



UNITED
NATIONS
TAJKISTAN



FINANCIAL ANALYSIS TO SUPPORT SDGS IMPLEMENTATION IN TAJKISTAN, REPORT

Prepared by Mr. Jens Claussen- International Consultant and
Mr. Farukh Sultonov- National Consultant,
Dushanbe 2018

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List of Abbreviations

ACU- Aid Coordination Unit
AECF - Africa Enterprise Challenge Fund
AGRA - Alliance for Green Revolution in Africa
AKFED - Aga Khan Fund for Economic Development
CoEP - Committee for Environmental protection under the GoT
CDM - Clean Development Mechanism
CER - Certified Emission Reductions
CIF- Climate Investment Funds
CIS – Commonwealth of Independent States
CRS - Creditor Reporting System
CTF - Clean Technology Fund
DCC- Development Coordination Committee
DFA - Development Finance Assessment
DFI - Development Finance Institutions
DFID - Department for International Development (UK)
DP - Development Partners
EBRD- European Bank for Reconstruction and Development
EDFI - Association of European Development Finance Institutions
FDI - Foreign Direct Investment
FEZ – Free Economic Zone
GBAO - Gorno Badakhshan Autonomous Oblast
GDP – Gross Domestic Product
GEEREF - Global Energy Efficiency and Renewable Energy Fund
GNI – Gross National Income
GoT- Government of Tajikistan
HDI - Human Development Index
IMF – International Monetary Fund
KP - Kyoto Protocol
LIC – Low Income Country
LMIC - Lower Middle-Income Countries
LTD – Limited
MFI – Micro Finance Institutions

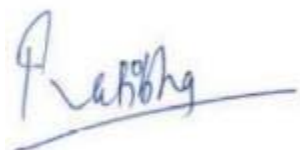
MoF- Ministry of Finance
MTEF - Medium Term Expenditure Framework
NDS - National Development Strategy 2016-2030
NGO – Non-Governmental Organizations
ODA – Official Development Assistance
OOF - Other Official Flows
PDMS - Public Debt Management Strategy
PEFA - Public Expenditure and Financial Accountability
PER - Public Expenditure Review
PFM - Public Finance Management
PPP - Public-Private Partnership
PSM- Public Sector Management
RMSM – X - Revised Minimum Standard Model – Extended
SDG - Sustainable Development Goals
SME – Small and Medium Enterprise
SOE - State-Owned Enterprise
STB - State treasury bills
SUE - State Unitary Enterprise
ToR – Terms of Reference
UN - United Nations
UNCTAD - United Nations Conference on Trade and Development
UNDAF- United Nations Development Assistance Framework for Tajikistan 2016-2020
UNDP – United Nations Development Programme
UNFCCC - United Nations Framework Convention on Climate Change
USA – United States of America
VNR - Voluntary National Review
WB – World Bank

1 Preface

In the 70th UN General Assembly in September 2015, the UN Member States unanimously adopted Agenda 2030 with 17 Sustainable Development Goals (SDGs) and recognized in the 3rd International Conference on Financing for Development and adopted Addis Ababa Action Agenda that ODA itself will not be sufficient to achieve complex and highly ambitious SDGs.

In accordance with the new global development agenda the Government of Tajikistan adopted the National Development Strategy 2016-2030 (NDS) and it's the Mid-term Development Programme 2016-2020 incorporating the SDGs. A robust financing strategy, including mobilizing domestic financing from public and private sources, partnership with the private sector, innovative financing etc. would be necessary to help leverage and mobilize required resources to implement NDS/SDGs.

To help prepare the financing strategy, United Nations in Tajikistan initiated a rapid assessment of development finance in Tajikistan with an aim to inform the policy makers and development practitioners on the current state of financial flows for development from different sources. We hope that the results of this rapid study will inform the National SDG report and will contribute in the on-going dialogue to explore new and innovative ways to mobilize domestic and international financing for SDGs implementation by 2030 in Tajikistan and contribute in the preparation of the financing strategy.



Dr. Pratibha Mehta
UN Resident Coordinator &
UNDP Resident Representative in Tajikistan

2 Executive summary

This report presents the findings, and recommendations from financial analysis in support of the implementation of the Sustainable Development Goals (SDGs) in Tajikistan. The objective of the assignment was to set the stage for a follow-on comprehensive Development Finance Assessment (DFA). Based on the initial analysis in this report, the Terms of Reference with a methodology for the implementation of comprehensive DFA has been presented (ref. Annex 2).

As suggested by the analysis conducted, the Government of Tajikistan (GoT) is lagging behind in attracting financial resources required for implementation of their National Development Strategy 2030 and SDGs. According to projections made by the GoT, to achieve the goals outlined in the strategy by 2030, the stated resource needs would be a total of 118 billion USD with an almost equal share between public and private sector with the gap of 6.7 percent assumed to be financed from Development Partners.

It is within this context the proposed DFA can assist GoT in identifying new and emerging opportunities for concessional and non-concessional sources of finance for both public and private sector investments as demonstrated by several other DFAs already undertaken in other countries in Asia. The DFA will enable the government to assign policies and actions for diversification of financial flows to achieve SDGs.

How Development Finance Assessments (DFAs) s have benefitted countries

Bangladesh. The DFA is being used to develop a financing strategy for the 7th Five Year Plan; it has also informed institutional restructuring within the Ministry of Finance to more effectively manage flows of development finance.

Fiji. The DFA supports the design of a long-term financing strategy to support the country's integration of its Green Growth Strategy of the National Development Plan 2016-2035.

Lao PDR. The assessment has contributed to the action plan for the development cooperation policy, the Vientiane Partnership Declaration.

Mozambique. The DFA is being used to strengthen government coordination, especially within the Ministry of Planning and Finance, with private sector, development partners, and CSOs.

Papua New Guinea. Government has drawn on the DFA to formulate the Development Cooperation Policy.

The Gambia. The DFA has been used to inform the national development cooperation dialogue and its resource mobilization strategy.

The Philippines. The DFA informed the Development Finance Chapter of Ambisyon 2040, the country's Long-Term Vision approved by the President.

To access additional sources of finance, however, it will require some policy reforms and institutional arrangements for improved public-sector planning and management as well as arrangements for attracting finance for private sector development including a more conducive environment for private sector development. This will be presented by the DFA as a roadmap of actions to be implemented which is the main outcome of a DFA.

The following are some steps to be considered as areas of particular focus in a follow-on comprehensive DFA;

1. While the GoT budget is based on the formulation of an aggregate fiscal framework to determine the resource envelope for annual budgets (supply side) it should also develop Medium Term Expenditure Frameworks (MTEF) at sector level (demand side) based on costing of sector targets. This may serve as a first step in introducing program-based budgeting (PBB) with allocations for sector programs falling under relevant ministry

rather than spread between numerous entities. The above will also serve as a basis for a larger share of funding provided as program aid with triggers related to outputs and outcomes rather than the financing of inputs through project tied aid at higher transaction costs.

2. To demonstrate the above approach, the GoT could select some ministries for piloting how a sector program with a result framework as a basis for PBB could potentially serve as the framework for joint program-based donor funding and attract additional concessional funding. The Committee for Environmental protection under the GoT (CoEP) is an example of a government “ministry” with a potential to formulate a joint framework for support. This as an approach to change its current situation of multiple financing partners supporting numerous standalone projects through individual arrangements which in total induces high transaction costs. There are several additional global and regional funds that could be considered in support of a sector program under CoEP.
3. There is an ongoing dialogue with private sector and development partners to review current tax policy and management as they are considered by many as prohibitive for private sector development. With a more conducive and predictable regulatory environment for private sector development, it will serve to attract various forms of concessional and non-concessional funding for Small and Medium Scale Enterprises (SME).
4. An improvement in the regulatory environment, in particular, tax policy and administration, will serve to attract additional and more competitive forms of finance than what the current financial market in Tajikistan can offer today. It will, also serve to direct remittances to productive investments as evidenced from many other countries with a large inflow of remittances.
5. GoT may consider allocating start-up grants/concessional lending as well as business development services subcontracted to private sector management companies on a competitive basis. This is an approach like what has been successfully implemented in several other countries (venture funds, challenge funds, etc.) from which GoT could draw lessons from.

The above addresses two critical elements to attract additional forms of finance; (i) improvements in public sector management (PSM) and (ii) improvements in business climate, both required if to attract additional forms of finance for development which are significant and diverse but requires that basic conditions related to PSM and business climate are fulfilled.

