▪ Systemic risks in financial sector</td>
</tr>
<tr>
<td>▪ Growth was financed by remittances</td>
<td>▪ High social expenditure needs</td>
<td>▪ Bloated and inefficient State Owned Enterprises</td>
</tr>
<tr>
<td>▪ High dependence on aid/concessional borrowing</td>
<td>▪ Spending prioritization</td>
<td>▪ Narrow and undiversified export base</td>
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<tr>
<td>▪ Low and undiversified Foreign Direct Investments (FDI)</td>
<td>▪ Limited tax base</td>
<td>▪ High import dependence</td>
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<td>▪ Large contingent liabilities</td>
<td>▪ Low external and domestic buffers</td>
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- **Domestic Savings in % of GDP 2006-2014**
- **Public health expenditure in % of government total expenditure 2006-2014**
- **Asset quality**
  - NPLs net of provision of regulatory capital, %
  - NPL to total gross loans, %
Opportunities for Future Growth and Prosperity
Opportunities for Future Growth/Prosperity

1. **Private sector & export-led growth**
   - Tajikistan can shift to a new growth model by improving the business enabling environment and strengthening institutions to enhance the role of the private sector in the economy and diversify its economy

2. **Access to opportunities**
   - Tajikistan can expand opportunities by investing in human capital and public services
   - Tajikistan can improve delivery of services by enhancing mechanisms of public accountability.

3. **Resilience & stability**
   - Tajikistan can restore and maintain stability by pursuing sound macroeconomic policies.
   - Tajikistan can strengthen resilience by developing institutional capacity to respond to shocks.
1. Private sector and export-led growth

<table>
<thead>
<tr>
<th>Remittance-led Growth</th>
<th>Diversification</th>
<th>Developing Natural Resource</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No change in government policies</td>
<td>• Policy reforms to increase domestic private investment</td>
<td>• Develop for export purposes</td>
</tr>
<tr>
<td>• Reduce transactions costs of migration</td>
<td>• Agriculture sector reforms</td>
<td>• Develop for internal needs to support economic diversification</td>
</tr>
<tr>
<td>• Improve skill profile of migrants</td>
<td>• Diversify Foreign Direct Investment sources</td>
<td></td>
</tr>
<tr>
<td>• Harness remittances for domestic savings</td>
<td></td>
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</tr>
</tbody>
</table>
2. Access to Opportunities

- **Expand investments**
  - More public expenditures on social and physical infrastructure

- **Increase efficiency**
  - Keep government expenditures the same but use funds more effectively
  - Collaboration with private sector
  - Policies to improve internal mobility and encourage agglomeration (such as addressing asset traps)

- **Equity**
  - Redistribute services in favor of the poorest 40 percent of the population
  - Use safety nets to reduce societal inequalities
  - Rural land reform
3. Resilience and Stability

- **Address macroeconomic risks**
  - Restore financial sector stability
  - Maintain fiscal sustainability
  - State Owned Enterprises reform (esp. utilities)

- **Address environmental risks**
  - Build capacity and institutions in the area of disaster risk management
  - Promote responsible management of the environment

- **Address social risks**
  - Use safety nets to help smooth household consumption including “adaptive social protection systems”
  - Adopt jobs strategy with focus on youth
  - Improve civil engagement (Community Driven Development)
Next Steps

1. Online consultation till mid April 2017

2. Preparation of Systematic Country Diagnostic report in September 2017

3. Preparation of Country Partnership Framework – starts in October 2017

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