

INTERNATIONAL DEVELOPMENT ASSOCIATION  
AND INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**Joint Staff Assessment of the Poverty Reduction Strategy Paper**

Prepared by the Staffs of the International Development Association  
and the International Monetary Fund

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## Glossary

CBO	Community Based Organization
CCP	Cash Compensation Program
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
LSMS	Living Standards Management Survey
MTBF	Medium-Term Budget Framework
NBT	National Bank of Tajikistan
NGO	Non-Government Organization
PIP	Public Investment Program
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
SME	Small and Medium Enterprises
SPF	Social Protection Fund
SSC	State Statistical Committee
VAT	Value-Added Tax
CEM	Country Economic Memorandum

## I. INTRODUCTION

1. The Poverty Reduction Strategy Paper (PRSP) prepared by Tajikistan builds upon the Interim Poverty Reduction Strategy Paper (I-PRSP) presented to the Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) in October 2000. The PRSP was developed through a broad participatory process that involved the government, civil society, non-government organizations, and representatives of the private sector and the donor community. The PRSP has been endorsed by parliament and made effective use of the available information on the extent and nature of poverty.

2. The staffs are in agreement that Tajikistan's PRSP represents an acceptable initial strategy for reducing poverty. The strategy will need to be deepened in the near term but it can serve as a starting point. The main strengths of the PRSP are: (i) an appropriate macroeconomic framework; (ii) a multi-sector approach to reducing poverty; (iii) proposed budget allocations focused on increasing social spending and improving targeting of social expenditures; and (iv) initial steps for monitoring the implementation of the PRSP.

3. Achieving the goals of the PRSP will require that particular attention be given to a few key areas. Maintaining macroeconomic stability will be important for sustaining growth and in this regard monetary and fiscal policy discipline, as well as accelerated structural reform, is necessary. Fiscal targets need to be put in a broader medium-term expenditure framework with detailed costs of social and sectoral programs. While the authorities' recognition of the need to improve governance is important, more detailed proposals for achieving this result would be desirable. An important next step for successful implementation of the PRSP will involve the prioritization of proposed expenditures outlined in the strategy in light of Tajikistan's high level of external debt, scarce budgetary resources, and the limited absorptive capacity of public sector institutions.

## II. COUNTRY OWNERSHIP AND THE PARTICIPATORY PROCESS

4. A broad and intensive participation process drove the preparation of Tajikistan's PRSP. A senior level steering group was established in early 2001 to coordinate the preparation process. Using the I-PRSP as a foundation, nine sector working groups were formed with responsibility for formulating strategies, policy reforms and investment priorities that would support the objective of fostering growth and reducing poverty.<sup>1</sup> The reports of these working groups were widely discussed in a variety of public forums. As such, a range of views and opinions were expressed that are reflected in the strategy.

5. The consultation process aimed at creating participation and ownership. To this end, the PRSP steering group undertook a variety of activities, including: disseminating the

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<sup>1</sup> The sector working groups covered macroeconomics, labor/privatization, education, social protection, health, agriculture, environment/tourism, infrastructure, and public management structure and governance.

I-PRSP in three languages (Tajik, Russian, and Uzbek); conducting regular meetings with the chairpersons of the sector working groups; holding weekly meetings with local consultants who guided the sector working groups; supporting public awareness of the strategy through the mass media; and initiating seminars, workshops, and roundtable discussions in Dushanbe as well as in the regions.<sup>2</sup> To ensure the inclusion and participation of Tajik women in the PRSP process, the government supported a qualitative study, "Voices of the Poor." During focus group discussions, it became clear that while there is no significant difference in poverty indicators for men and women, their perspectives on poverty differ in many respects. The PRSP notes that the wage gap between men and women is a source of concern.