In response to the above findings from the analysis presented in this report, the following are the proposed next steps for the initiation and implementation of a comprehensive DFA;

1. Engage the GoT in the discussion of conducting a comprehensive DFA based on the draft ToRs attached to this report.
 - a. As the Ministry of Economic Development and Trade (MEDT) is already the focal point for analysing the costs in achieving the SDGs and developing the NDS in alignment with the SDGs, they could serve as a point of entry.
 - b. While MEDT may serve as the focal point, representatives of the President’s Office, Ministry of Finance (MoF), the private sector and civil society should be

considered as members of an “oversight committee” to guide the DFA and for quality assurance to the analysis, findings, and recommendations.

- c. Once the “oversight committee” is established the first item on the agenda is to review the attached Terms of Reference.
2. For the DFA itself, the suggested focus areas should be on:
- a. Improvements in Public Sector Management by using some sectors as case studies to demonstrate how changes in planning and management can management of current external sources of finance and mobilise additional sources of finance. The sectors that could be considered are Environment, Education and Energy representing diverse sectors as to what sources of can be mobilised and extent of private sector participation (domestic or FDI) different forms of PPP arrangements (service agreements, management agreements and/or build operate transfer arrangements).
 - b. Private sector development through a more detailed assessment of changes the regulatory environment, in particular, tax policy and administration to promote a more conducive environment for enterprise development.
 - c. For Private Sector Development assess different forms of financial and financial services that could be established on the initiative of the GoT outsourced to private sector management companies in cooperation modeled samples from other countries, some which have been presented in this report. addition to fostering domestic Small and Medium Scale Enterprises for employment and income generation, it will pave the way for increased Direct Investment (FDI) from the private sector as well as numerous Development Finance Institutions (DFIs) and social impact investors that emerging markets like Tajikistan.

3 Introduction

3.1 Objectives and scope of work

This report presents the analysis, findings, and recommendations from financial analysis in support of the implementation of the Sustainable Development Goals (SDGs) in Tajikistan.

The objective of the assignment was to set the stage for a follow-on comprehensive Development Finance Assessment (DFA). Based on the initial analysis presented in this report, the Terms of Reference with a methodology for the implementation of comprehensive DFA has been presented. The DFA will enable the government to assign policies and actions for diversification of financial flows to achieve SDGs.

The scope of the assignment, as per the Terms of Reference (ToR), included the following:

1. Provide an overview/mapping of various sources Tajikistan uses to finance its development needs including Official Development Assistance (ODA), public resources, private investments. Based on this mapping, analyse the major financing trends and gaps in the period of two National Development Strategies (NDS); NDS 2010-2015 and NDS 2016-2030.
2. Review Government plans and commitments to meet its financial needs to implement NDS and SDGs, i.e. reforms planned on the way forward linked with the requirements of Addis Ababa Agenda.
3. Based on the analysis of current situation, elaborate a methodology outline and terms of reference for a DFA in support to the achievement of NDS targets and implementation of Agenda 2030 in Tajikistan.
4. Propose steps needed to determine in detail financing needs and flows from various sources, institutional structure/arrangements to lead this process more efficiently.
5. Recommend options for learning and knowledge sharing via South-South and triangular cooperation solutions with the countries having relevant experience in the sphere of development finance and implementation of innovative financing schemes for development.

Some preliminary analysis at an aggregate level within the main categories of development finance was done during an inception phase. Some of the findings from preliminary analysis from the inception phase pointed to some areas that would benefit from the additional analysis which has also been confirmed from the follow-on analysis presented in this report;

1. Government revenues as a share of Gross Domestic Product (GDP) in Tajikistan are significantly above the average of Lower-Middle Income (LMIC) countries. As cited from the “Doing Business” survey for Tajikistan, the tax levels may be at a prohibitive level though it depends on the structure of the tax regime and the extent to which taxes discourages private investments and public expenditure crowding out the private sector.
2. Other sources of finance for development are Official Development Assistance (ODA) and Other Official Flows (OOF), the former with significant variations from one year to another, the latter with a rising trend in volume of finance the last years albeit at a

low level considering Tajikistan graduating to an LMIC country and thus some highly concessional source of funding for low-income countries are no longer available.

3. From some preliminary assessment of international data on global funds for education, health and climate finance, Tajikistan appears to be eligible for an increased access to these forms of finance when compared to other LMICs. Many of these sources provide finance on highly concessional terms also eligible for LMIC countries like Tajikistan.
4. Domestic credit is at a very low level in Tajikistan as compared to the average of LMICs. Many factors appear to be the cause; the general business climate which causes a low level of investment, high cost of credit, low outreach and availability of financial products and services not meeting market needs, institutional and regulatory environment and competitiveness/efficiency of the financial sector reflected by the high spread between savings and lending rates.
5. Remittances are a source of finance at an exceptionally high level in Tajikistan as compared to the average of LMICs. Despite the declining trend in recent years, remittances still play an important role in financing household investments and spending. However, less is used for savings and/or investment in productive assets. Improvement in business climate and entry of new financial intermediaries and instruments for the private sector could potentially direct some of the remittances to serve as an additional source of finance of investments for development.

3.2 Methodology and approach

The assignment was conducted by two consultants with a total of six working weeks of inputs. With a limited timeframe, the assessment has focused on main trends and challenges to serve as guidance for the more comprehensive DFA related to what areas will merit from additional and more in-depth analysis including details on actions to manage current sources of finance for development and additional source that may be mobilized for delivery of NDS and SDG targets.

The following presents the tasks undertaken with the approach to implementing them;

1. Mapping of various sources Tajikistan uses to finance its development needs ODA, public resources, private investments;
 - a. This task was conducted by collecting data and information from national sources on Government budget and accounts, the National Bank of Tajikistan, The Agency on Statistics of Tajikistan as well as specific data and statistics from ministries like the Ministry of Economic Development and Trade. For ODA it was to be supplemented with data from the aid management platform hosted by the State Committee on Investments and State Property Management, however, it proved not to be functional during the time of the mission. Accordingly, for ODA data the OECD/DAC Creditor Reporting System (CRS) database was used supplemented by information from consultations with the main Development Partners (DPs).
 - b. The data from national sources were triangulated with data from international sources like OECD/DAC, World Bank and IMF as well as various UN agencies

like UNCTAD. These databases were also used for cross comparison with other countries in the region and at the same income level¹.

- c. As data to analyse trends and composition on government revenue and expenditure are only to a limited extent disseminated and published, significant time was allocated to acquiring basic data for analysis, an issue to be considered when conducting the follow-on comprehensive DFA.
2. Analysis of major financing trends and gaps in the period of the NDS 2010-2015 and current NDS 2016-2030 as well as country comparisons in trends and composition of different sources of financing for development.
 - a. Based on the above mapping the analysis presented an overview of trends in various financial flows.
 - b. Using data from the OECD/DAC, World Bank, and IMF as well as various data from UN agencies like UNCTAD a cross comparison was made with other countries in the region and at the same income level.
3. Government plans and commitments to meet its financial needs to implement NDS and SDGs, i.e. reforms planned on the way forward linked with the requirements of Addis Ababa Agenda;
 - a. The task was implemented by a review of the strategy documents and comparing them to the outcome of the financial mapping as well as the forecasting model used by MEDT in the formulation of the NDS 2016-2030. The NDS 2016-2030 presents many policy directions, however, in many cases not with quantified targets. Many of the suggested actions are presented in general terms with limited information on their associated costs and source of funding.
 - b. The ToR suggest making an estimate of financial requirements to meet the SDG targets. It also suggested to develop strategies in mobilizing different forms of finance in achieving the SDG. This was to include public sector revenue and debt finance on concessional terms as well as outsourcing to non-stake actors and promotion of private sector to deliver on key SDGs. The former part of this task will require far more time and effort as limited information is currently available to make such estimates. However, the GoT has itself made some projections of what the resource requirement will be to deliver on the NDS and SDGs which has been presented in this report. Also, the NDS policy direction and cross-comparison to other countries gave some guidance as to which areas of development the follow-on DFA should focus on and the potential added sources of finance that can be mobilized.
 - c. Based on the above an initial “roadmap” to be further detailed by the follow-on DFA has been developed.
4. Based on the above a methodology outline with a Terms of Reference for a comprehensive DFA was produced.

¹ According to the World Bank classification, for the current 2018 fiscal year, low-income countries (LIC) are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,005 or less in 2016; lower middle-income countries (LMIC) are those with a GNI per capita between \$1,006 and \$3,955. As per World Bank classification, Tajikistan changed the group classification from LIC to LMIC in 2016 based on GNI data for 2014. In the context of a DFA, the group classification has impact on sources of funding for development finance as LIC countries are eligible for finance on higher concessional terms than LMIC countries.

