

# Tajikistan Diagnostic

Dana Skakova and Eric Livny

March 2020



European Bank  
for Reconstruction and Development

**The analysis in this paper pre-dates the COVID-19 (coronavirus) pandemic. The EBRD will be updating regularly its economic analysis of the implications of the pandemic for Tajikistan and other countries of operations – further details available on [www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response](http://www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response)**

This report was prepared by Dana Skakova, an analyst at the Economics, Policy and Governance (EPG) department at the EBRD under the supervision of Eric Livny, the Regional Lead Economist for Central Asia, Dimitar Bogov, the Regional Lead Economist for Eastern Europe and the Caucasus and Hans Holzhacker, former Regional Lead Economist for Central Asia. Important contributions to the analysis were made by Jonathan Aves, Idil Bilgic-Alpaslan, Umidjon Abdullaev, Aziza Zakhidova, Olivia Riera, Toyama Harumi, Anastasia Rodina, Federica Foiadelli, Susanne Wischnath, Marko Stermsek, Becky Miller and Damin Chung. We are grateful for guidance and comments provided by Mattia Romani (Managing Director, EPG), Artur Radziwill (Director, Country Economics and Policy) and Peter Sanfey (Deputy Director, Country Economics and Policy). We are also grateful to numerous other colleagues in EPG, Banking and Country Strategy and Results Management for helpful comments. The views expressed in this paper are those of the authors only and not necessarily those of the EBRD.



**Country diagnostics are an EBRD tool to identify the main obstacles to entrepreneurship and private sector development and to help shape the Bank's strategic priorities and project selection in new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in the country.**

**Each country diagnostic assesses the progress and challenges of the country of operations in developing a sustainable market economy.** Private sector development and entrepreneurship are at the heart of the Bank's mandate in the regions of operation of the bank, but the private sector in all EBRD countries faces a range of problems and obstacles. The diagnostic highlights the key challenges facing private companies and shows where each country stands vis-à-vis its peers in terms of six qualities of transition – competitive, well-governed, resilient, integrated, green, and inclusive – and points out the main deficiencies and gaps in each quality.

**The diagnostics draw on a range of methodologies and best practice for assessing how big different obstacles are.** Extensive use is made of in-house expertise across the EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (**BEEPS**) and the Life in Transition Survey (**LITS**), as well as other cross-country surveys and reports from institutions such as the World Bank, World Economic Forum and OECD. For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical for private sector development in the country.

**The diagnostics are led by the EBRD's Country Economics and Policy team,** drawing substantially on the expertise of sector, governance and political experts in the Economics, Policy and Governance department (EPG) and consulting widely with relevant experts across the EBRD when preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

**The views expressed in the diagnostic papers are those of the authors only and not of the EBRD.**

**For more information, go to:** <https://www.ebrd.com/publications/country-diagnostics>



**European Bank**  
**for Reconstruction and Development**

**Tajikistan Diagnostic**  
**March 2020**

The analysis in this paper pre-dates the COVID-19 (coronavirus) pandemic. The EBRD will be updating regularly its economic analysis of the implications of the pandemic for Tajikistan and other countries of operations – further details available on <https://www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response>

This report was prepared by Dana Skakova, an associate at the Economics, Policy and Governance (EPG) department at the EBRD and Eric Livny, the Regional Lead Economist for Central Asia. Important contributions to the analysis were made by Dimitar Bogov, the Regional Lead Economist for Eastern Europe and the Caucasus and Hans Holzhaeker, former Regional Lead Economist for Central Asia, Jonathan Aves, Idil Bilgic-Alpaslan, Umidjon Abdullaev, Aziza Zakhidova, Olivia Riera, Toyama Harumi, Anastasia Rodina, Federica Foiadelli, Susanne Wischnath, Marko Stermsek, Becky Miller and Damin Chung. We are grateful for guidance and comments provided by Mattia Romani (Managing Director, EPG), Artur Radziwill (Director, Country Economics and Policy) and Peter Sanfey (Deputy Director, Country Economics and Policy). We are also grateful to numerous other colleagues in EPG, Banking and Country Strategy and Results Management for helpful comments. The views expressed in this paper are those of the authors only and not necessarily those of the EBRD.

---

# Executive summary

This paper assesses Tajikistan's progress towards a well-functioning, sustainable market economy, and the challenges ahead. It provides a basis for the design of the EBRD Country Strategy for Tajikistan and for the structure and prioritisation of ongoing and future investment activities and policy advice/advocacy in the country.

Main findings:

**Tajikistan made significant progress in securing peace and lay the foundations for prosperity since the end of the civil war in 1997.** GDP per capita in constant US\$ terms almost tripled since 1997 but further development requires greater openness, improvements in governance and infrastructure to attract investment and encourage private sector growth.

**Private sector's share stands at 60 per cent of GDP but productivity and competitiveness remain low in regional comparison.** Most businesses are small, lacking in productivity and dynamism. Many operate in the informal sector, which also contributes to low productivity. State and PEP presence is pervasive in key sectors. Governance reforms and privatisation are needed to contain SOE losses, improve their management and service quality.

**Productivity is especially low in agriculture,** which accounts for 60 per cent of employment and 20 per cent of exports (mostly cotton). Small household farms dominate the sector, with no permanent link to upstream buyers, limited access to finance, chemicals, and technology.

**Tajikistan's integration in global value chains is weak.** Trade flows have been decreasing over time, and only recently prospects improved thanks to Uzbekistan's opening up. Exports are dominated by ores, raw cotton, and aluminium, constituting 75 per cent of all exports in 2018.

**The business environment and investment climate remain challenging.** Institutional quality and rule of law need to be strengthened. Tajikistan scores low in such areas as government effectiveness, regulatory quality, media freedom, tax administration and regulatory burden. Development and productivity

could be further promoted by alleviating the pressures faced by women-led businesses.

**Access to finance, especially for SMEs, is hampered by high interest rates and collateral requirements.** Tajikistan's banking sector is small and inefficient. A significant part of lending is state-directed. The sector is exposed to weak asset quality, mainly concentrated in two failed banks. Financial sector reform thus remains a high-priority.

**Access to foreign currency remains a challenge.** Low export receipts, high import demand (related e.g. to the construction of the Rogun HPP) and a reduction in the dollar value of remittances have led to FX scarcity, causing the central bank to prioritise specific sectors for FX transactions, such as food and fuel imports.

**Access to energy and water remains a serious obstacle to business activity and economic growth.** Tajikistan is building the largest (3600 MW) hydroelectric dam in Central Asia, the Rogun hydropower plant (HPP). However, electricity supply is currently strained financially by below cost recovery tariffs, and large receivables from major consumers. The water sector is riddled by outdated infrastructure, high losses, suboptimal investment, and inadequate water governance. While presenting a major opportunity, both sectors need further reform.

**Access to foreign markets, competitiveness and external integration are hampered by inadequate hard and soft infrastructure.** National transportation network is limited in quality and capacity. Despite very recent improvements, customs and border procedures remain cumbersome, resulting in high costs and time losses for businesses.

---

The report also presents Tajikistan's scores for the six desirable qualities of a sustainable market economy – *competitive, well-governed, green, inclusive, resilient and integrated* – and a description of the main transition gaps, which are among the largest in EBRD countries of operations.

---

# 1. Political Economy

**The legacy of the Civil War, which lasted for five years and resulted in the deaths of 50-100,000 people, still affects Tajik politics today.** The Comprehensive Peace Agreement (CPA) in 1997 created a framework within which power would be shared between the Government and Opposition. It brought peace but not real stability. The CPA framework effectively came to an end in 2016-17 with the banning of the opposition Islamic Renaissance Party and the arrest or exile of its leaders. Emomali Rahmon, who had been first elected President in 1994, has been increasingly strengthening his position. In December 2015, a law was passed which granted him the title Founder of Peace and National Unity, Leader of the Nation. It gave him a series of life-time prerogatives, including immunity from prosecution, and exempted him from term limits.

**Over the past five years, the country's political leadership consolidated its centralised governance model** and promoted the vision of a united and proud Tajik nation. Political opposition was marginalised and the space for independent media and civil society was squeezed. Some observers have noted that political and economic power is increasingly concentrated around President Rahmon's family and people with origins in the Kulob region in the south of the country.

**The Tajik leadership strives to strengthen the country's independence and sovereignty,** including its security against possible incursions by extremists from Afghanistan. Russia remains Tajikistan's single most important international partner, particularly in the field of security. Russia maintains a military base with 7,000 soldiers in Tajikistan that helps guard the border with Afghanistan. Tajikistan is a member of the Collective Security Treaty Organisation. Russia would welcome Tajik membership of the Eurasian Economic Union but, so far, the country has not expressed a clear interest in joining. China is Tajikistan's most important foreign investor and, concerned about the situation in the Afghan districts across the border, is gradually increasing its security cooperation. Relations with Uzbekistan have significantly improved since President Mirziyoyev's State Visit in March 2018. Cooperation in energy and water management, people-to-people contacts and

bilateral trade have grown rapidly. Relations with western countries are less developed but common interests in combatting extremism, drug trafficking and promoting regional stability keeps them engaged.

**The country's main political preoccupation has become the transition from President Rahmon.** Many observers suggest that his elder son, Rustam Emomali, is likely to be the official candidate in presidential elections due in November 2020. Rustam has held a series of key political posts and is currently Mayor of Dushanbe. For a smooth succession, the country's leadership will have to build a broad coalition of support across the country's regions, religious and other groups. The role that President Rahmon will continue to play by virtue of his status as lifetime Leader of the Nation will be crucial. However, President Rahmon will take a range of international and domestic factors into account before deciding whether to set the transition in motion.

**The key dilemma facing the Tajik leadership is how to balance the need to open up the country to attract investment and encourage the private sector while retaining political control and stability.** Very large capital inflows are required to finance prestige projects, e.g. the Rogun HPP, the modernisation of the Tursunzoda aluminium complex and infrastructure. Tajikistan managed to secure Chinese and IFI investments and, in 2017, successfully issued Eurobonds. The question remains whether it will be able to continue to attract investment without more transparency, including an IMF programme. The private sector is weakly developed and businesspeople often complain about pressure from the tax authorities and other government agencies. The Government has responded by clamping down on corruption and granting some exemptions from inspections.

---

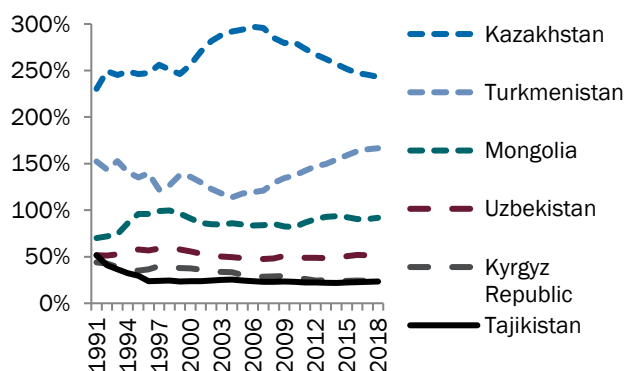
## 2. Growth performance and private sector overview

**2.1. Tajikistan's post-communist transition has been from manufacturing and state-directed collective farming to low-productivity non-tradeable services and fragmented smallholder agriculture, which has led to labour emigration and the emergence of a remittances-based economy.**

**Despite the substantial increase in GDP per capita since 1997, Tajikistan remains the poorest country in Central Asia.** GDP per capita in constant 2010 US\$ stood at US\$ 1073 in 2018 (US\$ 368 in 1997), slightly lower than that of the Kyrgyz Republic, and significantly lower than that of the other Central Asian countries (figure 1). Population of Tajikistan was 9.1 million and nominal GDP amounted to US\$ 7.5 billion in 2018.

**Figure 1: Convergence to the regional average has been sluggish**

GDP per capita (constant 2010 US\$), per cent of Central Asia average



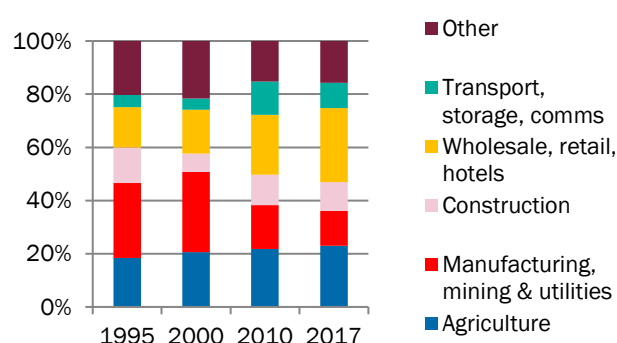
Source: World Bank World Development Indicators

**Structural transformation has been going in the wrong direction.** The share of agriculture has increased from 18 per cent to 23 per cent of total value added while manufacturing, mining and utilities reduced their share from 28 per cent to 13 per cent (figure 2). Manufacturing mainly consists of aluminium production, petroleum processing, food

and light industries, such as textiles, leather, and fabrics and energy generation. Trade and hotels became the largest sector – increasing their share in value added from 15 to 28 per cent. The services sector as a whole delivers about 53 per cent of value added.

**Figure 2: Misdirected structural transformation...**

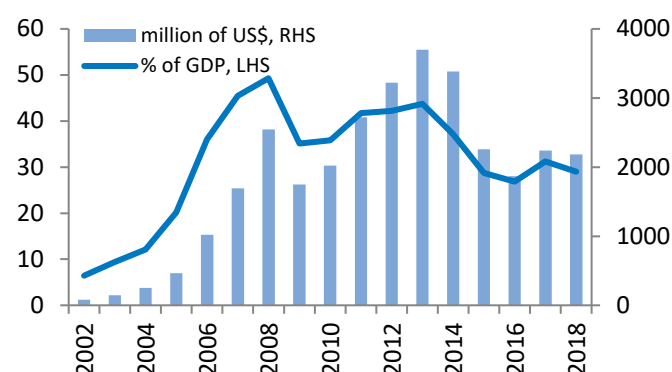
Gross value added by economic activity (constant 2010 \$)



Source: UNdata

**Figure 3: ...Led to remittances-dependent economy**

Remittances to Tajikistan



Source: World Bank World Development Indicators

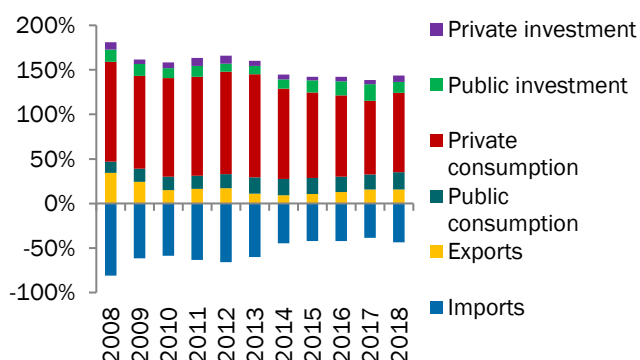
**Limited economic opportunities have led to emigration and increased reliance on remittances as a source of income.** The Labour Force Survey-2016<sup>1</sup> shows that there were around 550 thousand citizens of Tajikistan working abroad in 2016. The

<sup>1</sup> Carried out by Statistical Agency under the President of the Republic of Tajikistan with the support of the World Bank

actual figure of Tajik labour migrants may be even higher. Official statistics show that 6 per cent of the population or 25 per cent of the country's labour force is employed abroad, most of whom leave the country temporarily. Tajikistan exports primarily lower-skilled labour. 95 per cent of migrant workers were men, with the majority having at most secondary education. Russia is the main destination country, absorbing 99 per cent of Tajik migrants and providing the largest share of remittance inflows to the country. Having peaked at close to 50 per cent of GDP in 2008, remittances accounted for 29 per cent of GDP in 2018 (figure 3), mostly used to finance private consumption.