6. The participation process also created internal and external partnerships. Enhanced internal partnership emerged from the various consultative meetings and discussions that were intended to build consensus among stakeholders. Focus group meetings and discussions with the poor as well as the NGOs are examples of these new partnerships within the country. These discussions provided new forms of collaboration designed to better target support to the poor, and to provide them with basic social services and job opportunities. Parliament has also been an important partner in these discussions. Partnership with external stakeholders focused on pursuit of joint poverty reduction goals of the government and the international/bilateral donors and strengthened collaboration among them. This is expected to lead to better coordinated and higher levels of financial and technical assistance from the donor community.

### III. POVERTY DIAGNOSIS

7. A variety of sources of data has been used for the diagnosis of poverty and living standards in the country. Much of the analysis is based on the 1999 household survey and other official data sources. The PRSP offers a realistic assessment of the general poverty situation in Tajikistan, and identifies vulnerable groups. Data on poverty beyond 1999 do not yet exist, but the State Statistical Committee is now in the process of updating the household survey with support from the Asian Development Bank. The World Bank is also currently in the process of preparing a Poverty Assessment. This information will hopefully shed light on how the situation has evolved after several years of strong economic growth. While the PRSP does recognize the limitations of some official statistics, staffs note the substantial discrepancies between official data (such as for infant mortality) and other information. Staffs recommend that future analyses make greater use of the recent information on poverty collected by organizations such as the National Social Investment Fund. At the time of the

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<sup>2</sup> During the first half of 2001, a total of about 50 seminars, workshops, and roundtables involving about 2000 participants were held. About a quarter of the participants were from central government agencies and nearly 30 percent were local government officials. About 8 percent of participants came from NGOs, CBOs, and civil society, while the remainder were from the private sector, academia, associations, and trade unions.

first annual PRSP review, the authorities are encouraged to report progress on improvements in poverty monitoring.

8. The multidimensional nature of the poverty situation is brought out in the PRSP. In addition to low income and wealth, the PRSP emphasizes the problem of lack of access of many poor people to essential social services, and the emergence of formal and informal user fees. The paper also highlights an important regional dimension to poverty, with the mountainous area in the south-east facing a particularly difficult situation. Gender is also an important dimension that is elaborated on, particularly that female-headed households seem to have less access to land and agricultural resources.

9. The PRSP reviews some of the causes of poverty in the country and recognizes that this is not a new phenomenon in Tajikistan. The break-up of the former Soviet Union and the civil war during 1991-97 no doubt exacerbated this situation. However, the PRSP is cognizant of the role played by government policies, and the government's limited ability to deliver effective social services and protection.

#### **IV. THE POVERTY REDUCTION STRATEGY**

##### **A. Macroeconomic Framework**

10. The PRSP demonstrates a commitment to sustaining strong economic growth and low inflation as the most effective means of alleviating poverty. In this context, their medium-term macroeconomic framework (developed in consultation with the staffs), aims to achieve real GDP growth of about 6 percent annually over the next three years and reduce inflation to about 5 percent annually.<sup>3</sup> These targets are realistic given the growth performance of 7.4 percent on average over the last three years and the decline of inflation since 2000. With a stable exchange rate, an expansion of output of this magnitude, if sustained, could lead to a modest increase in real per capita income (in U.S. dollar terms). To maintain macroeconomic stability, the strategy emphasizes the need to ensure both fiscal and external sustainability through firm control over public spending and establish strict economic criteria to constrain the level of foreign borrowing. This is to be supported by a tight monetary program to further reduce inflation. The central bank will continue to operate a (managed) floating exchange rate regime, and will limit intervention except to rebuild gross international reserves to about three months of imports.