3.3 Data collection and analysis

In addition to the primary and secondary data sources mentioned above, the information was further qualified by consultations with;

1. Ministry of Finance (MoF) on public sector revenue policy and management as well as planning/budgeting/budget execution including the issue of ODA on/off budget.
2. State Committee on Investments and the State Property Management on trends and composition of foreign aid.
3. The National Bank of Tajikistan (NBT) on financial sector regulations and data on composition/trends of credit to private and public sector including data and info on remittances and Foreign Direct Investments (FDI).
4. Ministries/agencies dealing with promotion of FDI as well as ministry/agency dealing with private sector development.
5. Ministries/agencies dealing with key challenges for private sector development.
6. Key development partners
7. Representatives of NGOs/CSOs.
8. Selected programs/management units for financial services and/or environment/global funds.

A full list of persons and agencies consulted are provided in Annex 1 to this report.

The mapping of financial flows was organized into three analytical levels (ref. Table 1). At the highest level (level 1) the analysis covered a) domestic public; b) external public; c) domestic private; and d) external private flows. At level 2 the analysis covered conventional disaggregation of each of the level 1 financial flows. At level 3 analysis included financial flows of specific interest. As mentioned above, the analysis was constrained due to the challenges in acquiring primary data within the limited timeframe of the assignment, this among others as data on public revenue and expenditure are not widely published.

Table 1: Classification of financial flows included in the financial flow analysis

	Public	Private
Domestic	<ul style="list-style-type: none"> - Tax revenues - Non-tax revenues - Government borrowing 	<ul style="list-style-type: none"> - Domestic equity - Domestic credit - National NGOs
External	<ul style="list-style-type: none"> - ODA grants and loans - Other Official Flows (OOF) 	<ul style="list-style-type: none"> - International financial markets - International NGOs - Foreign Direct Investment (FDI) - Remittances

The extent to which data were available, they were subject to triangulation between different sources, using national official statistics and public-sector finance data presented by the government as the primary source. In addition, the analysis was supplemented by data and results from surveys and reviews undertaken on particular subjects.

4 Country context

4.1 General development trends

Tajikistan is a landlocked, lower middle income developed country (WB, 2015). Tajikistan population is 8.5 million of which 35 percent of citizens aged 0-14. This makes its population one of the youngest in Central Asia². Tajikistan has one of the lowest nominal GNI per capita among former Soviet Union countries, under 1,300 USD³ and scored 129th in the Human Development Index (HDI).

The level of general poverty in Tajikistan fell from 45 percent in 2010 to 30 percent in 2016. The analysis of monetary poverty shows that deprivations have been higher for the population in the bottom 40 percent of the consumption distribution than for those in the top 60 percent⁴. The Multidimensional Poverty Index (MPI) suggests that some 5.4 percent of the population at the national level are multi-dimensionally poor, while vulnerability to multidimensional poverty reaches over 20 percent⁵. In terms of infrastructure development, Tajikistan has achieved one of its strategic objectives by connecting three disconnected parts of the country thereby unifying the country and ensuring regular movement of the residents from various parts of the country.

Tajikistan is particularly vulnerable to both economic and environmental shocks. It is one of the most disaster-prone countries in the world, including extreme weather events originated from changing climate as well as seismic activity. These compounded natural and economic crises have, and negatively affected women's economic activity and made women and girls ever more vulnerable.

Given the high reliance on remittances, it is also susceptible to economic downturns in the Russian Federation. Due to the Russian ruble's devaluation, remittances in 2016 were reduced in dollar equivalent almost three times (in comparison with the relevant period of 2015) and the forecast for migrants' incomes demonstrates a further decrease of remittance flows. Reliance on food imports and external market variations, vulnerability to natural disasters, limited arable land, and a landlocked geographic location contribute to making Tajikistan vulnerable to external factors. Some of these risks could potentially derail the notable improvements in the wellbeing of the population seen over the past two decades.

4.2 Sustainable Development Goals and Tajikistan

2030 Agenda on Sustainable Development was unanimously approved by the UN members states in the 70th UN General Assembly in September 2015. The new Agenda, with its 17 Sustainable Development Goals (SDGs) and 169 accompanying targets, came into effect in January 2016. Based on the lessons learned and evidence from achieving the MDGs, the United Nations System will help national counterparts transit to the SDGs and adopt an inclusive and comprehensive approach to sustainable development.

² World Bank, data access on: <http://data.worldbank.org/>, November 2016

³ <http://data.worldbank.org/country/tajikistan>

⁴ World Bank, data access on: <http://data.worldbank.org/>, February 2016

⁵ OPHI, MPI data access on <http://www.ophi.org.uk/>, February 2016

Tajikistan is well positioned to achieve strong progress on the SDGs by building on its development gains in the past two decades (MDG accomplishments) and demonstrating strong commitment to further reforms. In 2016, GoT approved the NDS 2016-2030 and its Mid-term Development Program (MtDP) for 2016-2020, that are broadly aligned with the SDGs. The government defined major priorities in NDS to foster economic and social development that includes:

- Ensuring energy independence and the efficient use of energy
- Convert from communications deadlock into a transit country
- Ensure food security and public access to quality foods
- Expand productive employment

In addition, the GoT prioritizes social development as the main factor to strengthen human capital and review conducted in 2016 showed clear linkages of national priorities reflected in strategies and sectoral programs with the SDG targets and indicators. Taking into consideration that 78 percent of NDS and sectorial program priorities are linked with SDGs, its full implementation will contribute to SDGs and will require a stable flow of financial resources.

Addressing the SDGs in Tajikistan means overcoming bottlenecks. Tajikistan's geographical, historical, cultural, social and economic problems provide ample room for regional disparities and consequently inequalities and exclusion at the different scales and levels. Obsolete infrastructure, limited funding and in many cases lack of qualified human resources impedes the provision of quality basic services. This further result in dissatisfaction of the population with the quality of services. Experience shows that in such situations women, persons with disabilities and at-risk youth are among the most disadvantaged. However, while there is a strong commitment to the SDGs in Tajikistan, additional finance for development and capacity building for public service delivery to serve these target groups better is needed.

The 2030 Agenda will require the mobilization of unprecedented investments which will not be met by Government and development financing alone i.e.: important to SDG achievement: 1) Government investment; 2) the role of development partners (ODA); 3) applying tools to reform public expenditure for sustainable development. The private sector will need to play a major role for employment and income generation if to achieve the SDGs.

Remittances play a critical role in providing households with necessary finance for basic consumption. Currently, remittances act as a significant buffer to poverty for a large section of the population, and most of the remittances are used for consumption of food, house renovations and celebrations⁶. Under these circumstances, remittances assist in reducing income poverty but with minimal contribution to human development. While some efforts show that remittances can be used for development-related initiatives, it remains likely remittances will continue to be an important part of many households' incomes.

In 2017 GoT presented its Voluntary National Review (VNR) report and committed to preparing the first National SDG report that will serve as a baseline to track further progress.

⁶ Ira N. Gang, Kseniia Gatskova, John Landon-Lane, Myeong-Su Yun: Vulnerability to Poverty: Tajikistan During and After the Global Financial Crisis, IZA DP No. 10049, July 2016

One of the most important points concluded in VNR relates to resource provision and effective use of funds and it provides:

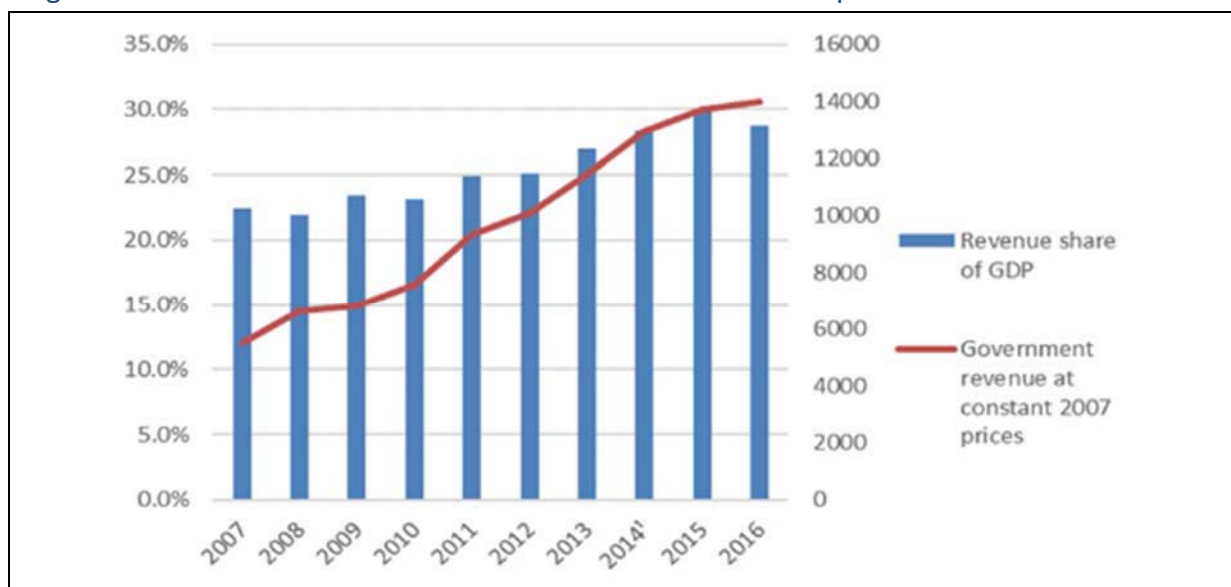
“It is impossible to imagine achieving SDGs outcomes without resource provision. Tajikistan has identified main sources for the implementation of NDS and SDGs. However, it will be difficult to achieve results and create a conducive atmosphere for sustainable development without development partners. SDGs funding is the most important part; along with this, Tajikistan, considering the implementation of previous strategies, will focus on the effective use of funds for the most problematic fields”.