**Figure 4: Private consumption is by far the largest expenditure component**

GDP by expenditure



Source: Authors' calculations based on IMF WEO

**Remittances drive private consumption growth, which now represents the largest share of GDP.** In 2007-2014, private consumption averaged 110 per cent of GDP, but declined to an average of 90 per cent of GDP in 2015-2017 as the inflow of remittances moderated (figure 4). The share of investment was very low in the past, but started rising in 2015, driven by public spending on large-scale infrastructure projects, including Rogun HPP. However, private investment continues to be limited, which hampers productivity growth and is a reflection of the weak business environment. The contribution

of exports has been on a sharp decline since 2007 in response to a

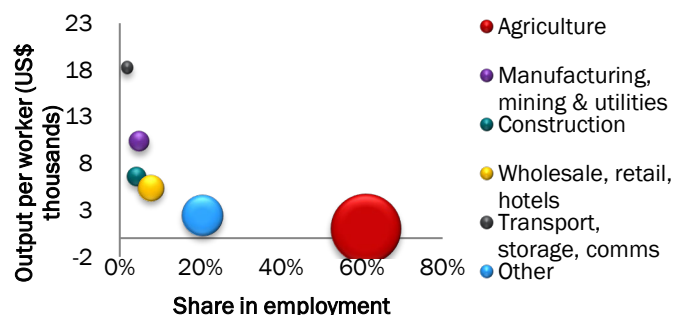
slowdown in demand for Tajikistan's main products.

### Domestic employment remains highly concentrated in low productivity sectors.

While Tajikistan's labour productivity (measured as GDP per person employed, adjusted for PPP) exceeded that of Kyrgyz Republic and Uzbekistan in 1991 by almost one third, its current productivity levels are lagging behind the comparators. The lowest productivity sector, agriculture, employs 60 per cent of domestic labour (figure 5). Education and healthcare account for a significant share of employment too. Higher value added activities such as high-productivity services (transport, storage, communications, and trade), manufacturing and construction account for only 19 per cent of total employment.

**Figure 5: Lack of investments created an economy dominated by low productivity sectors**

Gross value added by economic activity (constant 2010 US\$)



Note: Size of bubbles represents the number of people engaged in the sector

Source: Authors' calculations based on UNdata and Statistical Agency under the President of the Republic of Tajikistan

**Informal sector employment is large.** The World Bank<sup>2</sup> estimates that around 57 per cent of workers were employed in the informal sector in 2013: 39 per cent as unpaid family workers, and 18 per cent on informal salaries. Informality is particularly high in

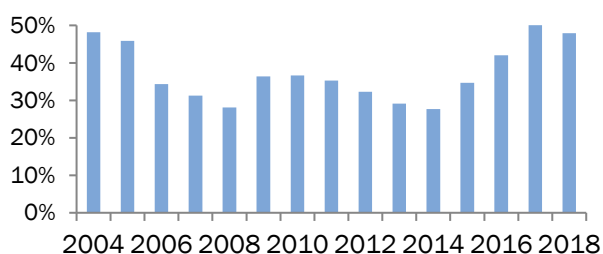
<sup>2</sup> Tajikistan Jobs Diagnostic: Strategic Framework for Jobs. World Bank, 2017



rural areas, GBAO, and Khatlon. Sectoral distribution shows that informal employment is prevalent in agriculture, trade and construction. The National Development Strategy for the period up to 2030 (NDS 2030) identifies the informal economy as one of the main challenges for the country, negatively affecting investment, productivity and government revenue. It also notes that burdensome government regulations on the formal part of the economy increases the appeal of informality. The NDS 2030 estimates uncollected tax revenue from the informal sector to equal 17 per cent of GDP. To reduce informality, the government adopted a “Comprehensive Programme for Reducing Informal Employment 2015-17”, which includes such measures as strengthening the regulatory and legal framework and raising public awareness about the consequences of informal employment. Currently a new program for 2019-23 is being developed.

**Figure 6: Fiscal space is narrowing**

General government gross debt to GDP ratio



Source: IMF

**Enabling an investor-friendly environment is particularly important for Tajikistan, given relatively high public debt and constrained fiscal space.** Given low levels of FDI and private investment, major infrastructure projects are financed mainly by the public sector with loans from IFIs and bilateral creditors. General government debt was estimated at 47.9 per cent of GDP in 2018 by the IMF (figure 6). The bulk of public debt is external; it rose from US\$ 2.3 billion (33 per cent of GDP) in 2016 to US\$ 2.9 billion (40 per cent of GDP) in

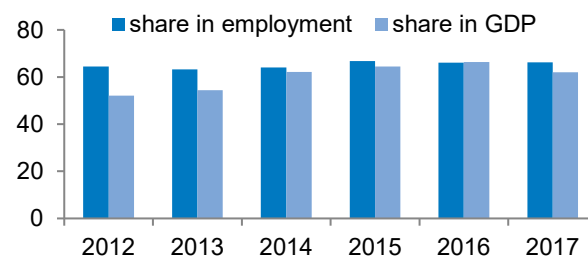
December 2018, largely due to the issuance of the US\$ 500 million Eurobond in September 2017 and Chinese loans to finance government investment programs. Given concessional financing terms, debt servicing costs are relatively modest. However, there are significant fiscal pressures related mainly to financing the Rogun HPP as well as contingent liability risks from the banking sector and state-owned enterprises. Against the background of budgetary limits, effective foreign investment policies are key to addressing economic constraints and promoting private sector development through transfers of skills and technology.

## 2.2. Private sector is large but not developing

### **The private sector contributes a substantial share of GDP and is the largest employer in Tajikistan.**

According to official statistics, the private sector<sup>3</sup> generated around 62 per cent of GDP in 2017, up from 52 per cent in 2012 (figure 7). This is comparable to private sector's share in the Kyrgyz Republic and significantly higher than in Kazakhstan, for example. The private sector provides 66 per cent of jobs (excluding collective ownership). Private sector value added generation is concentrated in agriculture, trade, hospitality and manufacturing (figure 8).

**Figure 7: Private sector share has been gradually rising**



Source: Statistical Agency under the President of the Republic of Tajikistan

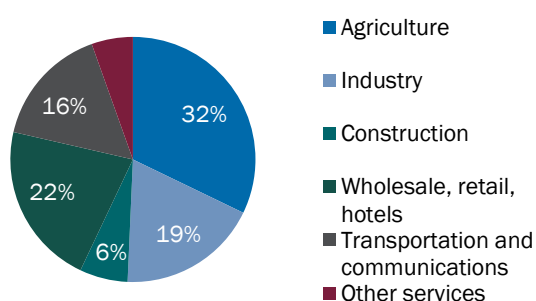
<sup>3</sup> Official definition of the private sector includes enterprises with less than 50 per cent state participation

### However, the private sector lacks dynamism.

Business entry rates are low, with only 1.8 companies created annually on average for every 10,000 working-age persons versus 13 in the Kyrgyz Republic and 22 in Kazakhstan (figure 9). Overall, firms are not likely to grow, and tend to invest little. As such, private sector investment as a share of GDP remains insignificant (figure 4).

**Figure 8: Production of goods still dominates**

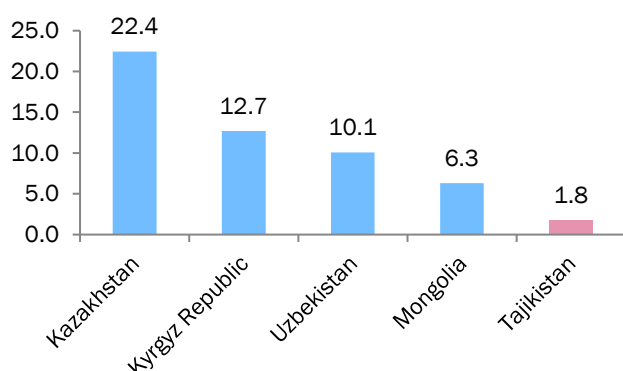
Private sector value added by sector (%)



Source: Statistical Agency under the President of the Republic of Tajikistan

**Figure 9: Business entry rates are the lowest in the region**

Number of new business registrations per 10,000 people aged 15-64, latest year available



\*Data for Turkmenistan is not available

Source: World Bank

### Individual entrepreneurs account for the vast majority of registered companies.

Of over 300,000 active SMEs registered in Tajikistan, only 10 per cent (around 30,000) SMEs are legal business entities, of which only 363 are foreign-owned. The vast majority, 90 per cent of all SMEs, are individual entrepreneurs classified as patent-holders (a form of business registration allowing owners to operate under a simplified tax arrangement), certificate holders and dekhkan farmers (privately owned farms that were established after 1997 through the dissolution of Soviet-era state and collective farms). Dekhan farmers account for 61 per cent of all individual entrepreneurs.

### Efforts to promote the development of the private sector are guided by the State Program for Supporting Entrepreneurship for 2012-2020 (Programme).

The Programme includes such measures as provision of state subsidies, concessional lending, reduction of tax rates, and simplification of customs procedures. Among priority sectors targeted by the program are agriculture, manufacturing and processing of goods, construction (roads, bridges and small HPPs), recycling of industrial and household waste, housing and communal services and tourism. It also envisages setting up business incubators in Dushanbe, Khudjand and Khorog, and provision of limited amounts of funding to start-ups.

### 2.3. The role of state-owned enterprises remains significant

#### Despite the gradual increase of the private sector's contribution to the economy during the past two decades, state-owned enterprises (SOEs) remain dominant in multiple sectors.

These include energy, mining, transport, utilities, communication, insurance and banking. The state's portfolio of enterprises consists of over 920 fully state-owned unitary enterprises and over 140 joint-stock companies (where, in most cases, the state is the majority owner). Notwithstanding the large portfolio of state enterprises, a centralised system of performance monitoring and analysis of SOE's contribution to the

economy is not available (except for the 24 largest SOEs, which are monitored by a special SOE monitoring unit established in 2008 within the Ministry of Finance).

**Figure 10: Distribution of SOEs by sector and distribution of employment in these SOEs by sector (in %), 2014**

	% of SOEs	% Employment
Services	42.8	33.2
Mining, utilities, construction	29.1	28.9
Agriculture	13.0	7.2
Manufacturing	9.4	27.8
Commerce	5.7	2.9

Source: Strokova and Ajwad, Tajikistan Jobs Diagnostic: Strategic Framework for Jobs. World Bank, 2017

**SOEs account for about 40 per cent of gross value-added and up to 50 per cent of fixed capital investment.** Employment in SOEs and government entities was 19.5 per cent in 2017<sup>4</sup>. Assets of the largest SOEs were estimated to equal over 50 per cent of GDP in 2015<sup>5</sup>. In addition, SOEs account for a significant share of financial sector assets. In particular, according to the Statistical Agency under the President of the Republic of Tajikistan, SOEs and the government accounted for 25 per cent of the total loan portfolio of the banking sector in 2018, with SOEs accounting for an even higher 40 per cent share of all foreign-currency loans. Efforts to attract private sector players and increase competition in sectors traditionally dominated by SOEs have been limited.

**Given their considerable economic role, SOEs continue to present high fiscal and overall macroeconomic risks to the country.** Their strong presence limits competition, leading to delivery of

### Corporate governance in SOEs

#### The governance framework for SOEs requires further reforms and improvements.

As in other former Soviet economies, SOEs are incorporated in various legal forms and, thus, are subject to different degrees of monitoring, reporting and governance requirements and standards. Basic elements of corporate governance practices and standards (e.g., dual board system, corporate reporting and certain degree of transparency in terms of publication of accounts) have been achieved in state-owned joint-stock companies (JSCs). Acknowledging the benefits and higher degree of monitoring and transparency that these standards bring, the government is currently in the process of extending a similar set of reporting, governance and transparency requirements to the larger set of state unitary enterprises (which, as a rule, are managed by a single director and are not subject to transparency, corporate reporting and similar requirements). At the same time, authorities currently appear to have no further plans for professionalising the supervisory boards of SOEs by, for instance, reducing the number of state officials in supervisory boards, introducing independent board directors, introducing stringent qualification and selection criteria and related. In addition, systematic efforts aimed at implementing centralised monitoring and analysis of the operational and financial performance of the whole portfolio of SOEs are also lacking. As noted above, systematic monitoring of the financial performance of SOEs appears to be carried out only for the largest 24 enterprises, while the remaining over 100 JSCs and over 900 state unitary enterprises are not subject to a similar practice.

<sup>4</sup> Statistical Agency under the President of the Republic of Tajikistan

<sup>5</sup> Tajikistan Economic Update, Spring 2018 – Changing Regional Environment: Critical to Capitalize, World Bank

services at subpar quality. Due to mounting losses and liabilities, some SOEs also undermine the fiscal stance of the government. The significant depreciation of the somoni continuing since 2015 diminished the ability of SOEs to service their foreign currency denominated debt and negatively affected their financial standing. Restructuring programmes for some SOEs are considered by the government or are being implemented (e.g., for Tajik Air and Barqi Tojik), though it remains to be seen how comprehensive these programmes will be and how materially they will affect the financial standing of the largest SOEs. The financial performance of the largest SOEs has been deteriorating during the past decade. According to available data, total losses of the 24 largest SOEs added up to about 5 per cent of GDP in 2015. Several large SOEs played an important role in the significant increase of non-performing loans in the banking system during past years. Total liabilities of the largest SOEs have also been increasing, estimated at over 35 per cent of GDP in 2015. Three SOEs – Barqi Tojik (the main electricity company), Talco (aluminium manufacturer) and Tajik Railways - account for over 85 per cent of total liabilities.

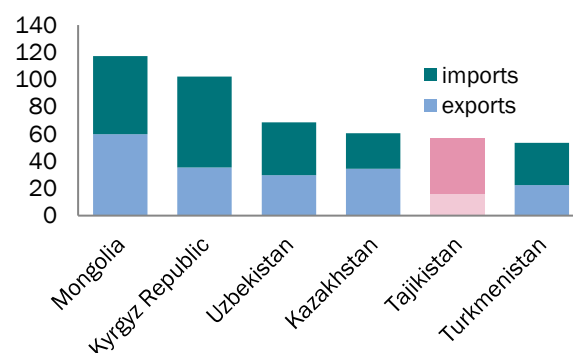
**Barqi Tojik accounts for the largest share of the SOE sector losses.** Its losses reached 5.5 per cent of GDP in 2017 (up from 4.2 per cent in 2016), while its total liabilities added up to 33 per cent of GDP (up from 28 per cent in 2016). This substantial amount of debt and other payables contributed to both weaker financial condition of private sector players due to payment arrears, vulnerabilities in the financial sector and weaker fiscal stance of the government due to mounting arrears in taxes and related payments.