11. It should be noted that the macroeconomic projections for 2002 in the IMF staff report for the proposed PRGF arrangement are slightly different from those in the PRSP because it is based on more recent data that suggest higher growth, somewhat higher inflation and a larger current account adjustment. For 2003, differences with regard to the budget reflect revisions made in the program to lower current expenditures because of the

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<sup>3</sup> It should be noted that macroeconomic data are quite robust compared with other national statistics in Tajikistan.

authorities' decision to reduce the size of the wage increase, pending civil service reform; a slight increase in tax revenues due to additional tax measures and administrative reforms; and a larger domestic contribution to capital expenditures. There are also some small differences in the medium-term projections that reflect the revised short-term outlook and more conservative assumptions (e.g., tax revenue projections in the outer years). The authorities plan to reconcile these differences at the time of the first annual progress report. The staffs concur with this approach for dealing with frequent changes in macroeconomic conditions.

12. The PRSP identifies several sources of growth including agro-processing, light industries, mining and tourism. The staffs note that these sources of growth and growth estimates in the PRSP are broadly in line with the Bank's Country Economic Memorandum (CEM, 2001). The staffs emphasize that attaining and sustaining such growth rates will depend upon a supportive structural reform agenda that will lead to a more efficient allocation of both public and private sector resources. In this context, the staffs welcome the PRSP's focus on private sector development through, inter alia, reducing government intervention and completing the privatization of remaining state-owned enterprises and farms; significantly reducing quasi-fiscal activities in the energy sector; improving governance; and rationalizing and rehabilitating infrastructure.

13. Staffs encourage the authorities to pursue fiscal policies in line with externally and domestically available resources. The overall fiscal deficit (including the foreign-financed public investment program, PIP) is set to widen slightly from about 2¼ percent of GDP in 2001 to 3 percent by the end of 2005. With projected PIP disbursements of 3 percent of GDP over this period, this implies a balanced budget, excluding the PIP, over the medium term. The staffs concur with the authorities' desire to constrain the size of the PIP, to better reflect their capacity to undertake such investments and to limit their external liabilities. Current expenditures are projected in the PRSP to rise only modestly to about 15 percent of GDP in 2005 from 13¼ percent in 2001, mainly due to increased outlays for health, education, and targeted social programs (pensions and the cash compensation scheme). This rise in expenditures is expected to be financed by an increase in tax revenues and external financing, including through a bilateral debt rescheduling with Russia. Tax revenue collections are projected to rise by more than 2 percentage points during the period as a result of strengthened tax and customs administration, and the expansion of the tax base (including through broader application of the VAT). Staffs consider this target realistic in light of recent performance.

14. The PRSP recognizes that Tajikistan's large external debt complicates macroeconomic management and affects its ability to reduce poverty. The staffs welcome the authorities' attention to the foreign debt sustainability issue.<sup>4</sup> Public and publicly guaranteed

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<sup>4</sup> This issue was extensively analyzed in the "Poverty Reduction and Debt Sustainability in Low Income CIS Countries" paper that was presented to the boards of the IDA and the IMF in February 2002.

external debt stood at US\$906 million, equivalent to 88 percent of GDP at the end of 2001. Its net present value as a share of exports and fiscal revenue was 171 percent and 476 percent respectively, and debt service payments were equivalent to about 46 percent of fiscal revenues in 2001. Clearly, debt service requirements relative to Tajikistan's debt service ability is large and it is critical that the authorities pay close attention to debt management. The staffs welcome the recent measures to strengthen debt management, which includes completion of a debt inventory, clarification of the status of government and government guaranteed debt, training for Ministry of Finance staff dealing with external debt, and improvement of debt reporting systems. The staffs note that without careful debt management and without further non-concessional debt restructuring, implementation of programs envisaged in the PRSP will be at risk.

## **B. Governance**

15. Along with accelerated growth, provision of basic social services, targeted support for the poor, improved governance is one of the four main elements of the PRSP and the staffs welcome the authorities' emphasis on this issue. During the past several years a number of measures have been taken to improve both accountability and transparency of public policy, institutions, and the use of public funds with the establishment of the State Financial Control Office and the requirement to disclose budget execution on a regular basis. However, as discussed openly in the PRSP, there continue to be other important issues arising from weak governance, such as deficiencies in public administration and financial management, and an undeveloped legal and judicial system.