5 Mapping Tajikistan's finance flows for development

5.1 Government revenues

Government revenues, which consist of taxes, grants, and other revenues, serve as a major source of finance for GoT investments and programs to achieve the NDS and SDGs. In the case of Tajikistan, the GoT has displayed continued improvements in revenue performance over the last decade, as illustrated in the figure below.

Figure 1: Government revenues in million TJS at constant 2007 prices



Source; Ministry of Finance

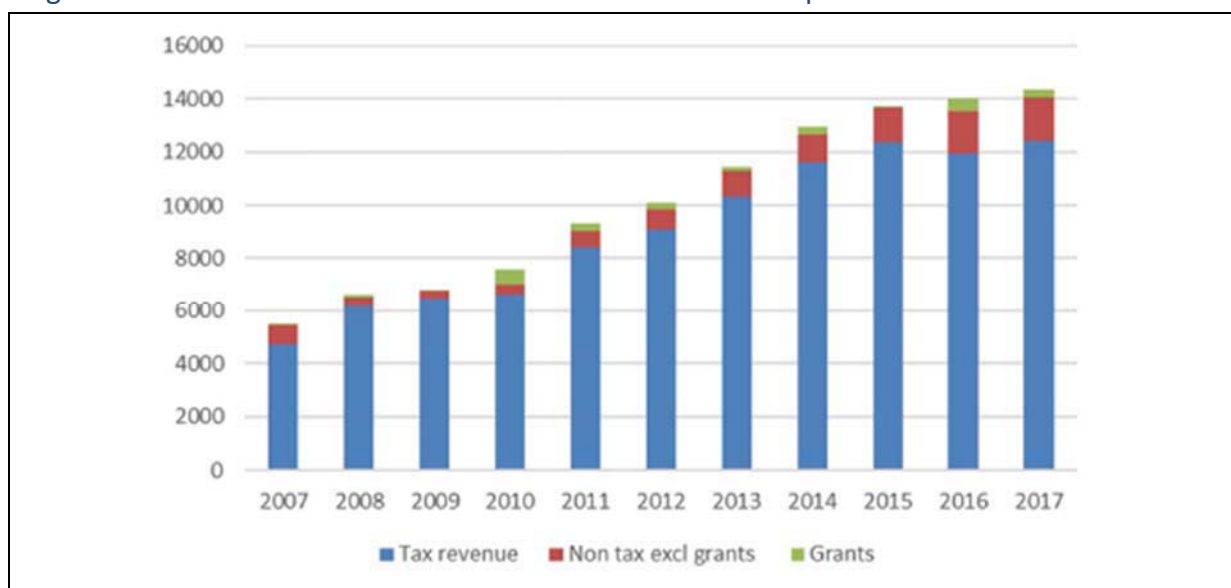
Tajikistan has displayed a higher share of government tax and non-tax revenue than most LMIC and countries in the region. However, in recent years the state budget has been under pressure because of low private consumption and a 20 percent drop in imports that affected tax revenues with a resulting increase in the budget deficit.

A revised tax code was formalized in 2013 and adopted in January 2014, which rationalized the number of taxes from 21 to 13. Starting 2017, the corporate tax rate (for non-commodities-producing enterprises) was reduced from 25 percent to 23 percent and income tax reduced from 15 percent to 13 percent. Import of equipment and technologies was exempted from the 18 percent value-added tax and customs duties. Exports are not subject to value-added tax. However, despite these attempts to reduce tax levels that appear prohibitive for private sector development to raise the revenue through the growth of private sector are not considered sufficient as tax subjects are subject to administrative laws and procedures that hinder growth and investment in the business development

Total government expenditure was estimated at 32.4 percent of GDP in 2015 of which a major share stemming from tax revenues. The level of tax revenue is high when comparing to low- and lower-middle-income countries. The high level of revenue translated into a very high level of public investment centered around investments in energy generation and in particular one - Rogun hydropower plant - as well as a transport connectivity projects. Current expenditures on the other hand which include wages and transfers to households are lower than in comparator countries and government expenditure on social sector lower than its peers.

There is currently an ongoing dialogue to increase education spending, among others by opening a larger share of higher education to the private sector. In healthcare, it is estimated that of total expenditure 75 percent is from private out-of-pocket expenses.

Figure 2: Government revenues million TJS at constant 2015 prices



Source; Ministry of Finance

Quasi-fiscal activities or expenditures of state-owned enterprises are not presented in the central budget, although it is financed through direct taxation and government spending. Quasi-fiscal activities include lower than market value pricing and/or cost recovery levels, arrears and/or debt write-offs for state-owned enterprises, and/or targeted lending with subsidized rates or terms in favor of state-owned enterprises. Estimates by the Ministry of Finance suggest that the value of these activities constituted as much as 3 percent of GDP in 2012.

In view of the above, for Tajikistan to advance the NDS and SDG targets, they should consider multiple opportunities. One avenue would be a rationalization of expenditure priorities as well as a reduction in quasi-fiscal activities. Another adjusting the tax policy and administration to promote income and employment creation to private sector development. A third taking steps towards developing sector programs with a result framework that can serve as triggers for program-based support from external partners which can also serve to attract other sources of concessional finance currently not targeting Tajikistan. Currently, ODA grants to government programs and projects constitute only 2.7 percent of total revenue. In total the above will avail more resources for achieving many the SDG goals.

Reducing the costs of doing business and improving the investment climate is a focus of the GoT. This includes reducing compliance costs for the private sector throughout the business cycle of which tax administration and inspections is a major issue. They are largely fixed and according to represent a disproportionately high cost to small and medium scale enterprises (SME), the main subsector if to raise income and employment as well as the future tax revenue base for the GoT.

As discussed in more detail in sections below, tax policy and administration continue to be a leading obstacle to growth as reflected by surveys of the private sector. The GoT is in dialogue with some of its development partners, including the World Bank, to address the need for

reforms in tax policy and administration. The purpose for these interventions will be, among others, modernizing the State Tax Committee’s service delivery, strengthen internal information technology capacity, and adjustment of the value-added tax systems with emphasis on predictability for businesses. The planned activities focus on reform through capacity building, governance, and the use of practical tools to enforce regulations, including feedback mechanisms to assess the quality of service delivery.