## 2.4 Weak integration into global value chains.

**Tajikistan's foreign trade to GDP ratio has decreased over the past years.** Foreign trade stands at about 57 per cent of the country's GDP and is dominated by imports (figure 11). This is a considerable decline from an average of 107 per

cent of GDP in 2003-2013, as demand for Tajikistan's main export products contracted. Reduced foreign exchange inflows have in turn translated into lower domestic demand for imports.

**Figure 11: Exports and imports (% of GDP), 2017**



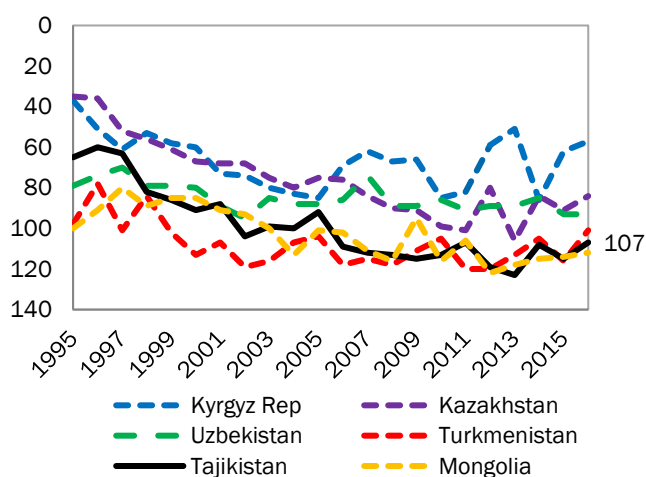
Source: World Bank World Development Indicators

**Main export products include ores, raw cotton, and aluminium,** which together constitute 75 per cent of all exports in 2018<sup>6</sup>. Dependence on such a limited number of commodities makes the economy vulnerable to volatility in prices of these commodities. The degree of sophistication and the range of products exported are very low.

**Figure 12: Economic complexity ranking**

<sup>6</sup>Based on Trade Map data



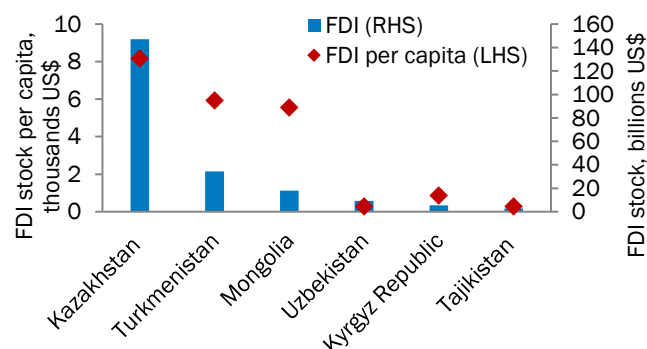


Source: Harvard Atlas of Economic Complexity

**The country ranks 107th out of 126 countries on the economic complexity index<sup>7</sup>,** which takes into account the diversity of a country's export basket as well as the number of countries producing and exporting the same products. Its rank has remained stagnant over the past 10 years (Figure 12).

**FDI stock is the lowest in Central Asia.** At around 2.6 billion USD, FDI stock is half of that in the Kyrgyz Republic, the second least attractive FDI destination in the region (figure 13). FDI inflows have been declining from their peak of US\$ 426 million in 2015. The bulk of FDI comes from Russia and China. FDI inflows in 2007-17 have been concentrated in extractive industries and energy (42 per cent). Other sectors which attracted FDI are manufacturing, financial sector, communications and construction.

Figure 13: FDI stock and FDI stock per capita



Source: UNCTAD

<sup>7</sup> Economic Complexity Index summarizes data from countries' exports basket to form a measure of the knowledge-intensity of their economies, by weighting both the diversity of the export basket and the ubiquity of it (i.e. the number of countries who

are also able to produce and export the same products). A country scores high in the complexity index if it exports a wide range of products which few other countries are able to produce.

### 3. Key obstacles to private sector development

The diagnostic identifies governance issues, access to finance, limited access to water and energy, low integration with foreign markets as main obstacles that impair firm performance, productivity and private sector development. These constraints are particularly binding in agriculture and agribusiness, which continue to play a very important role, especially for employment. In addition, gender inequality is very pronounced and, as such, negatively affects private sector growth.

#### 3.1. Poor governance constrains business and investment climate

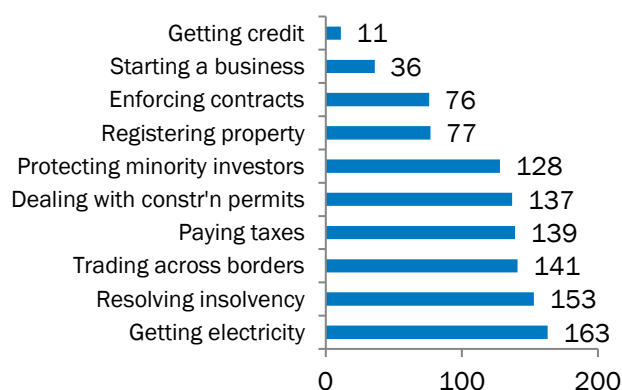
The business environment needs further strengthening. Tajikistan has been moving up the World Bank's Doing Business (DB) Rankings in recent years. It ranked 106<sup>th</sup> out of 190 countries in DB 2020 (figure 14), 20 notches above its position in 2019, earning it a spot among the world's top ten most improved economies for ease of doing business. Three reforms have been singled out:

- **Starting a business was made easier** by introducing a company's social identification number into the incorporation certificate at the time of registration;
- **Access to credit significantly improved** with the help of a unified notice-based collateral registry, the establishment of a functional secured-transactions system, the broadening of the scope of assets that can be used as collateral, the allowance of the general description of debts and obligations, and the granting of absolute priority to secured creditors;
- **Export of goods facilitated** by prioritizing customs clearance of perishable products.

Indeed, there are many areas in need of further improvement. The country performs well in starting a business and getting credit, but is lagging significantly behind in getting electricity, trading

across borders, resolving insolvency and paying taxes.

Figure 14: Doing Business in Tajikistan



Source: World Bank's Doing Business Report, 2020

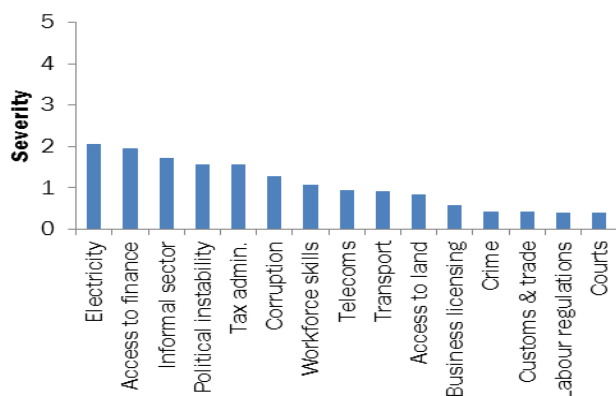
Although sector-specific tax benefits have been introduced in 2017-18, the tax burden remains high owing to disruptive tax collection practices implemented to fulfil revenue targets. Total tax and contribution rate stands at 65.2 per cent of income, according to the Paying Taxes report by PwC and the World Bank Group. This is almost twice the regional average of 33.4 per cent in Central Asia and Eastern Europe. Businesses maintain multiple books to reduce their tax burden – a deterrent to the expansion of existing enterprises. In his annual address in 2017, President Rahmon acknowledged the burden of intrusive inspections from various agencies and called for a two-year moratorium on the inspection of businesses, effective from January 2018. However, the moratorium applies only to businesses operating in manufacturing, and inspections continue to hamper the development of SMEs outside this sector.

**FX supply is vulnerable to fluctuations in the dollar value of remittances from Russia and global prices of a very small number of commodities.** Facing periodic shortages of FX, NBT maintains strong control over foreign currency supply (including, most recently, by forcing non-bank financial institutions to channel remittances through the NBT processing center) and spending. Moral suasion is used to make

sure FX is accessible to certain priority sectors, connected banks and clients, hence the existence of a parallel market.

**The presence of informality weighs on doing business.** Competitors' practices in the informal sector were cited as the third most severe obstacle, according to EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS) (figure 15). Around 35 per cent of firms reported facing competition from the informal sector in 2014.

Figure 15: Business environment obstacles

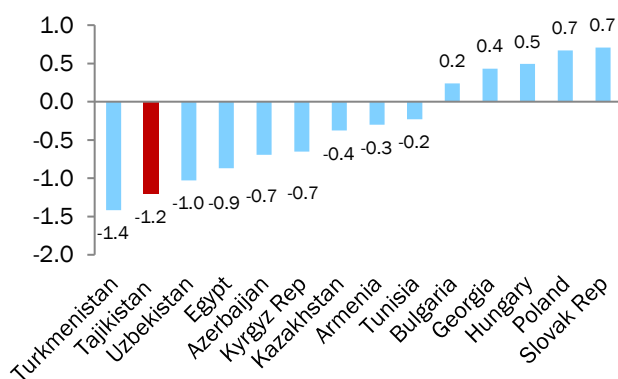


Source: EBRD/World Bank BEEPS

Note: Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

**The business environment is hampered by governance deficiencies.** Tajikistan has the second lowest score among EBRD countries of operation in Worldwide Governance Indicators of the WB (figure 16).

Figure 16: Governance indicators, average



Source: World Bank's Worldwide Governance Indicators Scores range from -2.5 (weak) to 2.5 (strong)

Its position has been deteriorating since 2014, dragged down by poor performance in voice and accountability, rule of law, government effectiveness and control of corruption. State interference is pervasive and this imposes additional costs on doing business through various bureaucratic impediments.

#### Progress with tackling corruption has been limited.

The OECD report notes that anti-corruption legislation and institutions require further improvement. In particular, corruption should be criminalised in line with international standards, and impartiality of judges, investigators and prosecutors should be ensured. The report also highlights that land management is particularly susceptible to corruption due to discretionary decision-making by local authorities, obscure land rules and limited disclosure on availability of land plots. Efforts to combat corruption are guided by anti-corruption strategy for 2013-2020 but its implementation is lagging.

#### Quotes by representatives of a business association:

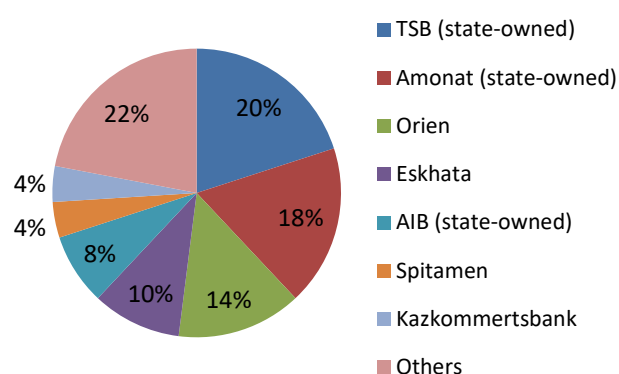
"The judicial and legislative system is not flexible; interpretation of laws by judicial authorities varies by regions. Subjective interpretation of the regulatory framework leads to contradictory judicial decisions."

"There is political will and many initiatives are enacted at the legislative level, but their implementation and monitoring are lacking. Entrepreneurship for many people is a means to survival and a source of employment and income. The government should recognise this and ease the regulatory burden."

## 3.2. Despite a significant clean-up effort, financial sector weaknesses continue to impede access to finance

**Tajikistan's banking sector is small, relatively concentrated, with significant presence of state-owned banks.** Assets of credit organisations (including the microfinance sector) stood at US\$ 2.2 billion as of year-end 2018 (at around 30 per cent of GDP)<sup>8</sup>, with private sector credit to GDP at a very low level of around 12 per cent. Three major banks are currently in full (Amonat) or partial (Agroinvest Bank ((AIB) and Tojiksodirotbank (TSB)) state ownership, with 46 per cent in total assets as of the end of 2018. AIB and TSB are in the process of liquidation having been recapitalized by the state in 2016; their share in total assets, credit portfolio and deposits is steadily declining. NBT clean-up efforts brought the number of credit organisations from 123 in 2015 to 75 as of 2019 Q3. Many micro financial organisations (MFOs) are in the process of liquidation<sup>9</sup>.

Figure 17: Banks by share in total assets



Source: available, unaudited data from banks

**Reported banking sector indicators suggest directional improvement.** Non-performing loans

(NPLs, overdue more than 30 days), mostly concentrated in the two troubled banks (AIB and TSB), declined due to strengthened supervision and regulation from around 47.6 per cent at end-2016 to 30.4 per cent in December 2019. Most NPLs have been loss provisioned.

**Nevertheless, the banking sector still faces significant challenges.** The fundamental problems in banks, including the longstanding weaknesses in governance and lending to related parties, were aggravated by the significant currency depreciation of 2014-2015. Banking sector restructuring post the 2016 crisis is still underway, with resolution of two problematic (formerly systemic) state-owned banks pending. Generally, the intended role of state-owned banks, which mainly service SOEs, remains unclear going forward. Resolution of TSB and AIB is high on the agenda of financial sector reforms targeted under a potential IMF programme, which has been discussed over the last 3 years.

**Confidence in the banking system needs strengthening, as evidenced by low deposit penetration.** Although on an increasing trend, the deposit-to-GDP ratio stood at a low 14 per cent as of December 2019. Only 11 per cent of the working age population saved at a financial institution in 2017<sup>10</sup>. While two thirds of remittances are transferred through the formal financial system, they are rarely retained as deposits<sup>11</sup>. About a half of deposits are denominated in foreign currency. 49.7 per cent of deposits are held by legal entities and the rest by individuals. The deposit base is mostly short-term with the share of savings and time deposits exceeding 1 year amounting to 37.7 per cent. Thus, deposits in Tajikistan are not a significant source of long-term funding for banks. There is a Deposit Insurance Fund, which covers individual holders of deposits at 21 MDOs and 16 banks, but at present it only provides protection for individuals and not for

<sup>8</sup> [http://nbt.tj/upload/iblock/c37/Vaz\\_niz\\_bonk\\_davr\\_ba\\_davr\\_311218\\_eng.pdf](http://nbt.tj/upload/iblock/c37/Vaz_niz_bonk_davr_ba_davr_311218_eng.pdf); total assets converted at USD/TJS rate of 9.43

<sup>9</sup> [http://nbt.tj/en/banking\\_system/tashkiloti\\_karzi\\_dar\\_holati\\_barhamdi\\_karorsh\\_taj.php](http://nbt.tj/en/banking_system/tashkiloti_karzi_dar_holati_barhamdi_karorsh_taj.php)

<sup>10</sup> World Bank Global Findex database

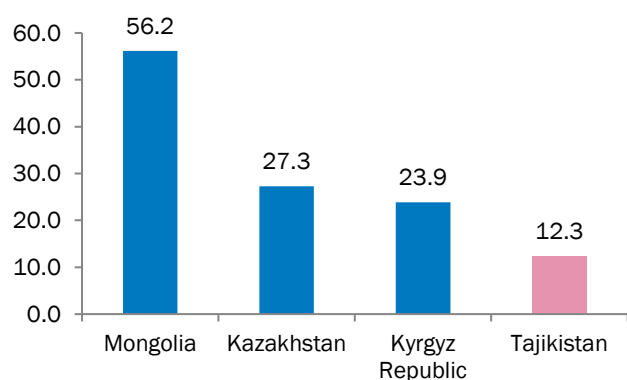
<sup>11</sup> Deposit Insurance, Remittances, and Dollarization: Survey-Based Evidence from a Top Remittance-Receiving Country by David A. Grigorian and Maxym Kryshko, IMF Working Paper



SMEs. The coverage limit was increased in June 2018 from TJS 17,500 (US\$ 1,500) to TJS 25,000 (US\$ 2,700) to restore confidence after the banking sector difficulties of 2015-2016. Increasing the limit further and expanding coverage to SMEs would be a positive step towards encouraging savings.