16. Weak public sector capacity to develop and implement appropriate sector policies remains a source of concern affecting the entire economy. The staffs recommend that the authorities adopt a two prong strategy. On the one hand, the staffs believe that the government should focus on strengthening the civil service and governance, which is a long term undertaking. In this regard, downsizing the public sector should form part of the reform package, as a means to improve the remuneration of civil servants and to retain high quality public sector employees. On the other hand, the staffs suggest more emphasis on decentralized service provision heavily relying on community involvement. This will require efforts to strengthen accountability and financial management at the community and local government levels.

17. Staffs note that barriers to entry as well as excessive licensing and inspections of private businesses lead to corruption and represent a major constraint for private sector development. While the PRSP highlights a number of anticorruption and good governance objectives, it remains uncertain how the authorities will pursue these goals. A parallel effort to strengthen corporate governance should also be developed. Staffs encourage the authorities to more fully develop the strategy to improve governance and combat corruption.

### **C. Structural and Sectoral Policies**

18. The PRSP supports private sector development as the main engine of growth. The upfront recognition of the importance of a favorable environment for private enterprises is welcomed. The PRSP indicates that the authorities will identify obstacles to the development of the private sector and annual seminars/workshops with entrepreneurs will be held to discuss how to overcome emerging constraints to business development. However, as noted in the above discussion on governance a strategy for improving the business climate should address administrative barriers to entry, rent-seeking and inspections, particularly in relation to SMEs.

19. More generally, the PRSP recognizes the importance of the legal and regulatory framework for the development of the private sector. Since 1998 the government has been drafting new laws and regulations in this regard. While the government has received assistance related to legal reforms, progress has been slower than expected due to the effects of the civil war during the 1992-97 period, inexperience and weak institutional capacity. The authorities need to improve the implementation of existing legislation, which the staffs consider a source of immediate concern. However, the staffs are encouraged that there are signs that reforms in this area are now gaining pace and increased donor funding is adding to the momentum.

20. Given that a majority of the population lives in rural areas, agricultural sector policies proposed in the PRSP are expected to play a central role in the government's efforts to reduce poverty. The strategy aims for generating a widespread increase in farm incomes and creating opportunities for growth in rural services and industry by supporting the efficient use of, and access of the poor to land, water, financial and other resources, and to eliminate government intervention in private farm decision making. The focus will be on policy making and regulatory functions of the government, as well as on support services that the private sector will not provide. Rural infrastructure development and maintenance in the areas of road building, reliable energy, irrigation and transportation will have to play an important role in improving living standards in these areas. Given the resource constraint, the strategy should recognize that less resource intensive activities could also improve the situation significantly, such as promoting better farm management and farming techniques.

21. Growth in agriculture is to be stimulated by expanding the share of private ownership, currently at about 25 percent of arable land, as well as other reforms to boost sectoral productivity. Transferring state land to actual users in a transparent and fair manner would not only bring important benefits in the form of increased farmers' income but also ensure land usage without patronage. The success of agricultural reforms will depend heavily upon eliminating interference of public administrators in the decision-making process of farmers. While recent policy measures are a step in the right direction, better monitoring and strict enforcement of rules and regulations are required. The government's resolve to work in tandem with externally funded and international aid agencies on a program for educating the rural communities about their rights to reduce interference of government authorities is welcomed by the staffs. The staffs would also encourage the authorities to articulate the role



of local governments, as well as the main institutional players (Ministry of Agriculture, Ministry of Irrigation, State Land Committee, Barki Tajik, Ministry of State Revenues and Duties, and Civil Supplies Departments), in implementing the strategy so that accountability and transparency are assured.