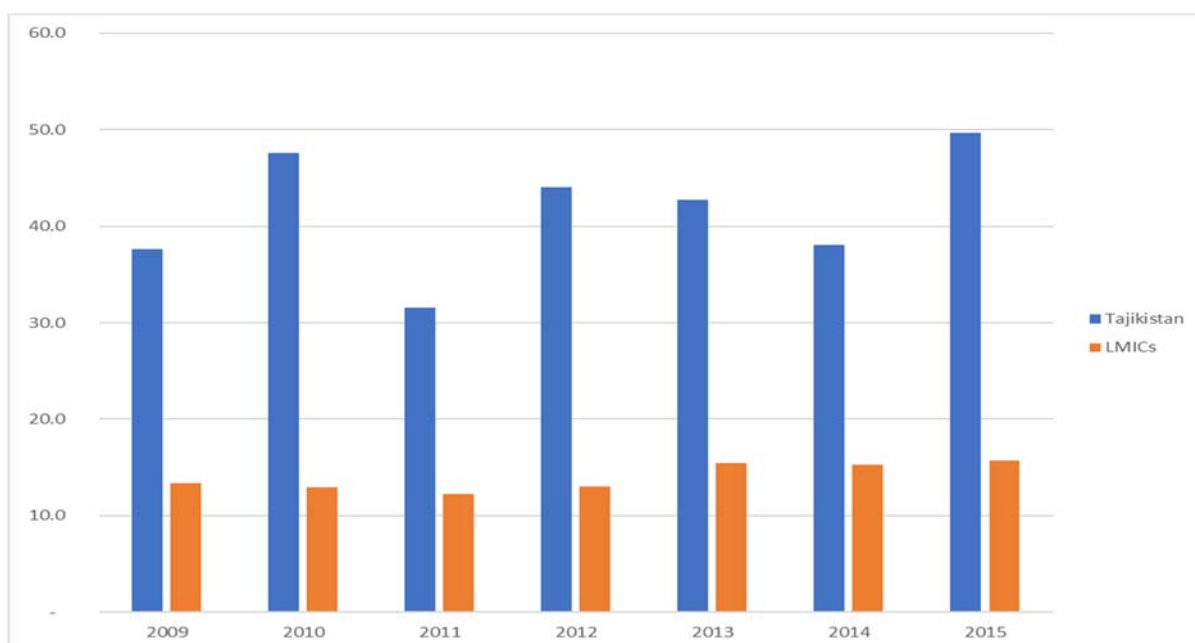
The proposed reforms and/or additional interventions may serve to maintain the current high level of revenue, and in particular tax revenue, if it also promotes income and employment generation through private sector development as the latter will increase the revenue base for the GoT. A tax policy and intervention that does not raise unnecessary costs for SME combined with interventions targeted to raise investments and services to promote private sector development should accordingly be key focus areas for the forthcoming comprehensive DFA as discussed further in sections below.

5.2 Official Development Assistance and other official flows

Tajikistan changed the group classification from LIC to LMIC in 2016 based on data for 2014 when their Gross National Income (GNI) exceeded the per capita income for Low-Income Countries as per World Bank definition. In the context of a DFA, the group classification has had an impact on sources of funding for development finance as LIC countries are eligible for finance on higher concessional terms than LMIC countries.

Official Development Assistance (ODA) to Tajikistan is and continues to be at a level above the average of LMIC countries as measured by ODA per capita, though while the average of LMIC countries has increased over the years as measured by ODA per capita, the trend for Tajikistan has been a reduced volume of concessional finance though with significant annual variations. The significant variations are linked to the timing of disbursements from multilateral development banks for some large-scale infrastructure projects.

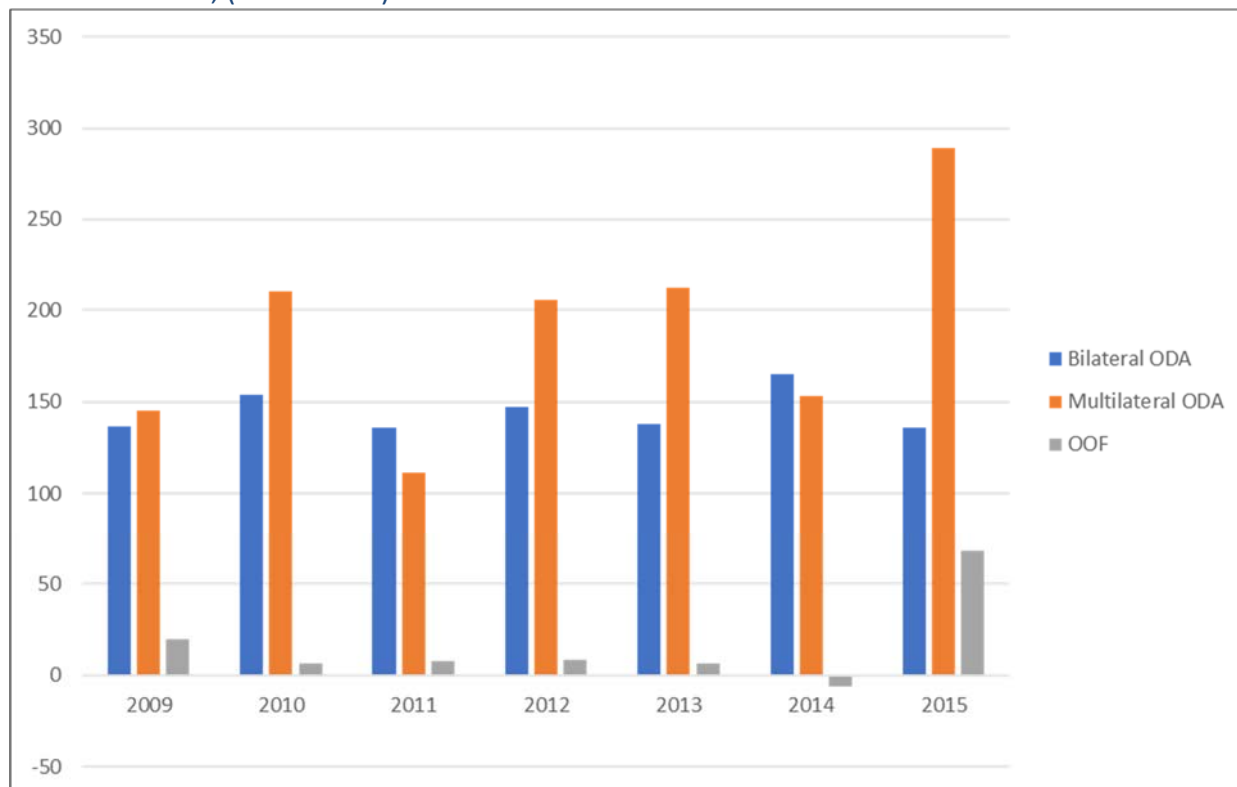
Figure 3: Official Development Assistance (ODA) per capita at constant 2015, (USD)



Source; World Bank WDI and OECD/DAC CRS databases

For some years Tajikistan mobilized other sources of funding on non-concessional terms for its major infrastructure projects ref. figure below with a major increase of multilateral funding, and in particular concessional lending combined with none-concessional lending (OOF)⁷.

Figure 4: Net Official Development Assistance (ODA) and Other Official Flows (OOF) at constant 2015, (million USD)



Source; OECD/DAC CRS database

As an LMIC country, Tajikistan also attracts other forms of finance from multilateral and bilateral donors, among them additional forms of equity, quasi-equity and concessional credits directed at public corporations and the private sector. One example is the 15 Development Finance Institutions (DFI) forming part of the Association of European Development Finance Institutions (EDFI).

The government of Tajikistan has been successful in mobilizing global funds for some thematic areas. As an illustration, currently, the Government has a portfolio of close to 10 million USD in external funding for 7-8 projects addressing environment challenges with ADB, World Bank, EU, EBRD, OSCE, GIZ and UNDP/UNEP as the main external partners. In addition, it has established institutional cooperation with other countries funded by these institutions' regular budgets. Despite this, there is a significant scope to mobilize additional funding, in particular if the GoT developed an integrated program for joint financing by external partners rather than supported through several and often small project agreements with each development partner individually.

When comparing to other LMICs using OECD/DAC CRS data it suggests that Tajikistan can be eligible for an increased access to other global thematic funds and blended concessional/commercial funding, in particular for private sector development and infrastructure. Many of these sources provide finance on concessional terms also eligible for

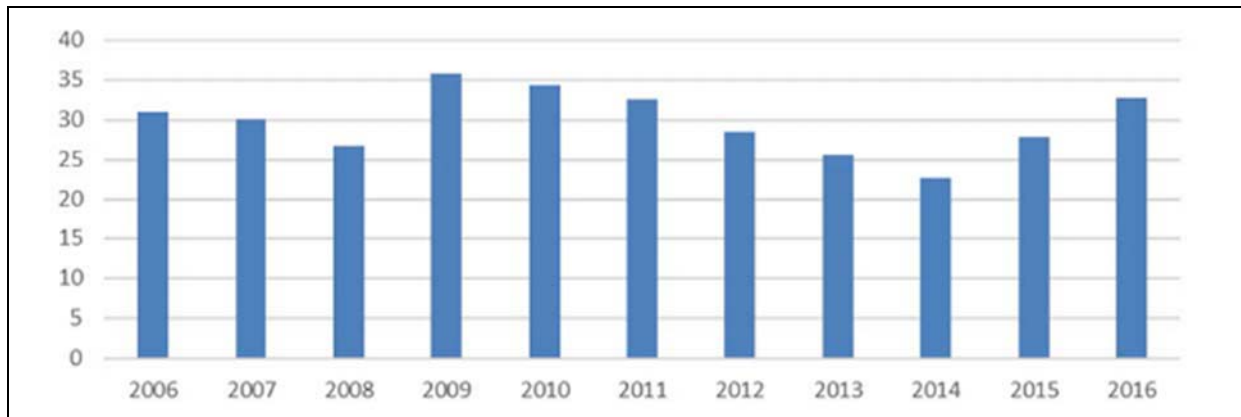
LMIC countries like Tajikistan. To raise the level of ODA the main challenge is related to the extent GoT has developed integrated sector programs that could attract additional funding and the extent to which it complies with general and sector-specific governance and eligibility criteria for Public Financial Management (PFM).