**Figure 18: Banking sector penetration is lagging behind peers**

Domestic credit to the private sector (% of GDP), 2018



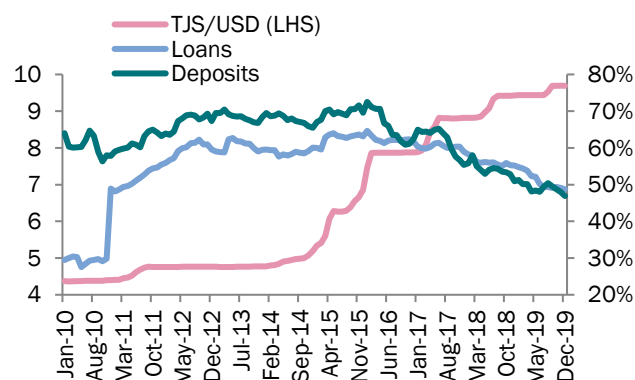
\*Data for Turkmenistan and Uzbekistan are not available

Source: World Bank's World Development indicators

**Access to finance, especially by private sector SMEs, appears to be significantly hampered by high interest rates, collateral requirements, and broader investment climate issues.** Credit intermediation remains the lowest in Central Asia<sup>12</sup> and it has been declining since 2015. According to the National Bank of Tajikistan's (NBT) guidance, the cost of borrowing for businesses stands at 22.9 per cent in local currency and 15.6 per cent in foreign currency, while deposit rates range 6-12 per cent in local currency. Average monthly nominal wages declined in US\$ terms and still remain below levels seen in 2013-14, which contributed to low demand for new loans, especially in foreign currency, due to decreased ability and willingness to borrow. In 2018, credit activity picked up mainly in local currency as

part of a general trend of shifting the currency mix of the banking sector portfolio from foreign currency to local currency (figure 17). Apart from contraction in the demand for foreign currency loans, this was in part due to NBT's prudential measures to reduce FX exposures of banks by prohibiting foreign-currency denominated mortgage loans to unhedged borrowers and increasing the risk weight for FCY loans from 100 per cent to 150 per cent. In addition, reserve requirement ratios were set at 9 per cent for foreign currency loans compared to 3 per cent for local currency loans.

**Figure 19: Loan and deposit dollarization**



Source: National Bank of Tajikistan

**Collateral requirements are high, but the creation of a new moveable collateral registry may broaden access to finance for SMEs.** Banks cited collateral requirements of around 130 per cent for local currency loans for SMEs and 150 per cent for loans denominated in US\$. To alleviate collateral constraints, a Credit Guarantee Fund Tajikistan – a Berlin-based company – has been operating since 2015. The guarantee is provided for loan values of US\$10,000-US\$500,000 (and equivalent amounts in TJS) extended to SMEs in order to finance working capital and investment in fixed assets. In addition, a new online moveable collateral registry was launched in February 2019 in order to allow business owners to use moveable assets, such as cash flow, motor

<sup>12</sup> World Bank World Development Indicators

vehicles and livestock, to secure business loans. This is an important step towards enabling secured lending and expanding access to credit by accepting collateral beyond land and real estate. Thanks to credit bureau and secured transaction reforms Tajikistan ranked globally 11<sup>th</sup> on Getting Credit in the World Bank's Doing Business Report 2020 (an improvement of 50 points compared to 2019).

**Banks and MFIs are under regulatory pressure to reduce interest rates.** A working group within the NBT is developing measures to reduce the interest rates in the sector. To be able to decrease the interest rates on loans, credit institutions are instructed to reduce costs (by automating processes or reducing staff travel), improve credit risk assessment methods, and make more effective use of financial resources (by using economies of scale). As a result of these actions, the interest rates on loans did decrease from 32.3 per cent in June 2017 to 22.9 per cent in September 2019. That said, the methods deployed by the regulator to achieve this objective are assessed rather negatively by some MFIs, which complain that the cost of extending loans in local currency is high at least in part due to a lack of FX hedging options for MFIs. Banks and MFIs report uneasiness with frequent inspections (selected private players may be disproportionately targeted, exposing the lack of a level playing field), and instructions from the NBT to reduce pricing on loans, sell half of FX inflows, etc.

**State-directed lending to support SMEs is mainly channelled via the Entrepreneurship Support Fund (ESF).** ESF was established in 2015 as part of a program to provide subsidised loans to SMEs in strategic sectors (mainly engaged in production). To date, it has allocated TJS 240 million (equivalent to US\$ 25.7 million) to finance 168 projects via state-owned Amonat Bank. The loans are lent at concessional rates (13 per cent versus commercial rates of 30 per cent) for up to 3 years to finance working capital and investment in fixed assets.

**Alternative sources of capital are virtually absent.** The capital market is at a very early stage of

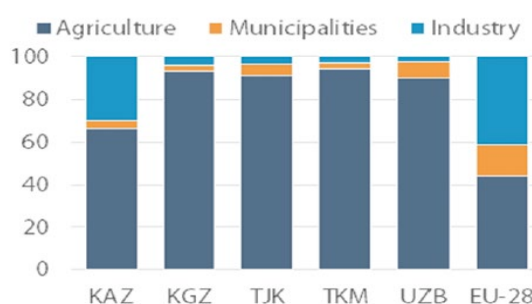
development and is dominated by government bond issuances. A working group for capital market development was created in March 2019 with the tasks to strengthen the legal and regulatory framework and improve the market infrastructure.

### 3.3. Inadequate access to water and energy is a major bottleneck for private sector

#### 3.3.1. Inefficient water management

**Tajikistan has abundant water resources but the water sector faces significant challenges due to poor governance and lack of investments.** The country possesses over 50 per cent of water resources in Central Asia<sup>13</sup>. Water plays a vital role in the economy as it is used not only for household consumption but also extensively in irrigated agriculture and as a main source of electricity. The sector is riddled with many issues, including outdated infrastructure, high water losses, suboptimal investment, and inadequate water management.

Figure 20: Water use by sector, % of total use (2014)



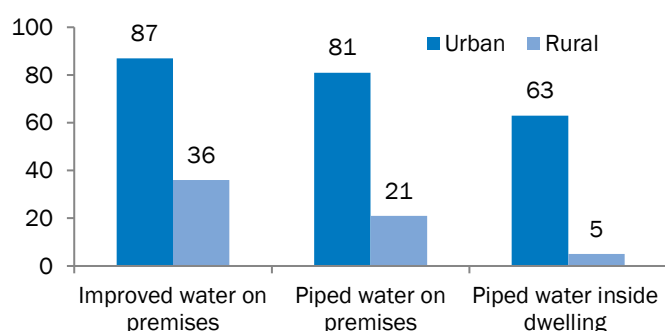
Source: FAO, EAA, 2014

**Agricultural irrigation consumes the largest part,** amounting to more than 85 per cent of total water used. However, only 40 per cent of the water supplied reaches the crops due to decaying irrigation infrastructure and poor water management and

distribution. The consequence is inefficient use of water and low productivity in agriculture.

**Sector inefficiencies have also led to inadequate access to drinking water and sanitation in many regions of the country.** Coverage of drinking water and sanitation is limited, especially for 70 per cent of the country's population living in rural areas. Safe drinking water (from improved water sources on premises, such as household connection, public standpipe, borehole, protected well or spring, and rainwater collection) is only available to 36 per cent of rural households in contrast to 87 per cent of urban households<sup>14</sup>. Access to improved sanitation facilities was 34 per cent in 2016.

**Figure 21: Access to improved water**



Source: World Bank report: Glass Half Full: Poverty Diagnostic of Water Supply, Sanitation and Hygiene Conditions in Tajikistan

**Investment needs of the sector are high.** A substantial part of the water network is in poor condition, necessitating significant investments. Water supply and sanitation systems operating for more than 40 years resulted in deterioration of the existing infrastructure. In addition, about 30 per cent of these facilities were destroyed during the early 1990s as a result of internal armed conflicts. Rehabilitation of sewer networks and facilities has not been conducted since independence and such facilities operate effectively only in Dushanbe,

Khujand and Bokhtar. Total investment needs of the water sector are around US\$ 2 billion based on preliminary government assessments. Recurrent expenditures are not covered by water tariffs resulting in significant underinvestment.

**Taking into account the significance of water for agriculture, water sector reform is inextricably linked with agricultural reform.** Main sector development efforts are guided by the Water Sector Reform Program for 2016-2025 and the Agrarian Reform Programme for 2012-2020. Key objectives of the reform are to ensure access to water for all and introduce comprehensive basin and integrated water resource management. One of the key elements will be to restructure the national water supply operator - Khojagii Manziliyu-Kommunali (KMK), to introduce a more efficient asset management approach and ensure continued investments for the modernization of infrastructure.

### 3.3.2. Low energy sector resilience

**The high share of hydropower makes the country vulnerable to climate-induced hydrological variations and interrupts regular access to electricity,** most acutely in winter. Hydropower dominates the scene of energy generation, representing approximately 94 per cent in 2017. Thermal power plants generate electricity in winter but not sufficiently to cover the energy deficit. Tajikistan used to export surplus electricity in the summer and import electricity in winter via the Central Asia Power Grid (CAPG), a regional electricity transmission network created during the Soviet Union era. However, the country was disconnected from the grid in 2009 following Uzbekistan's withdrawal. Unable to meet its electricity demand, Tajikistan resorted to regular power rationing in winter. While formal limits on power delivery have been lifted as of now, the country still experiences occasional power outages. With the help of an ADB

<sup>14</sup> World Bank report, *Glass Half Full: Poverty Diagnostic of Water Supply, Sanitation and Hygiene Conditions in Tajikistan*

grant, work is currently underway to reconnect to CAPG, which is expected to be completed in 2022.

**Apart from excessive reliance on hydropower, energy resilience is undermined by high energy losses and inadequate maintenance.** Distribution losses amounted to 17 per cent and transmission losses were 5 per cent in 2015, which are likely to be understated due to lack of a proper metering system.<sup>15</sup> Nearly 80 per cent of generation and transmission assets need to be replaced as they were designed and built in the 1960s and 1970s. Currently, rehabilitation programmes are ongoing at Nurek, Golovnaya and Qairokkum HPPs, leaving only 13 per cent of installed generation capacity uncovered by the rehabilitation programme. At present, due to outdated low and medium voltage distribution infrastructure, below cost recovery tariffs and lack of billing systems, energy utilities struggle to cover their costs and, as a consequence, investment in improving the quality of services is limited. At the same time, while there is cross-subsidisation of electricity tariffs between different consumer groups, tariffs have been increasing across the board. In addition, a new electricity tariff methodology was approved in June 2019, aiming at cost-reflective tariffs.

**The organization and governance of the energy sector in Tajikistan needs to be strengthened.** The electricity sector is managed by Barqi Tojik, a 100 per cent state-owned energy company, which was responsible for all state-owned assets in the electricity sector, transmission networks, and regional distribution companies until recently. In June 2019, the government established two new joint stock companies (transmission and distribution) subordinated to Barqi Tojik, which retains electricity generation. These companies are later expected to be separated from Barqi Tojik. Institutional deficiencies, weak corporate governance, inefficient operational performance of the company and low electricity tariffs have led to a build-up of losses of around US\$ 2.6 billion in 2017, according to World

Bank estimates. The Power Sector Financial Recovery Action Plan, adopted in June 2017, outlines measures to improve the commercial viability of Barqi Tojik, including by gradually bringing tariffs to cost-recovery levels, reducing losses and increasing revenue collections. Unbundling of Barqi Tojik is expected to enhance the business operations of the company. However, delays have occurred in the implementation of the new tariff methodology and in improving the sector's oversight. A key priority for Tajikistan's energy sector is the establishment of an independent regulator to set tariffs for regulated sectors.

**Energy sector priorities include increasing the electricity generation capacity, reducing of technical losses and diversifying energy sources away from hydropower.** Government plans include also sources such as coal, which may have, however, adverse effects on the environment and is not a long-term solution. Tajikistan is building the largest hydroelectric dam in Central Asia – the Rogun HPP – with an expected power generation capacity of 3600 MW. The first two units of the Rogun HPP were launched in 2018-19. In addition to expanding its hydropower capacity, Tajikistan is working on shifting Dushanbe-2 combined heat and power plant to natural gas from coal.

**Apart from strengthening domestic energy security, the National Development Strategy 2030 focuses on increasing exports,** enabled by the Rogun HPP. The country is looking to diversify its energy export markets. Currently Tajikistan has transmission lines to Afghanistan, Uzbekistan and the Kyrgyz Republic. By reconnecting to CAPG, it will have access to markets in Kazakhstan and Turkmenistan. In addition, the CASA-1000 transmission lines, construction of which has commenced recently, will enable exports to Pakistan. There are also plans to construct a transmission line to the Xinjiang Uighur Autonomous Province of China and additional transmission lines to Afghanistan.

---

<sup>15</sup> ADB Country Partnership Strategy: Tajikistan, 2016–2020 sector assessment (energy)



**Energy sector expectations are mainly on the Rogun HPP, while progress on addressing investment, regulatory and institutional gaps has been rather slow.** Rogun is not only expected to strengthen the energy security of the country but also to become the main driver of economic growth and living standards. However, there are challenges with the full implementation of the project, primarily related to financing. While Tajikistan used proceeds from the Eurobond to finance the initial stages of the project, further funding options remain unclear given the constrained fiscal space and weak investment climate. In parallel, authorities would need to accelerate the implementation of broader energy sector reforms. These include ensuring adequate oversight of Barqi Tojik companies, and close adherence to the tariff methodology adopted recently.

**There might be scope to develop other sources of renewable energy (solar/wind) to provide off-grid power supply solution for remote regions.**

Authorities have been working since 2013 at improving the framework for RES. In addition, there has been an effort to improve standards (mostly building insulation) and set out administrative tools to improve demand-side energy efficiency. The government target is to increase its hydropower and renewable energy potential, currently utilised at 4 and 1 per cent, respectively. With 10 per cent of the population living in remote mountainous areas, renewable energy solutions for power supply are most adequate. A special fund has been established by the government to spur this process.