22. With regard to social policies, the PRSP provides an accurate discussion of the current situation and issues in education, health and social protection. The PRSP places high priority on both increasing social spending and improving the targeting of those expenditures. The PRSP sets out a strategy to improve both the quality and access to education (at the primary and secondary levels) and health care for the poorer segments of society. Social protection is to be provided mainly through the cash compensation scheme and increased pension benefits. Overall, the staffs agree with the high priority attached to social expenditures.

23. Looking ahead, however, the key priorities need to be clarified and strengthened. In education, staffs recommend a clear focus of public expenditure on basic education (grades 1-9) and on assuring the access of children from poor families, and women, to all levels of education. This will require focusing domestic expenditure on teachers' salaries and learning materials in general education; utilizing donor funds to rehabilitate and construct elementary schools; establishing programs to attract and retain the children from poor families and girls to basic education; and establishing scholarship programs to enable meritorious students from poor and other disadvantaged backgrounds to attend all levels of education. The authorities' are currently providing a cash subsidy to the poorest 20 percent of school-aged children in pilot districts as an incentive to attend school.

24. The financial constraints facing the education sector are stressed, but there is no real discussion of the need to change the way in which the schools are funded. A particular concern related to the financial constraints is the proliferation of user fees, as noted in the Bank's recent Education Sector Review. The efficiency of public spending on general education could be stimulated by combining the guidelines for per student financing (which is to be introduced in 2003) with a decentralization of authority to rayons and schools, which are better equipped than central authorities to be able to identify spending priorities at the local level. Central government would then control the total amount of spending, as opposed to controlling detailed allocation by line item. Moreover, issues related to teachers' salaries need to be discussed in the context of public sector salary reform and overall education policy. While there is recognition of the need to increase teachers' salaries in real terms, the availability of financial resources and how an increase in teachers' salaries would affect other civil servant salaries need to be considered.

25. The PRSP describes a very comprehensive reform program that attempts to address many of the key constraints within the health sector. Nonetheless, its implementation could prove to be a challenge given the limited government capacity and resources available. Looking ahead the government could develop a more selective and phased implementation plan that emphasizes primary care services and better targeting, and takes into consideration the different priorities for the short and medium term. In order to achieve the proposed shift

in resources from hospital to primary care services, it will be necessary to develop a rationalization plan for hospital services. Without such a plan, the hospital sector will likely continue to consume a large share of the available resources. Likewise, the proposed strategies for improving access and distribution of pharmaceuticals could be complemented by a greater emphasis on rationalization of its use and prescribing practices of physicians and pharmacists (through guidelines and treatment protocols). The PRSP also proposes introducing a formal medical insurance system. However, the staffs believe that, at this time, this may not be feasible given the capacity constraints.

26. The PRSP recognizes that Tajikistan inherited the framework of a social protection system from pre-independence days, and that it is not operational in any meaningful way: both earnings and pensions are far below even the most stringent poverty line. In the short-term, there is no real prospect of an effective social insurance system being developed. At this time, it may be best to confine compulsory participation to larger firms in urban areas and make participation by the self-employed optional, perhaps with the choice of a lower contribution and benefit. Over the medium term, considerable economic growth combined with much higher earnings is required to allow for pension payments at much higher levels than at present.

27. The PRSP notes that the low value of the Cash Compensation Program benefits, and problems with non-receipt of those benefits, either because of non-payment by government or administrative difficulties, are major problems. The intention to reform the existing system is welcomed. However, in order for this to succeed the central government will need to play an active role in ensuring that benefits are actually distributed to recipients. This might be done, for example, by assigning responsibility for program monitoring and implementation to the Ministry of Labor and Social Protection and establishing feedback mechanisms from recipients.