⁷ Other Official Flows (OOF) are defined as official sector transactions that do not meet Official Development Assistance (ODA) criteria. Official Development Assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. ODA may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or the World Bank. ODA includes grants, "soft" loans (where the grant element is at least 25 percent of the total) and the provision of technical assistance.

5.3 Government borrowing

As of January 1, 2017, the external debt of the Republic of Tajikistan amounted to 2,3 billion USD, or 32.7 percent of GDP. By the end of 2017, total external debt reached 2.9 billion USD equivalent to 43 percent of the GDP. A slight increase in real GDP growth and a substantial depreciation of the national currency had a significant impact on the change in the debt to GDP ratio. The external public debt is 30.2 percent to GDP and consists mainly of concessional external borrowings.

Figure 5: External debt in percent of GDP



Source: Ministry of finance

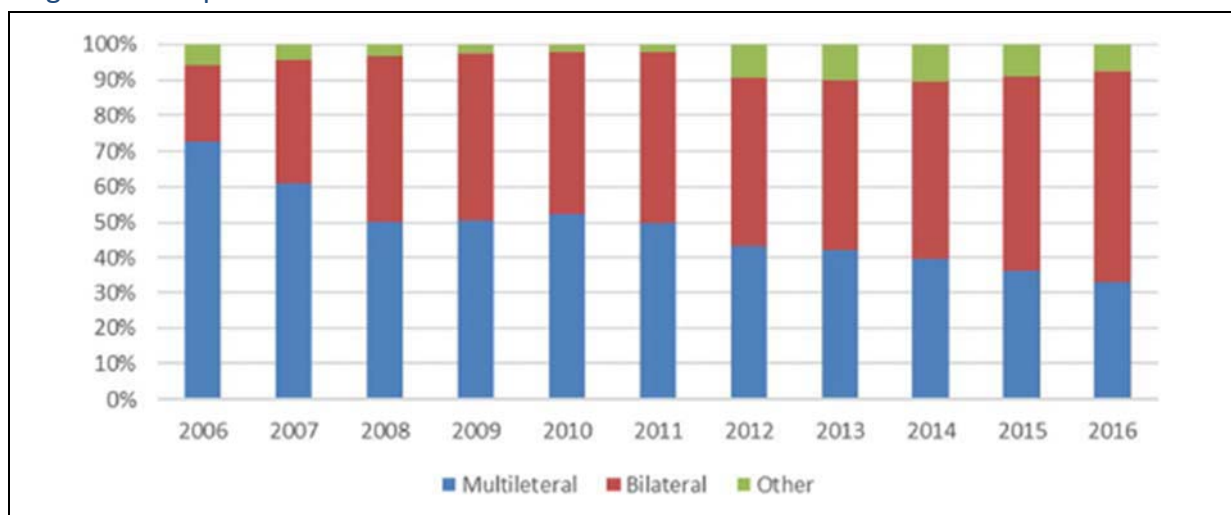
The main and largest creditors are Exim bank of the People's Republic of China, the World Bank and the Asian Development Bank (ADB). Public debt finance is mainly directed at larger scale projects of the Public Investment Program, and in particular energy and transport projects.

State borrowing is guided by the governments Law "On State debt and Guaranteed State Borrowing and Debt" and the "Strategy of Public Debt Management" for 2015-2017, approved by the government in 2014.

From 2006 to 2016 there was a gradual increase of bilateral lending as compared to multilateral lending changing the debt terms of the overall debt stock to higher debt service payments. This is due to the following;

1. Major bilateral lenders such as the World Bank and ADB shifted their financial support from loans to grants
2. An increasing role of the Chinese Exim bank in supporting large infrastructure and private investment projects

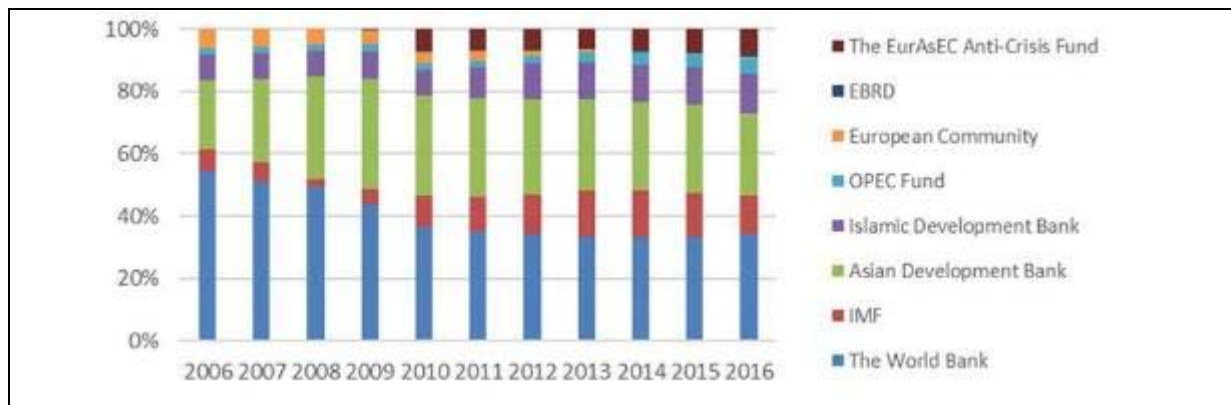
Figure 6: Composition of external debt 2006-2012



Source: Ministry of Finance

The largest amount of borrowing from Multilateral Development Banks (MDBs) was provided to Tajikistan by the World Bank (IDA), which loans account for 34 percent of total multilateral loans. In recent years, the share of loans from the Asian Development Bank (ADB) has increased, reaching 26 percent of the total volume of multilateral loans at the end of 2016 among others due to utilization from the development loans granted before 2008. Multilateral financing for Tajikistan is provided under highly favorable terms and is often accompanied by grants.

Figure 7: Composition of external debt by multilateral organizations



Source: Ministry of Finance

The composition of bilateral loans has changed significantly since the 1990s when bilateral loans were dominated by Russia and CIS (90 percent of all bilateral loans) to the current situation when CIS loans are close to zero and loans by other foreign countries are dominated by China with 88 percent of the total bilateral debt.

According to the Strategy of Public Debt Management, to prevent unmanageable public debt, the GoT should target external loans at low-interest rates and on preferential terms. Thus, interest rates on external borrowings range from 0.15 percent to 3.0 percent with a grace period from 3 years to as much as 19 years and maturities from 15 to 40 years.

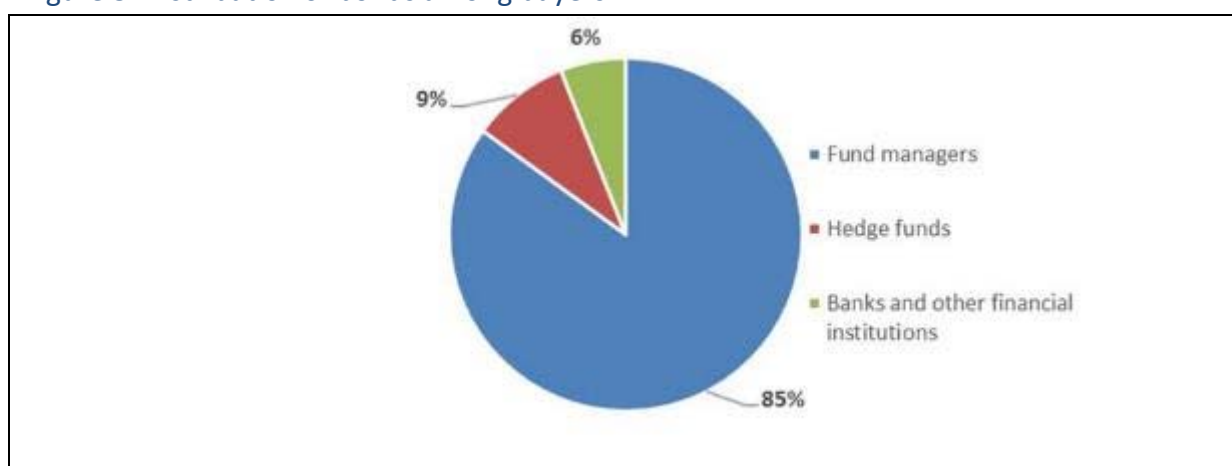
In accordance with the Public Debt Management Strategy, to maintain a manageable level of domestic debt, a 20 percent threshold value of domestic debt to budget revenues and

maximum 7 percent to GDP should be maintained. However, the volume of domestic debt has increased and at the end of 2016, it amounted 6.6 billion TJS or 12.1 percent of GDP.