---

### **3.4. Obstacles to integration with external markets**

---

Given significant opportunities presented by the strengthening of regional connectivity and the Belt and Road Initiative (BRI), Tajikistan needs to continue with measures to remove bottlenecks to trade in order for its private sector to grow and compete regionally. The country ranks 141<sup>st</sup> out of 190 countries on the trading across borders

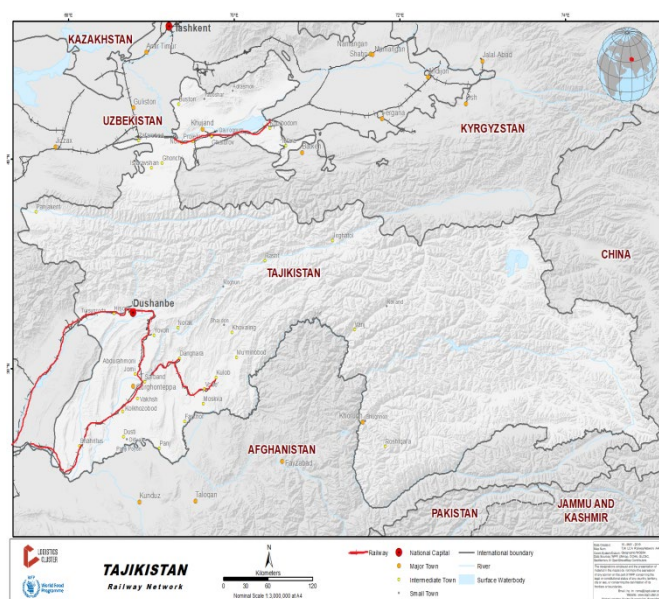
indicator, according to the 2020 World Bank Doing Business Report. This is significant progress, driven by improved customs procedures for perishable agricultural exports. Still, overall compliance procedures and high costs hinder the facilitation of trade flows: border compliance for exports takes 51 hours in Tajikistan and costs US\$ 313, compared to 5 hours and US\$ 10 in the Kyrgyz Republic. Improving border management may be considered a low-hanging fruit, given the low level of investment and effort that will be required to bring border compliance costs closer to the regional average.

**Underdeveloped infrastructure weighs on development prospects.** In part due to its geographic landscape, the country's transport network is limited in quality and capacity, constraining access to markets, and hampering economic development. The transport infrastructure is largely outdated, major parts of it having been built during the 1960s and 1980s. While main international roads have been rehabilitated, most of them require significant maintenance work and upgrades; however limited reconstruction and maintenance budgets hamper further improvements to the network. There are several operational inefficiencies limiting the growth potential of the logistics and transport sectors, including the lack of modern fleets, facilities and logistics service providers at par with best international examples. Moreover, access to finance is a problem for logistics service providers, limiting their fleet renewal and modernisation opportunities, as well as business expansion capacity.

**The NDS 2030 identifies enhanced connectivity as a strategic objective.** The main activities to achieve the strategic objective of becoming a transit country include the construction and reconstruction of the transport infrastructure, the creation of transit transport corridors, the development of transport to support industrial areas, improving the operation of transport and transport infrastructure, further development of airway connectivity, and minimizing the negative impact of transport sector on the environment and human health. However, a detailed timeline and roadmap to transform the transport sector are missing.

**Road transportation is the most prominent mode of transportation.** More than 80 per cent of domestic cargo and 90 per cent of passengers are transported via the road network, mostly for short-distance and within-country movements. The length of the road network is almost 30 thousand km, with 54 per cent of this being national roads. The road network density is however low (201 km per 1000 km<sup>2</sup>), significantly lower than in developed countries. 75 per cent of the roads are reported to be in poor condition, with the average speed not exceeding 30 km per hour. The country lacks a strategic vision for the development of the road sector; funding for reconstruction/rehabilitation of roads is limited. Moreover, the country needs an improved maintenance approach for the efficient management of the sector, as well as an operational road asset management system.

**Figure 22: Railway map of Tajikistan**



Source:

<https://dlca.logcluster.org/display/public/DLCA/2.4+Tajikistan+Railway+Assessment>

**Railway is important for international trade** despite the limited land coverage of the network due to the mountainous landscape. 75 per cent of officially recorded export and import freight comes via rail. Tajikistan's rail network stretches 953 kilometres. It

consists of three lines in the northern, central and southern parts of the country; only central and southern parts are linked. In 2011, Uzbekistan decided to close the southern line unilaterally, due to security concerns, hampering railway transportation significantly in Tajikistan. While the central and northern links remained operational, exports of perishable goods (fruits and vegetables) became impossible due to frequent checks at border crossings, forcing exporters to shift to transportation via trucks. In March 2018, the line has been reopened and improved political relations laid the foundation for future growth of exports via railway. The Tajik railways also suffered financially from a decline in the volume of transit of Uzbek goods along the northern route, following the completion of a bypass route on the Uzbek territory. Further development of the sector is constrained by the lack of a strategic and detailed railway development strategy.

#### **Air transport and civil aviation are underdeveloped.**

The country has four international airports, Dushanbe, Khujand, Kulyab and Bokhtar, and only one private airline operator. Significant investment and reforms are needed to improve airports and air navigation services. The airports are not managed efficiently and commercially at par with best international examples; they lack the necessary equipment to handle large and complex cargo, hampering the development of cargo operations. The government is working to improve air connectivity by negotiating new routes with the neighbours and regional partners.

#### **Despite a slight improvement in logistics performance, several institutional challenges constrain the development of the logistics sector.**

From 2016 to 2018, the country improved its score on most components of the World Bank's Logistic Performance Index. However, customs procedures remain cumbersome, delays are prominent during border crossings, and customs facilities are not equipped with modern equipment. Inadequate assets and equipment increase the transport costs, further constraining the country's competitiveness. The recent thaw in the relations with Uzbekistan, as well as Tajikistan's enhanced efforts to participate in

regional cooperation arrangements, may support the development of the logistics sector.

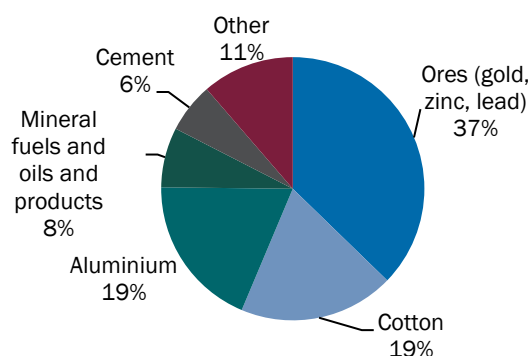
### 3.5. Excessive fragmentation is a key issue for the development of agriculture

Fragmentation of the sector, low private sector capacity for commercialisation, limited access to finance, logistical bottlenecks and lack of capacity to aggregate supply prevent the country from realizing its full potential in the sector.

**The agricultural sector in Tajikistan remains an important part of the economy** contributing about 20 per cent of GDP and accounting for about 60 per cent of total employment. Only 28 per cent of the land is considered agricultural, with two-thirds being pastures and meadows and only a small share being used for the production of perennial crops. Cotton and wheat are the main cash crops, cultivated on 70 per cent of the cropped area, with cotton being the main agri-commodity contributing to 19 per cent of the country's export in 2018 (Figure 23).

**The downstream food industry is one of the largest contributors to gross industrial output**, processing domestically harvested fruit, wheat, tobacco, and other agricultural products. In 2017, Tajikistan's food processing industry was 21.5 per cent of the country's total industrial output.

Figure 23: Export structure, 2018



Source: Trade Map

**Agricultural productivity in Tajikistan is low despite suitable agro-ecological conditions**, even compared to other countries in the region, with yields of major crops being significantly lower than in e.g. Uzbekistan, which are low by international standards (2.2 tons/ha versus 4.5 tons/ha for wheat and 1.7 tons/ha versus 2.3 tons/ha for cotton). According to the Mid-term Development Strategy 2016-2020, one of the key priorities in agriculture is to increase the yields of existing crops through measures such as provision of quality seeds, mineral fertilisers and chemicals, ensuring access to irrigation and reducing losses in harvesting and transportation.

**Small household plots produce the majority of agricultural output in the country.** Land reforms in the 1990s led to the dissolution of large Soviet farms – kolkhozes and sovkhozes. While agricultural land remained in state ownership, former Soviet farms were split into inefficiently operated peasant (dekhan) farms co-existing with small household plots. Dekhan farms occupy about 65 per cent of the land, however, they account for only 30 per cent of the country's agricultural output. Conversely, household plots use only 20 per cent of the land while generating around 65 per cent of the output. The average land plot is seven hectares. Amendments to the Land Code in 2012 allow land use rights to be life-long, inheritable, and marketable. However, the implementation of the Land Code regarding the trading of land user rights has been rather sluggish to date, limiting the possibilities for land consolidation and transition in and out of agriculture.

**Prevalence of small size household farms affects the ability of farmers to exploit economies of scale in accessing financing, modern agricultural technologies and services.** Actors at all levels of the value chain are poorly integrated, and spot market transactions prevail. Short on liquidity, farmers face difficulties in getting the right quality and quantity of inputs. Given the lack of alternatives, they minimize their costs by using outdated technology, old agricultural machinery and equipment. The Ministry of Agriculture is currently working on amendments to

the legislation to facilitate cooperation and merger of farms to address their current constraints.

**To enable Tajik farmers to compete in domestic markets and abroad, it is necessary to improve product aggregation.** Processors lack reliable and consistent supply of raw materials. The processing industry consists of a few medium and large operators and a huge number of small-scale processors. Outdated processing equipment, poor hygienic conditions, packaging and labelling, and absence of properly equipped certification laboratories undermine competitiveness, both on export markets and domestically. The Ministry of Agriculture is overseeing a project to develop integrated logistics centres to serve the needs of the agribusiness sector, including agricultural exports.

**Employment in the sector is dominated by women.** Male labour out-migration to Russia has induced women to fill the gap as agricultural workers. Despite women's important contributions to agriculture (around 75 per cent of agricultural labour force), they face gender-specific constraints. For example, land certificates are most often registered in the name of men. This translates into a lack of collateral for women, precluding them from applying for larger loans.

---

### 3.6. Obstacles for women-led businesses

---

Gender equality remains in need of strong improvement. Tajik women-entrepreneurs carry a particularly heavy burden of care and household management responsibilities given very high levels of male labour out-migration.

**Gender discrimination in legislation** remains an issue. Article 216 of the Labour Code includes a number of provisions restricting female employment in specific jobs and tasks. Land ownership remains squeezed in favour of men despite recent civil society efforts (by the League of Female Lawyers primarily) to promote joint land titling for both spouses.

**Key regulatory hurdles experienced by women-led businesses are:** Complexity of the tax code and procedures for business registration and closure; Compliance with standards and arbitrary inspections; Accounting requirements which disproportionately impact small businesses; and legislation concerning handicrafts, trade and agriculture given high female participation in those sectors.

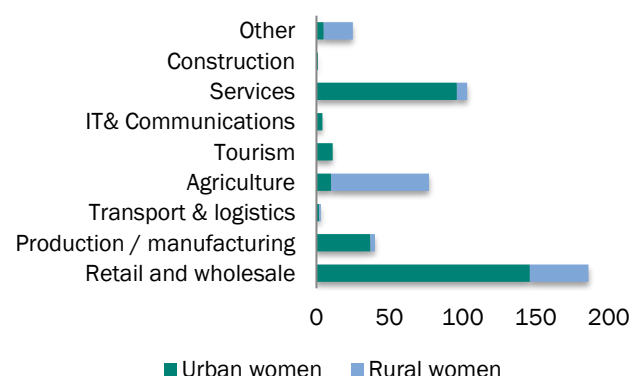
#### Quotes from representatives of a business association:

**“The motives for doing business for our women are different: someone’s husband left the country for work and forgot about his family, someone was left without work and livelihood, someone was widowed. That is, for most women in Tajikistan, starting a business is almost always a necessary measure, a survival strategy. And they go into business unprepared, overcoming the most difficult barriers, conflicts and crises. But another tendency has been observed over the past five years — there are more for whom business has become a form of self-realization and a conscious choice.”**

**While these problems are shared by all entrepreneurs, their impact on women is bigger for a number of reasons.** Limited legal education makes women entrepreneurs less able to handle arbitrary inspections. Similarly, time constraints and lack of access to information makes it even harder for women entrepreneurs to open or close a business. Formalisation is less attractive to women, who are more likely to remain in the informal sector, because many more of them work from home, on a part-time or seasonal basis or operate with lower turnover. Accounting and other requirements, which have a large impact on small businesses, disproportionately affect women-led businesses given the high proportion of female patent holders in Tajikistan.



**Figure 24: Women-owned businesses by sector**



Source: EBRD survey as quoted in Gender Responsive Investment Climate Reform in Tajikistan

**According to a survey of 600 SMEs conducted by EBRD in 2017, women-led businesses in Tajikistan are:**

- Small (39 per cent of all women-led businesses are patent holders/individual entrepreneurs);
- Present in low productivity sectors (45 per cent of women-led businesses are in trade; 25 per cent in services; 19 per cent in agriculture);
- Often informal (28 per cent of all women-led businesses are informal);
- Lacking access to key resources such as land or credit compared with men-led businesses (56 per cent of women compared to 44 per cent of men identified lack of property to raise finance as a significant problem; and for 48 per cent of women compared to 35 per cent of men, working capital was a significant problem);
- Led by business managers with lower levels of education (13 per cent of women business owners had only primary-level educational attainment or less, compared to 4 per cent among men), especially in rural areas;

- Lacking access to information and
- Less able to dedicate time to their businesses (73 per cent of women business owners spend 3 or more hours per day on care responsibilities compared to 41 per cent of men; 39 per cent of women spend 5 or more hours on care responsibilities compared to 15 per cent of men); and
- Experiencing greater social constraints (15 per cent of women declared that their spouse or other family members heavily influence their decisions).

**Urban and rural women entrepreneurs perceive investment climate differently, and are affected by different business climate constraints.**

Urban entrepreneurs are significantly more likely to face a more competitive environment; suffer from foreign currency shortages, high inflation or high taxes; and be subject to more inspections and (though to a lesser degree) corruption. Overall, rural businesswomen seem to experience many of these issues to a lesser degree. Conversely, they are more concerned about working capital shortages and lack knowledge on how to set up and run their business.

**Women-led businesses lack information about the regulatory environment.**

Focus group discussions highlighted that many women entrepreneurs lack information about the regulatory environment and existing networks through which to influence it. Women therefore perceive the business environment to be more challenging, with 41 per cent of women survey respondents considering lack of support and social pressure to be problematic, compared with only 29 per cent among men.