28. The PRSP highlights some of the problems inhibiting financial intermediation, but a systematic and detailed examination of the key factors is missing. The PRSP proposes a number of reform measures in the financial sector. The staffs urge the authorities to deepen the reforms and accelerate their implementation. Staffs note that over the past few years restructuring of the financial sector and development of a modern legal and regulatory framework for micro, small and medium enterprises as well as the rural sector has progressed at a slower rate than expected in part due to weak institutional capacity. However, a number of international financial institutions are providing advice on and support for financial sector reforms and the authorities are encouraged to accelerate reforms in these areas. The staffs are encouraged that there have been important legislative and regulatory changes during 2002, such as the elimination of tax authorities' arbitrary power to freeze deposits and a reduction in taxation of financial institutions, which are expected to improve the resource mobilization process.

29. While the key link between growth and infrastructure is well recognized in the PRSP, the proposed measures to improve infrastructure could be made more specific. This applies particularly to rural transport, the poor quality of which is a major constraint for the supply of

agriculture inputs and services, access to markets, and the functioning of social services. To begin to address these issues, it is important for the government to formulate a program to improve and maintain rural roads, especially one that is community driven, linked with restructuring of health and education facilities, and connected with measures to develop the local, labor-intensive construction industry. Some cost recovery in the road sector, possibly through higher fuel taxes, could provide the financing for such a program on rural roads as well as for the now neglected maintenance of main roads. At the same time, the impact of higher fuel costs and other cost recovery mechanisms on the poor will have to be carefully assessed and addressed. The PRSP could have also emphasized more the importance of promoting regional trade through better international transport links and improved transport facilitation (including customs reform) especially in coordination with other Central Asian countries and with input from the private sector.

30. The PRSP recognizes the need to reform the energy, water, and telecommunications sectors. The adoption of recent laws and regulations in all three sectors as well as the proposed move towards raising tariffs in the energy sector are steps in the right direction, but much remains to be done. While the PRSP draws attention to the large accumulated payment arrears for energy and water, it does not provide a sustainable solution to eliminate the arrears and prevent their recurrence. The staffs encourage the authorities to deepen further the reforms in these sectors, including moving to a more transparent market-based approach, while taking into account the impact on the poor through more targeted support and regular poverty and social impact analyses of such reforms.

31. The PRSP recognizes the importance of appropriate tariff policy and strengthening collections in order to address quasi-fiscal activities in the energy sector (primarily electricity and gas). To protect the poor, higher tariffs will need to be accompanied by improved targeting of social assistance expenditures in conjunction with the existing Cash Compensation Plan. However, the PRSP does not sufficiently elaborate on the plans and actions to mobilize the needed investments in the energy sector, especially using private sector participation and innovative public-private partnerships. In this latter regard, the PRSP might have focused more on building on the success of the recent Pamir Private Power Project.

32. The proposed development of a national strategy for sustainable natural resource use and environmental protection is welcome. The staffs encourage the authorities to prepare a National Environment Action Plan, which addresses poverty-environment linkages, establishes the capacity to manage properly natural resources and takes preventive measures against the recurrence of natural disasters.

#### **D. Priority Public Expenditures and Program Financing**

33. While the staffs agree with the underlying fiscal targets set out in the PRSP, they encourage the authorities to continue the work on expenditure prioritization and costing of sectoral and social programs. As indicated in the discussion of the financing plan in the PRSP, the medium term budget framework (MTBF) is still a work in progress and cost

estimates of some of the PRSP programs are not yet available. Staffs also note that prioritization of PRSP programs is an issue that has not been sufficiently addressed in the document. A mechanism needs to be developed for improved prioritization. Without such a mechanism, it will be difficult for the government as well as the staffs to judge whether or not sufficient resources are being appropriately allocated to achieve the authorities' objectives for poverty reduction. The staffs encourage the authorities to develop elements of a MTBF, as supported under the Bank's Second Institution and Technical Assistance Project. The staffs hope that the authorities will be able to address these issues more thoroughly in the first PRSP progress report.