One of the mechanisms of domestic borrowing used by the GoT is State Treasury Bills (STB) regularly issued from December 2009 to cover the budget deficit. Short-term discount STBs are issued with a maturity of 91 days and a nominal value of 100 somonis with a rate of return of 0.99 percent per month⁸

In September 2017, Tajikistan placed Eurobonds with Citigroup and Raiffeisen Bank acting as book runners on the deal. The Eurobonds raised an additional 500 million USD at a rate of 7.1 percent per year for 10 years bonds. The bonds were sold to fund managers (85 percent), hedge funds (9 percent), banks and other financial institutions (6 percent). Geographically, the bonds were acquired by investors from the United States (38 percent), Great Britain (24 percent), EU countries (35 percent) and Asia (3 percent).

Figure 8: Distribution of bonds among buyers



Source: NBT

In total, the above has resulted in a further increase in external debt by the end of 2017 amounting to 43 percent of GDP. With new bilateral loans with less favorable terms financing major infrastructure programs, the total public debt to GDP ratio is projected to grow above 50 percent of which more than 40 percent will be external debt. In addition, the government has an unknown debt in the form of contingent liabilities due to State Owned Enterprises (SOEs), i.e. public debt finance appears not to be a key source of additional finance for development for other than infrastructure projects with short to medium term high yielding returns⁹. Given the above developments in GoT external and domestic debt, the focus for the DFA should be on how to obtain highly concessional financing for future investment needs.

⁸ Ministry of Finance calculations

⁹ Recent Debt Sustainability Analysis (DSA) has revealed significant vulnerability and the overall situation is likely more vulnerable than official data suggest because of SOEs' soft budget constraints and other quasi fiscal risks i.e. it is estimated that SOEs' large liabilities is significantly higher than what is presented in official statistics on public debt.

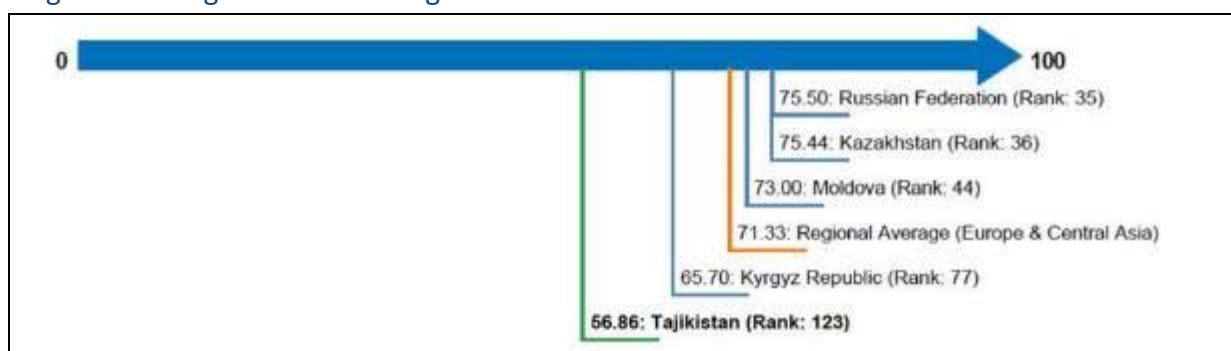
5.4 Private sector equity and credit

Gross investments have averaged 16 percent of GDP the last 5 years to which a large extent has been funded by the government and development partners. Private sector investment has been estimated at 5 percent of GDP over the same period, the lowest among the other countries in the region and very low in comparison with other countries at the same income level. Tajikistan's GDP growth has largely been driven by consumption financed by an inflow of remittances. Investments are dominated by larger scale public investments.

Over 9,600 small enterprises and 1,300 medium and large enterprises have been privatized since independence. In 2015, there were around 276,000 taxpaying registered firms consisting of 32,000 companies, 88,000 individual entrepreneurs working with a patent, 32,000 individual entrepreneurs working with a certificate and 124,000 farms paying single tax. Most of these entrepreneurs are engaged in the agricultural sector, small traders and service providers. The private sector employs approximately 1.5 million of Tajikistan's 2.3 million workforces, including those in the informal sector¹⁰. The number of enterprises and level of employment is low in comparison with other countries in the region and at the same income level. This is linked to the climate for private sector development.

Tajikistan ranked 123 out of 190 on the Doing Business Index for 2017, the lowest among the countries in the region and low by the average for the countries in the same income group.

Figure 9: Doing Business ranking 2017 – distance to frontier¹¹



Source: World Bank – Doing Business 2018

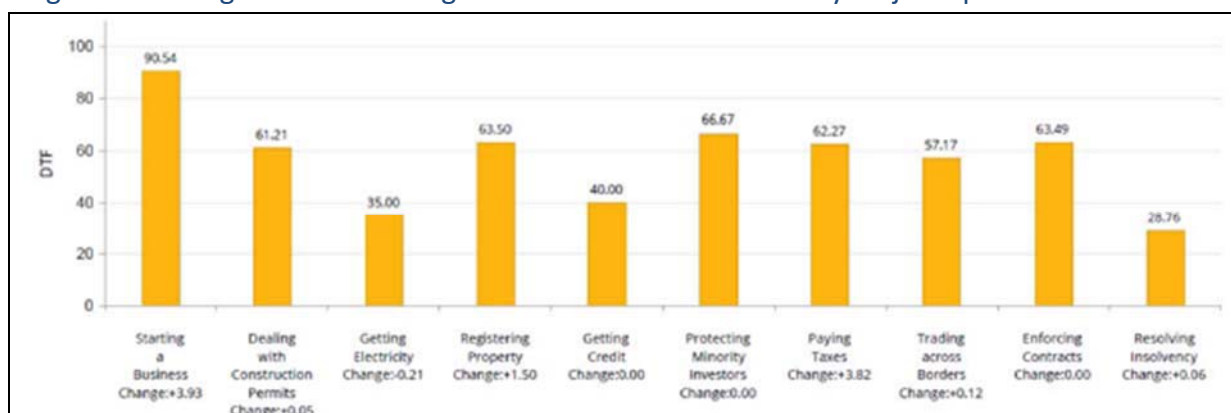
Despite efforts to increase Tajikistan's Doing Business ranking, long-term private investment continues to be constrained by an unfavorable business environment. Low level of predictability in the policy, legal and regulatory environment discourage businesses and individuals from investments. Executive documents like presidential decrees, laws, government orders, instructions, ministerial memos, and regulations are often inaccessible, leaving businesses and investors unaware of existing rules. Arbitrary taxation and multiple inspection rules with informal arrangements reduce the prospects of fair competition. Energy and water supply is unreliable, and large parts of the country, until 2017, used to receive stable electricity supply only during 6-month of the year with restricted access in winter

¹⁰ National Statistics Committee.

¹¹ The distance to frontier (DTF) measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's distance to frontier is presented on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. The ease of doing business ranking ranges from 1 to 190.

period. In addition to the above, one of the main obstacles to private sector investments as also confirmed by the Doing Business Survey and other private sector surveys are related to cost of and access to finance.

Figure 10: Doing Business ranking 2017 – distance to frontier by major topics

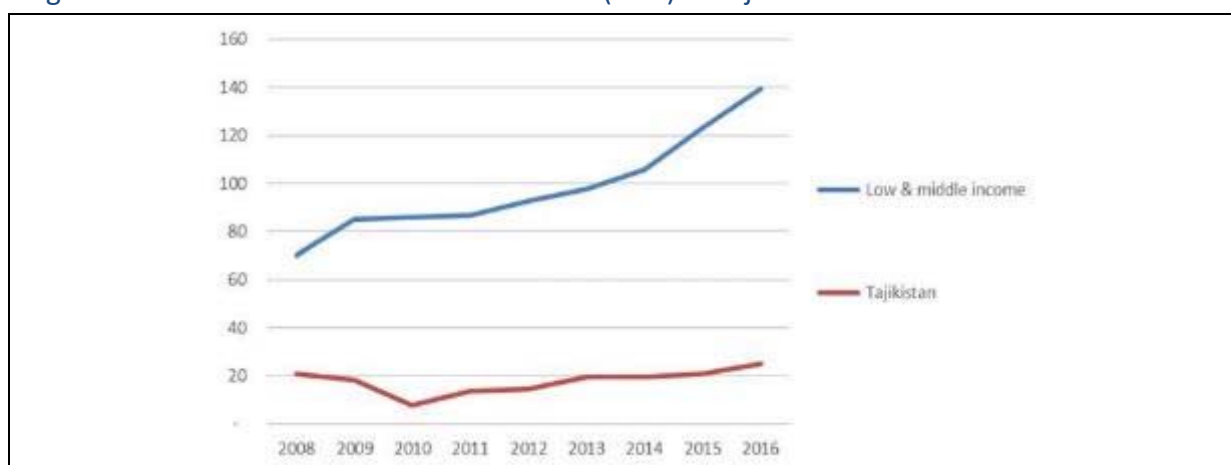


Source: World Bank – Doing Business 2018

In Tajikistan, financing is expensive and short-term limiting private investors' capacity to expand and compete internationally. This observation is confirmed by consecutive Doing Business surveys (ref. figure above) rating access to credit as one of the major constraints.