**All women entrepreneurs had one trait in common: care responsibilities have a disproportionate influence on the way they do business and the sorts of businesses they choose to operate.**

34 per cent of the women entrepreneurs surveyed spend 3-4 hours per day fulfilling care responsibilities; an additional 30 per cent spend between 5-6 hours; and 8.5 per cent spend 7 hours or more. Men, by

comparison, dedicate considerably less time to such tasks and devote more time to their businesses.

**Lack of affordable childcare compounds the problem.** Only 12.5 per cent of children Tajikistan are enrolled in pre-primary education one year before the start of their compulsory schooling, representing one of the very lowest rates among EBRD's countries of operations. As a result, many mothers are fully responsible for their children's care, and their businesses tend to be smaller, home-based and often in low value-added sectors compared with those of men (who typically shoulder less of the childcare demand within families). In 2017, the Government of Tajikistan reduced the VAT rate for private childcare services providers. This measure is expected to have a positive impact on women's ability to access economic opportunities as a result of freed-up time although a comprehensive set of actions will be required to alleviate the situation further, including improvements in the legal and regulatory environment to spur the development of alternative childcare options and thus incentivise the private sector's participation in childcare provision.

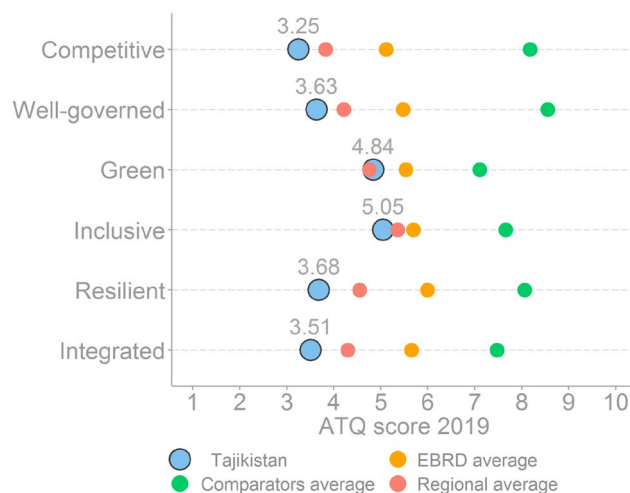
---

## 5. Qualities of a sustainable market economy

**Tajikistan ranks 34 out of 37 countries of operations** in the EBRD's Assessment Transition Quality (ATQ) scores. This index is based on a simple average of scores on the 1–10 scale for the six transition qualities: competitive, well governed, integrated, inclusive, resilient, and green. Across the six qualities, Tajikistan averages 3.98, (figure 25).

Tajikistan scores lowest in the **competitive** quality (3.25). Weak business environment and regulatory framework, low capacity to generate value added and relatively poor credit intermediation are factors driving down the competitive quality. Protracted resolution and restructuring of problem banks, limited opportunities for non-bank financing, a weak energy sector legal framework contribute to the below-average performance on the **resilient** quality (3.68). Rather low scores on the **well-governed** quality (3.63) reflect issues related to government effectiveness, regulatory quality, freedom of media, regulatory burden and political instability. The country is lagging behind along all dimensions captured by the **integrated** ATQ (3.51), in particular regarding its transport and logistics infrastructure. The **green** quality (4.84), although assessed slightly above the regional average, is dragged down by vulnerability to climate change risks and inefficient energy consumption (resulting from energy prices that do not reflect the full cost of supply). Big regional disparities in access to water and high-quality health and education services, as well as a significant gender gap account for moderate scores on the **inclusion** quality (5.05).

Figure 25: Tajikistan's Transition Qualities



Source: EBRD.

Note: Visit <https://2019.tr-ebd.com/reform/> for the list of indicators, data sources and methodological notes.

Note: The level of development within each of the qualities is measured from 1 to 10, with 10 representing the frontier.

The following sections provide brief snapshots of each quality.

---

## Competitive [ATQ = 3.25]

---

Tajikistan ranks 36th out of 38 EBRD economies in the Competitive quality index, below most of its regional peers. The low degree of competitiveness is due to a weak business environment, slow integration into international markets, substantial challenges encountered by SMEs with access to credit and underdeveloped knowledge economy.

---

### Market structures and institutions for competition

Tajikistan is characterised by a weak **business environment and regulatory framework**. As evidenced by the rating on the ease of doing business indicator, Tajikistan is placed well below its regional peers in 2019 (1.9 vs. 4.6 in Central Asia) and is among the least performing EBRD countries. The ease of obtaining an electricity connection and trading across borders (excluding tariff measures) appear to be the most problematic areas. The **effectiveness of insolvency frameworks**, as measured by the resolving insolvency indicator, is also one of the dimensions where Tajikistan lags behind most of the other EBRD economies.

**Small and medium-sized enterprises (SMEs)** play an important role in Tajikistan's private sector, but their activities are hindered by regulatory shortcomings and racketeering, which also contribute to the country's high share of informality. Difficulties in access to bank as well as non-bank financing and to personnel with adequate skills and competencies are other areas where SMEs encounter serious challenges. Tajikistan scores slightly below regional peers on EBRD's adjusted SME index (3.4 vs. 3.6, respectively).

**Tajikistan's openness to international markets**, as measured by the weighted average of applied tariff rates, is in line with the average performance of Central Asia, but well below the EBRD countries of operation average. The country has historically maintained close links with Russia, but some steps in

the direction of better integration into global and regional markets have been made, such as WTO accession in 2013.

**Subsidies to the private sector, public corporations and also other sectors** (as a share of GDP) are rather low in Tajikistan. In 2019 the rating obtained on this dimension by Tajikistan was 9.2, among the lowest in the region. However, the presence of SOEs and other state interventions still limit market dynamics and competitiveness.

---

### Capacity to generate value added

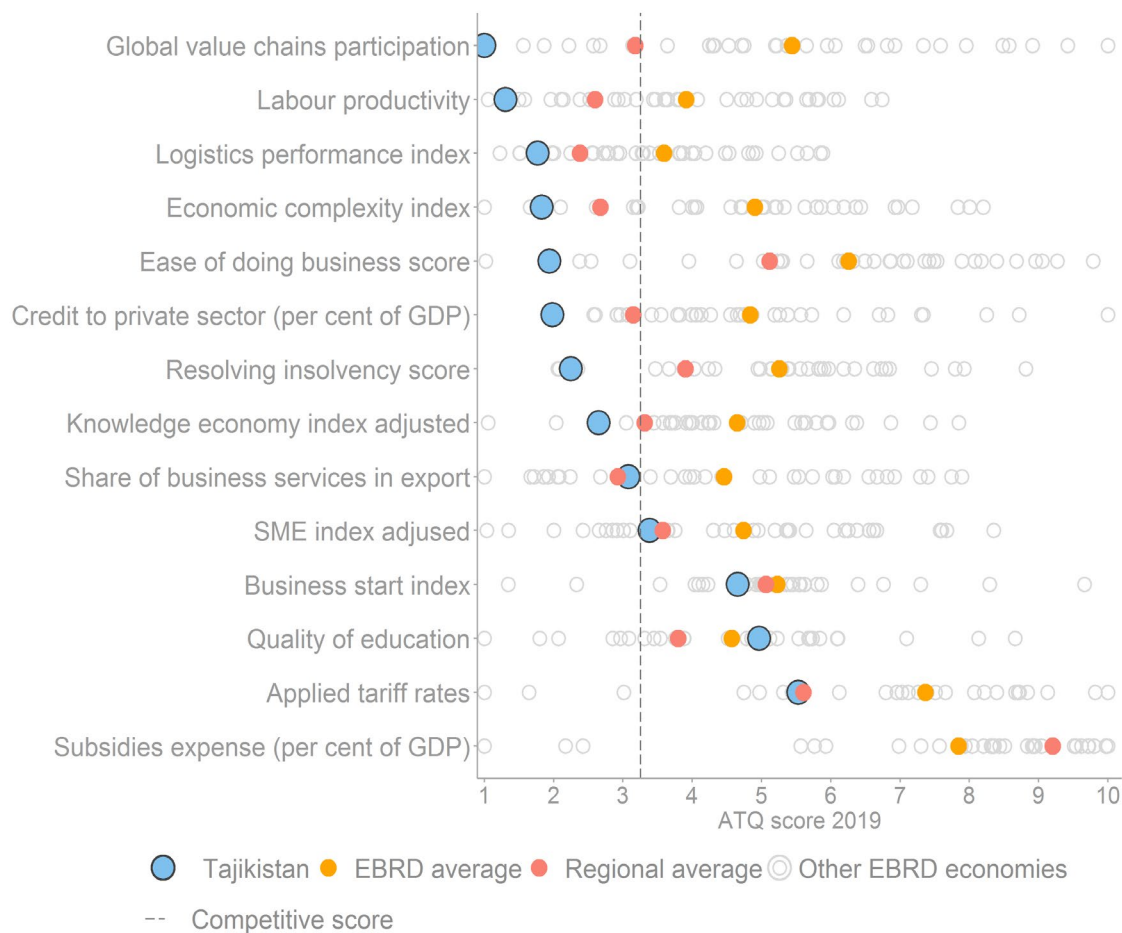
**As reflected by the low score obtained on the economic complexity index, there is little diversification** in the products exported (mostly metals, mineral products and raw cotton) and these are characterised by a low degree of complexity.

Tajikistan's geographic location at the crossroad between Asian countries and the Middle East opens opportunities for regional and international trade, despite the country's landlocked position. **However, the quality and efficiency of logistics are low**, as measured by the Logistics Performance Index 2018.

Although gaps in human capital development remain, as evidenced by Tajikistan's low scores in the World Bank's 2018 Human Capital Index (ranked 89th out of 157 countries), the **perceived quality of education** in Tajikistan is higher than the EBRD average, as assessed by the World Economic Forum's Global Competitiveness Index.

---





Source: EBRD.

Note: Visit <https://2019.tr-ebrd.com/reform/> for the list of indicators, data sources and methodological notes.

---

## Well governed [ATQ = 3.63]

---

**122<sup>nd</sup> out of 180 countries in Index of Economic Freedom 2019 (The Heritage Foundation), with low scores in investment and financial freedom, as well as Government integrity**

Tajikistan scores slightly below the Central Asian average and below most of the EBRD countries of operations according to the most recent results of the ATQ (2019).

**Quality of institutions** scores are low compared to the frontier comparators but slightly above the regional average. This is due to the low scores on perceived government effectiveness, regulatory quality, freedom of media, regulatory burden and political instability. At the same time, transparency of government policy-making is perceived higher than in the Central Asia region.

On **the rule of law**, Tajikistan is scoring low and well behind the frontier group on most indicators, including availability of framework for challenging regulations and overall rule of law picture. At the same time, judicial independence, framework for challenging regulations, and enforcement of contracts fare slightly above the regional average though still below the frontier comparator.

Competition from the **informal sector** is perceived as the second biggest obstacle faced by businesses in Tajikistan, according to the latest round of the BEEPS.

The regulatory and institutional framework supporting good corporate governance in Tajikistan is weak. The EBRD's assessment of **corporate governance** legislation and practices in Tajikistan (2016) scores low in all five components. It points out to particular weaknesses in quality of internal control framework, independence and functioning of

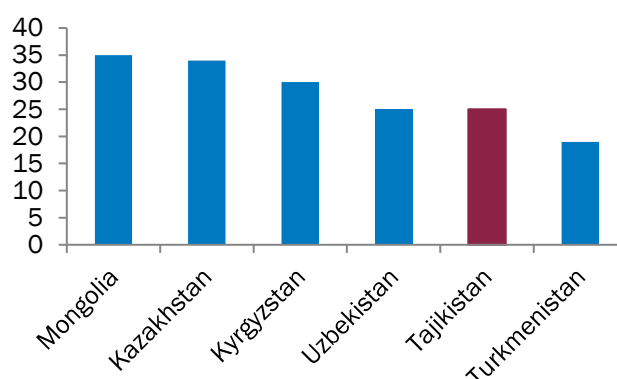
audit committees, lack of independent directors and lack of gender diversity on the boards, as well as lacking framework on stakeholders and institutions, potential dominance by the executive board members of the committee work and lack of disclosure regarding board evaluation.

On **business integrity** and the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) side, Tajikistan scores fair on the ethical behaviour of the firms and low on the AML/CFT implementation of frameworks.

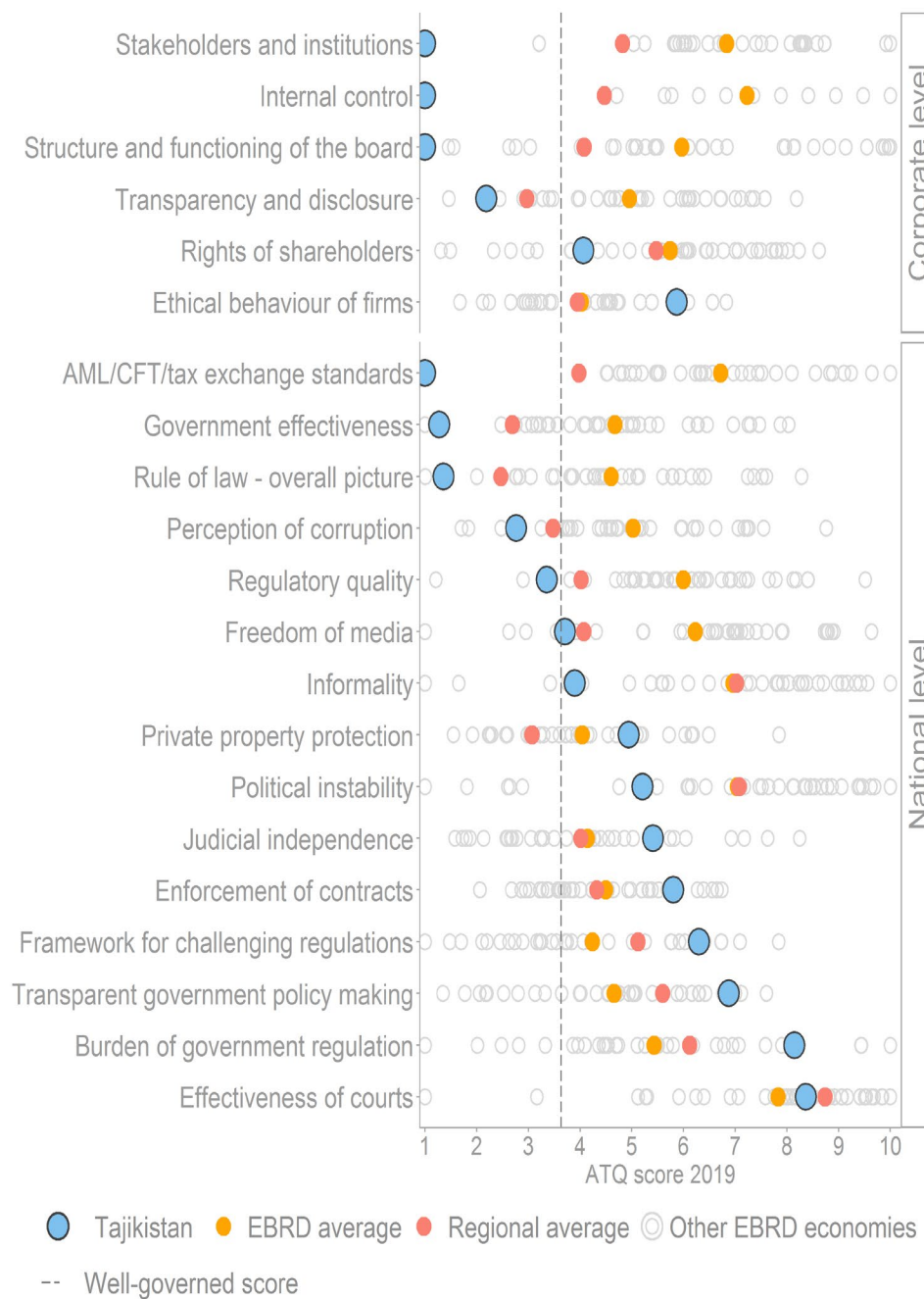
Tajikistan's **economic freedom** score is 55.6 in the 2019 Index of Economic Freedom declining by 2.7 points from 2018. Weak business climate, bureaucracy in regulations and inconsistency in application and adequate implementation of laws and regulations continue to deter foreign investment.