34. Apart from PRSP program costing and prioritization issues, the staffs urge the authorities to more carefully consider the implications of the availability of domestic and external resources. As noted in the document, funding needs for PRSP programs exceed available resources by a considerable margin. While subsequent discussions with the authorities suggest that they expect to fill the financing gap with donor funding that is expected to materialize as a result of Consultative Group (CG) meeting during the first quarter of 2003, the staffs encourage the government to take a more conservative approach in the estimation of available resources. The staffs note that disbursements for the government's Public Investment Program (PIP) have historically been much smaller than commitments. Limiting new borrowing will also be important, as noted earlier. The authorities are encouraged to address resource availability issues in the first PRSP progress report.

35. At the time of the first annual PRSP review, the authorities are encouraged to quantify resource needs and financing gaps to be filled by concessional assistance. To the extent that such resources are available and the authorities enhance their policy implementation capacity, the staff encourages the preparation, in addition to the baseline scenario, of an alternative more ambitious macroeconomic framework. In that event, an improvement in the outlook could then be reflected in the PRGF arrangement.

#### **E. Targets, Indicators, and Monitoring**

36. The PRSP includes nine targets and indicators for 2006 and 2015. Five of these indicators are related to the Millennium Development Goals (poverty, primary education, infant mortality, maternal mortality, and reproductive health services). Although there is a brief reference to the MDGs, these should be discussed further, as well as their relevance to Tajikistan. Some of the targets may either be too cautious or difficult to attain. For example, with a projected growth rate of 6 percent a year, aiming for only a 23 percent reduction in the proportion of the population below the poverty line by 2015 may be conservative. On the other hand, increasing the proportion of the population with access to pure drinking water from 51 to 80 percent would be difficult to achieve given the high investment costs and tight budget constraint. Given current trends, targets related to the share of private sector in GDP and number of telephone lines per 100 residents, and employment rate seem reasonable and achievable by 2015.

37. A comprehensive PRSP monitoring system requires additional information and increased institutional capacity for data collection and analysis. While both the AsDB and the World Bank are supporting improvements at the State Statistical Committee, much remains to be done. A range and variety of information should be collected to provide a holistic view of poverty in the country. This should include: (i) qualitative and quantitative indicators; (ii) income/expenditure and access to services; and (iii) household, community/region and intra-household data. Data collection should be on-going and regular to allow evaluation of changes over time but should not overly tax the capacity of the government to implement it or of the clients to report information. The State Statistical Committee should be strengthened further to do regular surveys and data collection as stated in the PRSP and supported by the World Bank and the Asian Development Bank. However, the main capacity for data analysis should be outside of this committee, and in other parts of the government and also in private research centers, NGOs and academia. Results should be made available to the government, NGOs, local researchers and other stakeholders. The authorities should also direct some effort toward disseminating poverty-related data and survey results to NGOs and other community groups, to assist them with strategic planning of their social welfare activities.

38. The authorities also need to develop intermediate targets and indicators and monitoring capacity for each of the sectors covered in the PRSP. At present appropriate indicators are set out for monitoring poverty and primary education enrollment ratios for which the government has undertaken one household survey in 1999. The second survey has been recently implemented and is currently being analyzed. In the staffs' view the design of these two surveys is appropriate for measuring and monitoring the aforementioned two sectors. While the matrix attached to the PRSP provides indicators for all the nine sectors, most of these are too general, lacking a current baseline and adequate specificity to be meaningful. The staffs consider that in a number of areas the government could develop intermediate targets and indicators that could be presented in the first PRSP progress report. These include: (i) public administration reforms for which the government is receiving support under Bank's Second Institution and Technical Assistance Project; (ii) education and health sectors with the support of IDA and Asian Development Bank; and (iii) private sector development with the support of IDA and other donors. The government has been receiving technical assistance in these areas and developing targets and indicators should be possible within a year. Development of appropriate final and intermediate targets as well as indicators in other sectors for programs proposed in the PRSP is expected to take a longer time. The staffs encourage the authorities to seek donor funded technical assistance in these sectors with a view to develop intermediate targets and indicators which would require sector specific and detailed analyses.