**Corruption** is seen as a major obstacle to private sector development. The country ranks 152<sup>nd</sup> out of 180 countries on Transparency International's Corruption Perceptions Index in 2018, which shows virtually no improvement from 2008 when it ranked 151<sup>st</sup>.

**Figure 26: Corruption Perceptions Index scores, 2019**



Source: Transparency International.



Source: EBRD.

Note: Visit <https://2019.tr-ebrd.com/reform/> for the list of indicators, data sources and methodological notes.

---

## Green [ATQ = 4.84]

---

**Energy intensity in 2015 was the 13<sup>th</sup> highest among all EBRD COOs which is 3.9 time higher than the energy intensity of EU28.**

**Eighth richest country in the world in terms of hydropower resources<sup>16</sup>, possessing 4 per cent of the world's hydro power resources (more than 60 per cent of Central Asia's resources)<sup>17</sup>.**

**Electricity prices remain among the lowest in the world. At US\$ 0.023 per Kw/hr, Tajikistan's electricity tariffs are the second lowest in Europe and Central Asia <sup>18</sup>.**

**Ranks 45<sup>th</sup> in the Global Water Stress Ranking for 2040<sup>19</sup>. The area covered by glaciers has declined by 70 per cent in the last few decades.**

**Tajikistan's green economy transition will need to focus on modernisation of existing hydropower assets and adding of new capacity**, supply and demand side measures for energy efficiency, and climate change adaptation. Tajikistan set a conditional target of limiting GHG emissions to 65-75 per cent of 1990 levels by 2030 in its NDC.

**The government of Tajikistan declared energy independence as the highest political and economic priority for the country.** Long-term objectives until 2030 includes increased projected production capacities to 10 GW, electricity export of 10 billion KW/hr and electricity losses down by 10 per cent<sup>20</sup>.

**To reduce the winter energy shortages, measures need be taken to improve energy efficiency on the demand side in addition to supply expansion<sup>21</sup>.** On the demand side, energy prices need to reflect the full cost of supply, which would then encourage electricity consumers to use it more efficiently. Measures should also be taken to avoid losses and minimize excessive usage. Likewise, efficiency improvements on the supply side could include better governance and increasing generation capacity at power plants.

**Road transport has had dramatic growth in the last decade and accounts for more than half the CO2 emissions in the country and is the main cause of poor air quality.** The average age of the vehicle fleet is around 15–18 years, for both light duty vehicles and freight vehicles. Motor transport is identified as the number one cause of environmental impacts on the quality of air in Dushanbe and other cities<sup>22</sup>.

**Tajikistan has been assessed as the most vulnerable in the region of Europe and Central Asia in terms of future climate change risks<sup>23</sup>.** The high share of hydropower makes the country vulnerable to climate-induced hydrological variations beyond the normal seasonality of river flows. The agriculture sector, in particular, will likely be affected by low levels of rainfall, drying-up of water resources, lower snow accumulation in mountain glaciers, and more frequent extreme weather events.

---

<sup>16</sup> ADB

<sup>17</sup> [https://energypedia.info/wiki/Tajikistan\\_Energy\\_Situation](https://energypedia.info/wiki/Tajikistan_Energy_Situation)

<sup>18</sup> <http://documents.worldbank.org/curated/en/690731468176057899/pdf/892430ESW0whit00Box385275B00PUBLIC0.pdf>

<sup>19</sup> WRI

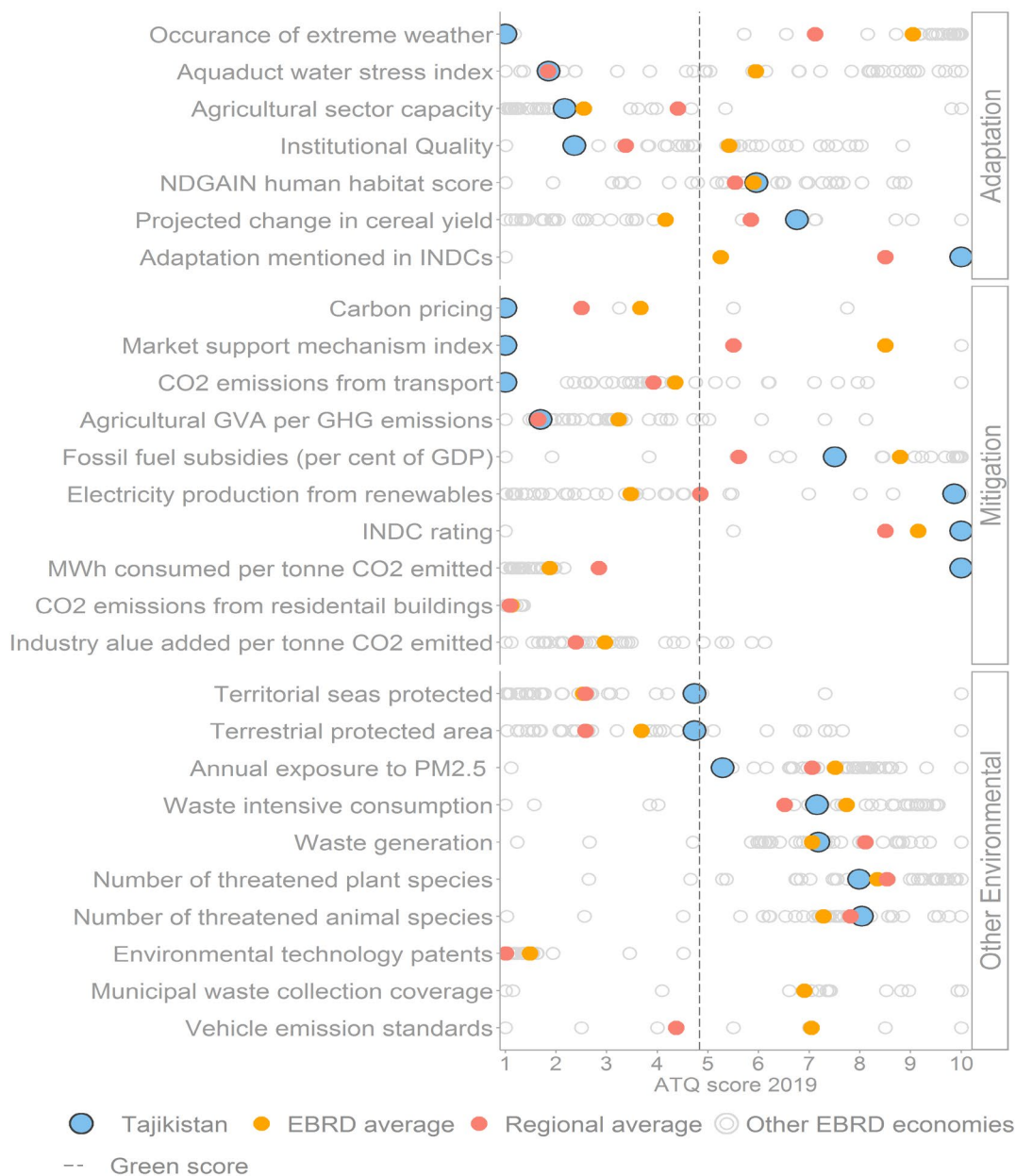
<sup>20</sup> IRENA

<sup>21</sup> [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_BRI\(2018\)625181](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2018)625181)

<sup>22</sup> UNECE

<sup>23</sup> <https://www.worldbank.org/en/news/feature/2018/05/04/sustainable-management-of-natural-resources-helps-tajik-communities-adapt-to-climate-change>





Source: EBRD.

Note: Visit <https://2019.tr-ebrd.com/reform/> for the list of indicators, data sources and methodological notes.

---

## **Inclusive [ATQ = 5.05]**

---

### **Tajikistan performs relatively poorly on most of the indicators captured under the Gender Inclusion ATQ.**

Women in Tajikistan account for only 14.8 per cent of managerial positions and just 12.5 per cent of total employers – much lower shares than either the Central Asia average or the broader EBRD average. Women are also 38.0 per cent less likely to participate in the labour force than men, representing a significant gender gap (though relatively moderate compared to other countries of operations).

**Women in Tajikistan have a moderate level of financial inclusion**, with 42.1 percent owning a formal bank account, though this remains lower than the broader EBRD average. Tajikistan performs only moderately worse than the EBRD average on the OECD's Social Institutions and Gender Index (SIGI) – a composite indicator evaluating discriminatory social institutions that restrict women's and girls' access to rights, justice and empowerment opportunities.

### **On the indicators measured under the Youth Inclusion ATQ, Tajikistan largely performs at or above both the EBRD and Central Asia averages.**

The gap between youth and adult unemployment is fairly high but in line with the regional average and rather positive vis-à-vis the broader EBRD average. A similar story emerges for performance on international education rankings, in addition to employers perceiving the education system as relatively high quality. Tajikistan also performs well on hiring and firing flexibility and youth financial inclusion, which – at 49.3 percent – is around the EBRD average.

**Tajikistan is one of the very youngest EBRD countries of operations**, with a median age of just 22 (in most of Central Europe and the Baltics, by comparison, the median age is above 40) and young-age dependency ratio is relatively high at 58 per cent. In contrast, the country has a relatively low elderly population and a very a low elderly dependency ratio (at 6 per cent). The potential

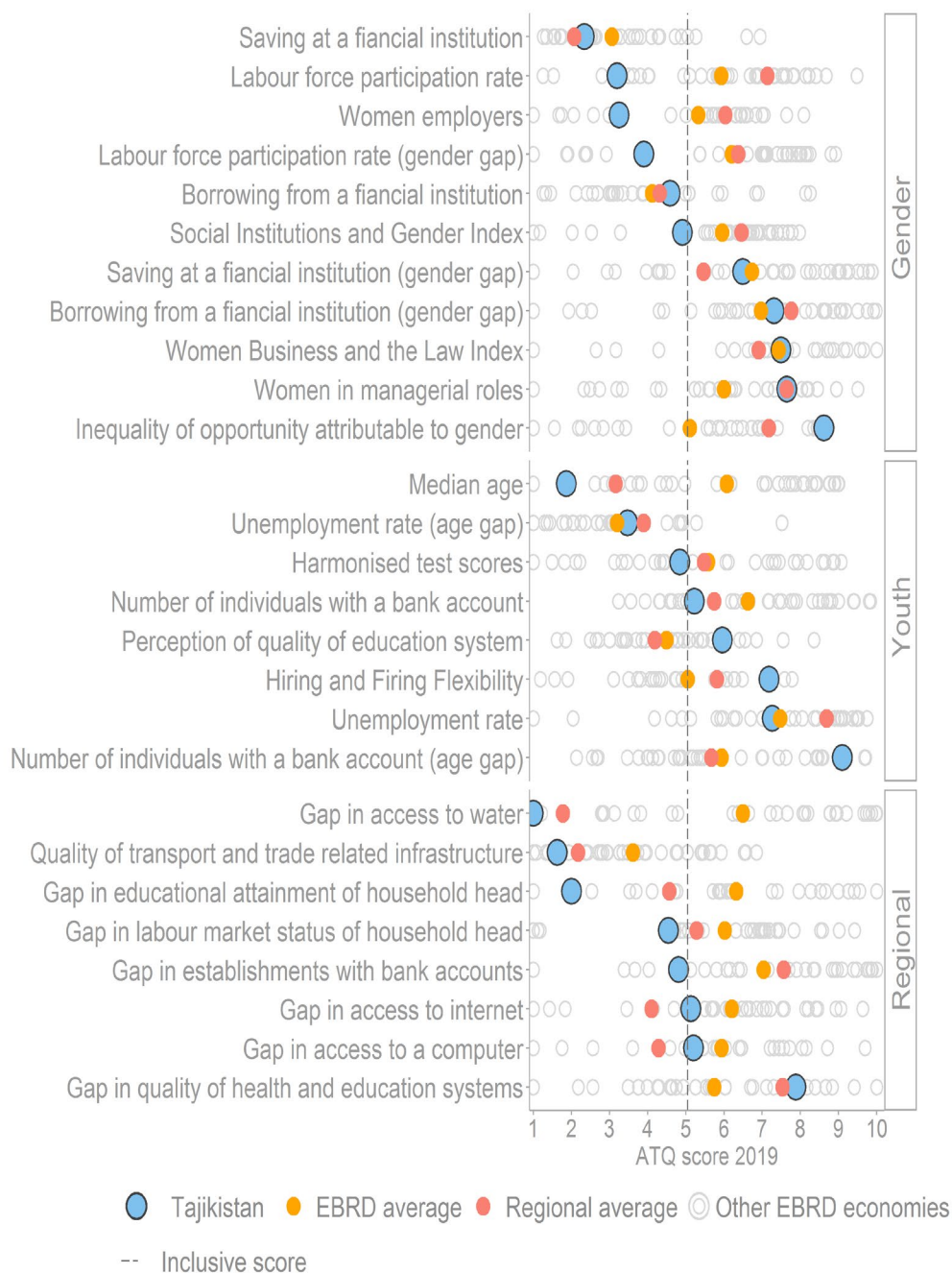
dividend of getting skills right, therefore, is considerably greater in Tajikistan than it is elsewhere. In rural areas of Tajikistan, only 57.3 per cent of children complete secondary education, according to the latest available data published by UNESCO (from 2012). School life expectancy of just 9.7 years is among the lowest in EBRD's countries of operations.

### **Tajikistan's performance on the indicators captured under the Regional Inclusion ATQ is mixed.**

Big regional disparities in access to water and quality of health and education systems sit alongside moderate performance on other indicators such as access to internet. Tajikistan performs above the EBRD and Central Asia averages in terms of equality of access to heating and educational attainment of household heads.