39. The proposed institutional arrangements to monitor developments in each PRSP program area could benefit from further specification of how it would perform its functions. It is indicated that a special unit under the Office of the President responsible for "Monitoring and Improving the PRSP" would be set up and the duties of this body spelled out in general terms. However, how it would perform its duties is not explained in a detailed way, nor is its relationship to the State Statistical Committee. The PRSP notes that this body

would probably need technical assistance and the staffs encourage the authorities to seek donor funding to finance a technical assistance program in this area. This unit would be responsible for preparing a quarterly progress report to the president and its annual report would be reviewed by the government. The staffs welcome the high level attention this unit's report would receive and encourage the authorities to establish this unit as soon as possible. At the same time, the government will need to be careful that this body not duplicate monitoring elsewhere, or impose an extra layer of bureaucracy and control.

#### **F. Risks to the Strategy**

40. There are a number of risks facing Tajikistan which inevitably also affect the PRSP's prospects. The following are some of the key risks and possible mitigation measures.

- The risk of an external shock, or a slowdown in economic activity may temporarily reduce income growth or compromise the authorities' ability to raise sufficient resources to fund their program. Security concerns due to Tajikistan's proximity to regions with fragile political situation should not be discarded. In addition, Tajikistan is particularly vulnerable to external shocks because of its heavy dependence on exports of aluminum and cotton. While the current fiscal position allows some room to maneuver to counter these events in the short term, the authorities recognize the need to diversify the economy over the medium term. In this regard, the staffs commend the PRSP for its focus on structural reform to support efforts in reducing poverty and enhancing growth. Staff underline that increased regional coordination and cooperation will be essential for sustainable growth.
- While the PRSP has been developed in a participatory manner, vested interests may continue to resist reform. While the consensus in favor of economic reform has improved more recently, in the past there have been differing views on how to further market-driven economic development. The authorities are encouraged to maintain and extend the participatory nature of the PRSP in developing and monitoring the implementation of its policies in order to ensure ongoing support and broad ownership.
- Since the PRSP is not well prioritized, the authorities may be too optimistic about what can be achieved given both limited administrative and technical capacity and the availability of financial resources. In this context, the staffs encourage the authorities to move ahead to develop elements of a medium-term budget framework (MTBF) that will help to promote transparency and accountability. Delays in the development of a mechanism to prioritize public expenditures for PRSP programs, and effective program costing mechanisms, could undermine the PRSP implementation process. At the same time, the authorities need to develop a strategy to protect the most vulnerable groups and to allocate resources to implement the necessary programs in the event of financing shortfalls. They also need to develop tools to track such expenditures. It is anticipated that the ongoing public expenditure review will assist this process.

- Finally, there is a risk that ongoing institutional weakness and poor governance will hamper implementation. The PRSP process itself has revealed capacity constraints within government, and these are identified in the paper. The success of the proposed public sector reform designed to promote accountability will be a key factor to success. Corruption, if not addressed directly and reduced, will inevitably undermine the effectiveness of the PRSP.

## V. CONCLUSION

41. The PRSP is a result of a broad, consultative process among the representatives of government, civil society, and the business sector and thus presents an important first step toward poverty reduction in Tajikistan. In the staffs' view, the strategy provides an appropriate macroeconomic framework and a multi-sector approach to achieve this goal. It seeks to allocate scarce resources for both increasing and improving the targeting of social expenditures. The PRSP also establishes a basis for monitoring the implementation of the strategy. The successful implementation of the PRSP will, however, depend upon the ability of the authorities to improve costing and prioritization of proposed expenditures and address a number of institutional weaknesses, such as poor governance, capacity and the low quality of statistical data for decision making.

42. Overall, the staffs of the World Bank and the IMF consider that the PRSP provides a credible initial poverty reduction strategy and a sound basis for Bank and Fund concessional assistance. The staffs recommend to the Executive Directors of the Bank and the Fund to reach the same conclusion.