### **Economic opportunities for people with disabilities remain particularly limited in Tajikistan**,

with considerable scope for policy improvements. Among the EBRD countries of operations, Tajikistan is among the only ones not yet to have ratified the United Nations Convention on the Rights of Persons with Disabilities (UNCRPD) – although it did become a signatory in March 2018. The UNCRPD is the foremost international treaty addressing economic inclusion for people with disabilities, covering a broad variety of themes from employment and non-discrimination to inclusive education and training. In the absence of a comprehensive framework of rights, many people with disabilities in Tajikistan remain vulnerable to stigma and discrimination. Many of them ultimately fall between the cracks of the labour market



Source: EBRD.

Note: Visit <https://2019.tr-ebrd.com/reform/> for the list of indicators, data sources and methodological notes.

---

## Resilient [ATQ = 3.68]

---

Tajikistan ranks 37<sup>th</sup> out of 38 EBRD economies in the Resilient quality index. The low degree of resilience is due to a weak banking sector, high dollarization of balance sheets, gaps in financial oversight, as well as weak energy sector legal framework and limited energy sector connectivity.

---

### Economic resilience

**While the sector has been recapitalised, protracted resolution and restructuring of systemic banks continues to hinder sector development.** Legacy problems of weak governance and directed and related party lending, mixed with pressure from a significant currency depreciation, contributed to deep solvency and liquidity issues in the banking sector, resulting in a failure of two large banks and the weakening of other players. The liquidation of Agroinvest Bank and Tojiksodirotbank has stalled, mainly due to political reasons, perturbing financial intermediation. Private and independent players have shown resilience during this time and benefited from the flight to quality, despite undue burden of NBT and tax inspections.

**Further vulnerabilities remain, including due to highly dollarised balance sheets, which expose banks to potential FX-related credit risks.** As of September 2019, 49 per cent of loans were in foreign currency, a decrease from levels above 65 per cent in 2015, in part following measures to curb bank's foreign currency lending to unhedged borrowers. Dollarisation is also an issue on the funding side, with 50 per cent of liabilities in foreign currency.

**The sector is exposed to weak asset quality mainly concentrated in the two failed banks.** According to NBT data, NPLs peaked at 47.6 per cent in 2016, following the deterioration in the largest two banks.

Since, NPLs have gradually decreased, although remain at high levels of 30.4 per cent as of December 2019.

**Gaps in banking supervision and regulatory framework remain, although efforts are underway to strengthen these.** A number of IFI technical assistance projects are ongoing to tackle some of IMF's FSAP recommendations<sup>24</sup>, including on strengthening the financial oversight, bank resolution framework, and corporate governance. Priorities that require further effort include: reducing state intervention in the financial sector (e.g. phasing out directed lending), ensuring a level playing field between state-owned and private banks and MDOs, and strengthening the regulatory framework on related-party lending and bank ownership disclosure. Delays in reforms are in part due to weak implementation capacity and political sensitivities.

---

### Energy resilience

**Tajikistan's electricity is almost entirely from glacial fed hydropower which faces seasonal variability.** The country only taps into up to 10 per cent of its hydropower potential<sup>25</sup> and has significant untapped solar potential. To meet winter supply gaps, Tajikistan is also actively developing its coal heating power capacity.

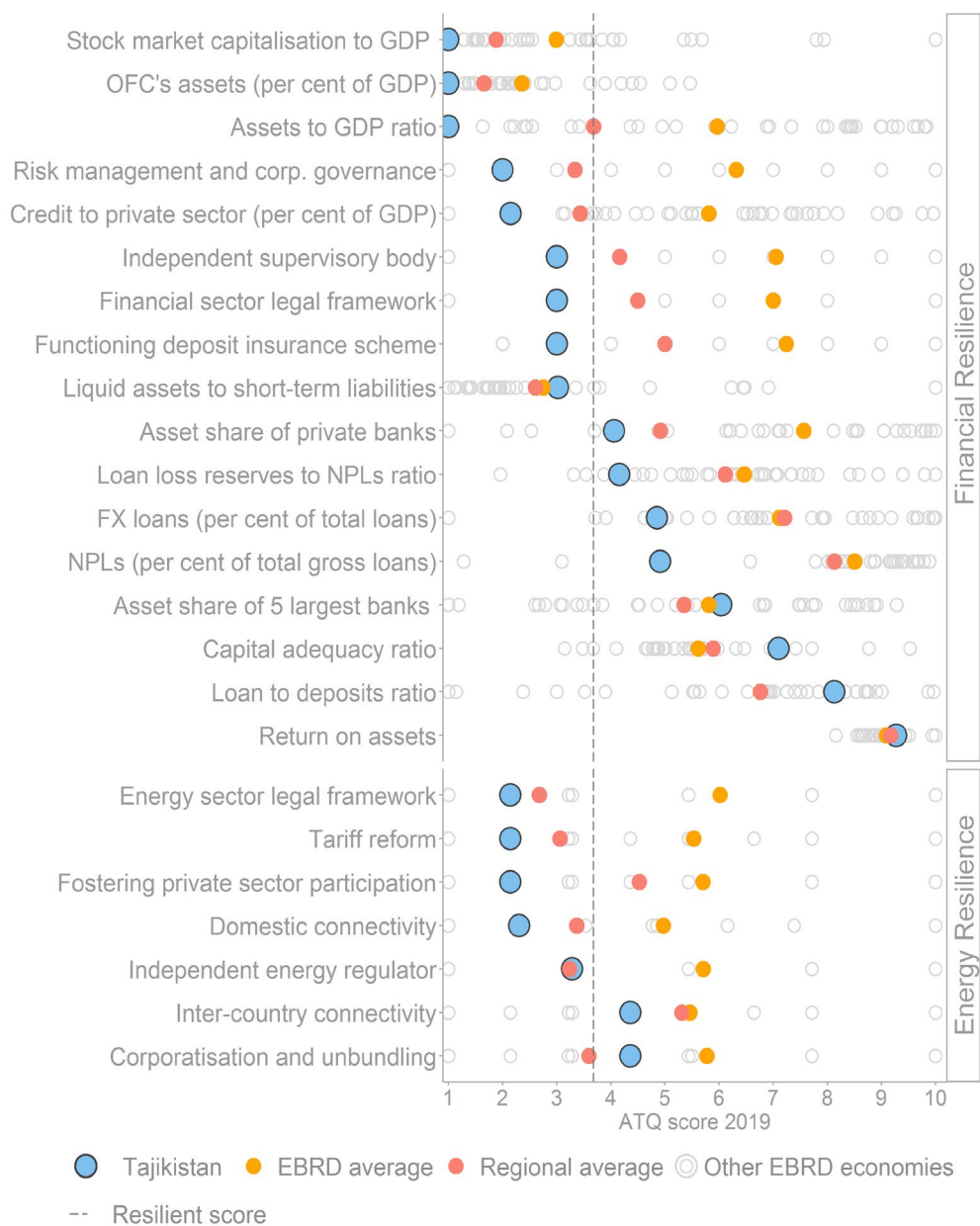
**The electricity system is strained financially by low tariffs, poor collection, and large receivables from major consumers.** The highly subsidized and below cost-recovery tariffs, combined with winter shortages, reportedly result in sizeable economic losses of around US\$ 200 million a year or 3 per cent of GDP. The Government of Tajikistan relies on international donors to maintain the energy production and distribution network in Tajikistan.

---

<sup>24</sup><https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Tajikistan-Financial-System-Stability-Assessment-Report-43683>

<sup>25</sup> <https://www.export.gov/article?id=Tajikistan-Energy>





Source: EBRD.

Note: Visit <https://2019.tr-ebrd.com/reform/> for the list of indicators, data sources and methodological notes.

---

## Integrated [ATQ = 3.51]

---

Trade as a share of GDP: 57.9 per cent, compared with EBRD average of 98.2 per cent.\*

FDI inflows as a share of GDP: 3.7 per cent, compared to EBRD average of 4.4 percent.\*

Portfolio inflows as a share of GDP: 1.4 per cent, compared to EBRD average of 1.3 percent.\*

Quality of overall infrastructure: ranked 91st out of 141 countries (WEF GCR, 2019)

Logistics performance (international) index: ranked 134th out of 160 countries (WB, LPI database, 2018)

\* 5-year average

Tajikistan ranks last among the 38 EBRD countries of operation on Integrated ATQ. The country is lagging behind along all dimensions captured by the integrated ATQ, in particular regarding its transport and logistics infrastructure.

---

### External integration

While Tajikistan performs relatively better in terms of FDI and portfolio inflows, its performance compared to the OECD and regional averages is worse in terms of trade flows.

- **Trade environment:** Exports and imports of goods and services as a share of GDP have declined from 80 per cent in 2010 to 58 per cent in 2017\*, as trade volumes have not increased in recent years. The number of non-tariff measures is among the lowest (6, EBRD region: 900). While this could lead to trade enhancement, it is also a sign for the relatively underdeveloped market – also reflected in the low number of regional trade agreements in force.

- **Investment environment:** Tajikistan's openness to FDI flows (3.7 per cent of GDP in 2018, declined from 6.1 per cent in 2010) is below the regional (3.8 per cent) and EBRD countries' average (4.4 per cent) – despite the adoption of an open FDI regime. The country is part of 29 bilateral investment agreements, which is below the Central Asian average of 38 (EBRD region: 65).
- **Non-FDI environment:** Portfolio inflows as a share of GDP\* were equal to 1.4 per cent in 2017 (up from 0 per cent in 2010), which is above the Central Asian (1.0 per cent) and the EBRD averages (1.3 per cent), but below the average of 2.4 per cent for selected OECD comparator countries<sup>26</sup>. Tajikistan's capital account openness is very low<sup>27</sup>.

---

### Internal integration

- **Domestic transport:** Tajikistan is facing bottlenecks in terms of quality of infrastructure. While the perception of the quality of rail, road and air transport infrastructure is above the regional, and above or close to the EBRD country average, the logistic performance is assessed very low.
- **Cross-border integration:** Tajikistan's international logistics performance – measuring the efficiency of customs and border clearance, the quality of the trade and transport related infrastructure and the ease of arranging shipments – is also assessed very low. The cost of trading across borders (time and cost associated) is among the highest in the EBRD region despite some improvement in 2019.
- **Energy and ICT:** The quality of electricity supply in Tajikistan is below the Central Asian, EBRD and OECD averages; and it takes particularly long for businesses to obtain a permanent electricity connection. Furthermore, the ICT infrastructure is

---

<sup>26</sup> Canada, Czech Republic, France, Germany, Japan, Sweden, US, UK

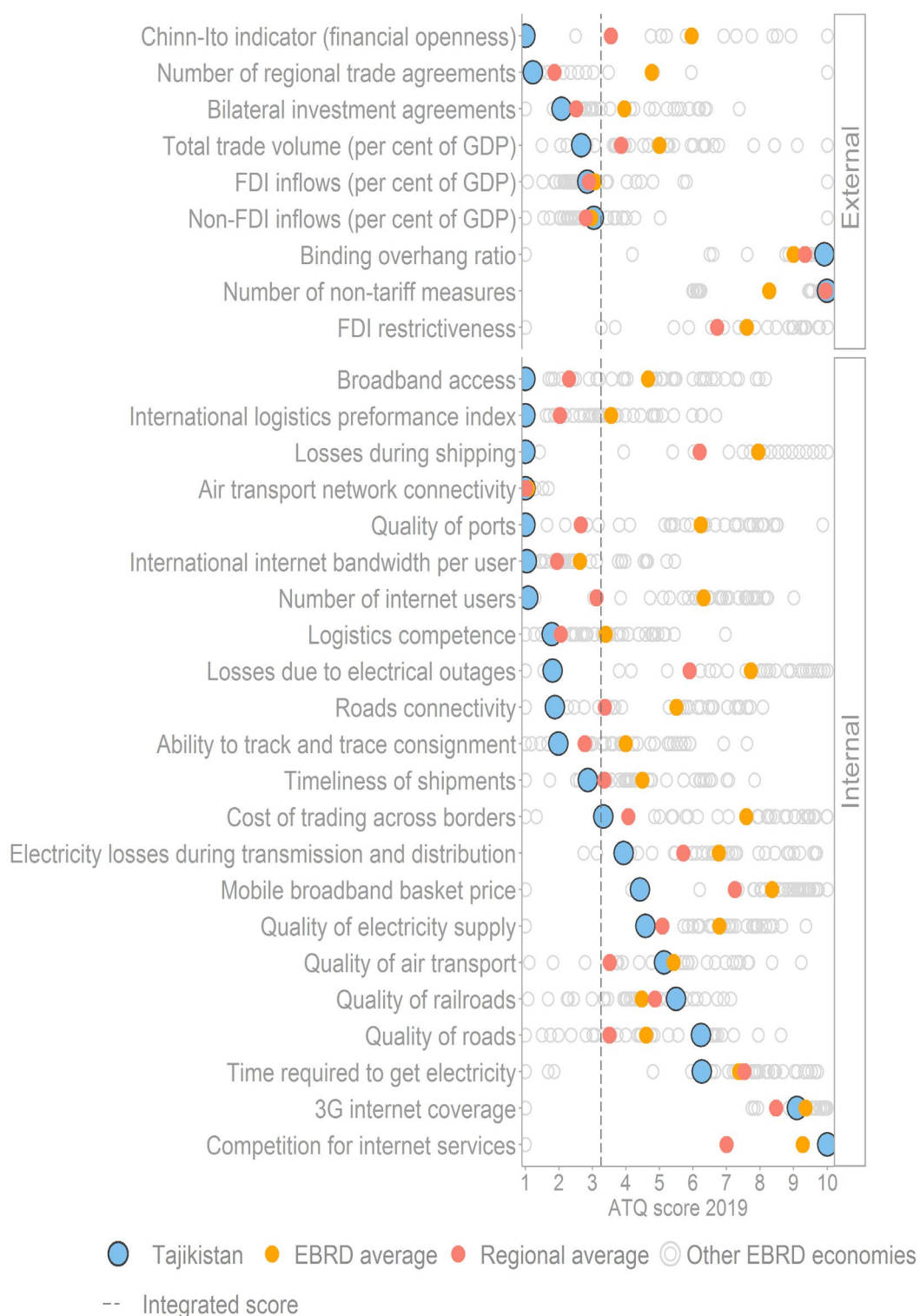
<sup>27</sup> Chinn-Ito, based on IMF Report on Exchange Arrangements and Exchange Restrictions, 2015

---

lagging behind, with only 22 per cent of the population being internet users.







Source: EBRD.

Note: Visit <https://2019.tr-ebd.com/reform/> for the list of indicators, data sources and methodological notes.

European Bank for Reconstruction  
and Development  
One Exchange Square  
London EC2A 2JN  
United Kingdom  
Tel: +44 20 7338 6000  
Fax: +44 20 7338 6100  
[www.ebrd.com](http://www.ebrd.com)

The contents of this publication, *Tajikistan Diagnostic*, reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

© European Bank for Reconstruction  
and Development

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Applications for such permission should be addressed to [permissions@ebrd.com](mailto:permissions@ebrd.com).

This document was approved in March 2020.

Photography: iStock.

This document can be found at  
[www.ebrd.com](http://www.ebrd.com)



**European Bank**  
for Reconstruction and Development