Access to credit is a major driver for the financing of new investments and allows people to purchase assets. Excessive lending and borrowing create monetary risks while credit availability promotes economic development. If domestic credit to the private sector is 70 – 100 percent of GDP, a country is considered to have a relatively well developed financial system. The amount of credit even exceeds 200 percent of GDP in some advanced economies. In some countries, domestic credit is less than 15 percent of GDP, i.e. firms and households essentially do not have access to credit for investment and purchase of assets.

Figure 11: Domestic credit as a share of GDP (in %) in Tajikistan and LMIC countries



Source; World Bank – World Development Indicators

Domestic credit to the private sector was only 23 percent of GDP in Tajikistan in 2016 which effectively means that there is limited access to credit for investments. Four large banks control about three-quarters of total assets of which three are linked to agriculture, construction and state-owned enterprises (SOEs) respectively, with the fourth handling government payments. Non-performing loans in the banking sector increased to more than

25 percent in 2016. Governance issues, poor enforcement of prudential regulations, and weak consumer protection are the main causes of this development. More generally, financial sector development overall is undermined by directed lending which distorts the market, misallocates credit, and weakens confidence and the credit culture.

While the formal financial market has a very low outreach and suffers from poor performance, there have been numerous Micro Finance Institutions (MFIs) operating in the country over the years. Operation of an MFI requires licensing from NBT and at its peak in 2016, they counted 119. However, after revoking the license for several of them due to non-compliance capital requirements, 65 are in operation today. While this is still a significant number as compared to other countries, in total they cater only for a very small share of the market with only 4 percent of total savings and 3 percent of credits in the financial sector.

The above suggests that many factors appear to be the cause of limited private sector investment and growth; the cost of credit, outreach, and availability of financial products and services, institutional and regulatory environment and competitiveness/efficiency reflected by a high spread in savings/lending rates.

Challenge and venture capital funds as means of promoting new business entries

Challenge Funds for promoting SME development and investments

A challenge fund is a competitive financing facility to disburse funding for development projects, typically utilizing public sector or private foundation funds for market-based or incentive driven solutions. Typically, a challenge fund uses competition to find solutions to problems in areas related to a development objective.

Small and medium-sized enterprises, organizations, institutions, and individuals compete by submitting their project proposals. While they must meet predetermined and fixed criteria, the applicants have freedom in the design of their solution. The winning proposals are supported financially and matched by own equity or contributions. An illustration of a funding arrangement that could be considered for Tajikistan is the Africa Enterprise Challenge Fund (AECF). AECF supports businesses in agriculture, agribusiness, rural financial services and communications systems, renewable energy and adaptations to combat climate change. The AECF provides catalytic funding in the form of repayable and non-repayable grants to businesses that would not otherwise have access to adequate financing. The AECF is part of the Alliance for Green Revolution in Africa (AGRA) and has been supported by the governments of Australia, Canada, Denmark, the Netherlands, Sweden and the United Kingdom, and international financial institutions such as the Consultative Group to Assist the Poor and IFAD.

Venture capital leveraging domestic finance to promote SME growth and employment

Venture capital for small and medium-sized enterprises (SMEs) typically provides risk capital and technical assistance to entrepreneurs and fund managers in challenging markets. SMEs in countries like Tajikistan have the potential to drive job creation and economic growth but they have limited access to the capital they need. They are typically too large to be served by micro-finance institutions, yet too small to be served by commercial banks. They also face other challenges, such as a lack of management skills or industry knowledge.

Venture capital funds and programs in countries at the same income level as Tajikistan provide entrepreneurs with risk capital such as equity, loans, and quasi-loans combined with technical assistance. By investing in SME firms, that have served to expand their businesses which in turn create a significant number of jobs. SME venture programs also provide support to fund managers as they establish themselves in these markets. On a wider economic level, some of the SME venture programs have paved the way for other private equity firms to enter these markets. This has happened by supporting needed changes in the regulatory environment to make it more conducive to private equity investments.

To promote private sector development the GoT can take a more proactive role, not only through tax policy and administration measures but in promoting private sector equity/venture capital funding in addition to non-financial services outsourced to private

sector business development service providers. This is an approach that has successfully served to raise the growth of SMEs and promoted innovation in several countries.

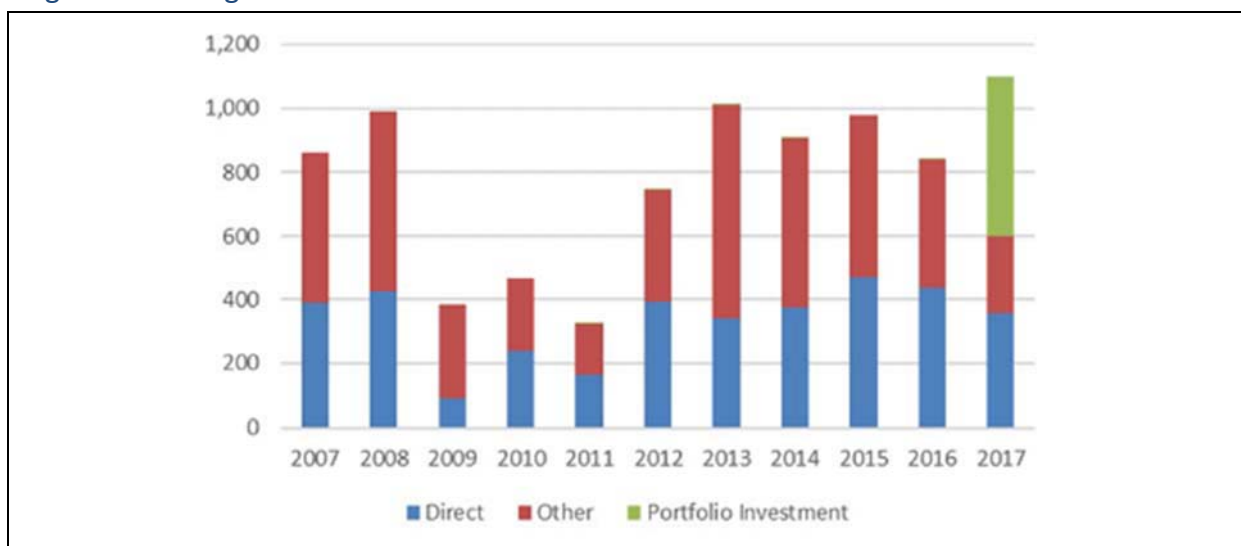
5.5 Foreign Direct Investment

Foreign Direct Investment (FDI) is defined as the ownership of production facilities in a foreign country. To be classified as FDI, a foreign investor must own at least 10 percent of a local company. If the ownership is less than 10 percent of the value of the local company, the investment is classified as portfolio investment.¹² The investment can have originated as a greenfield investment, as an acquisition or as a joint venture (joint ownership with a local company).

When foreign companies start operations, they hire people, especially if the investment is greenfield, i.e. if a new facility is created and/or if the production is more labor intensive. Often, local companies become suppliers to a large new foreign investor, and this increases employment, which contributes to more value added through the entire value chain.

FDI also frequently leads to development or entry of new technologies and management practices. The training of local personnel will after some years lead to new business, due to knowledge transfer from the international partners to national counterparts and employees that subsequently start up new domestic companies based on training and acquiring new knowledge. Foreign companies also have established channels for placing their output on international markets.

Figure 12: Foreign Direct Investment in USD million



Source: Statistics Agency under the President of Tajikistan.

The inflow of foreign investment during 2007 – 2017 into the economy reached a total of 8.6 billion USD. There have been significant variations as reflected by some major investment projects in mining (26 percent of total FDI) and energy (16 percent of total FDI). The main driver of growth in 2017 was an increase of portfolio investments of 500 million USD.

¹² OECD. "OECD Benchmark Definition of Foreign Direct Investment." Fourth Edition. (2008).

During the period of 2007-2017, 57 countries invested into the Republic of Tajikistan. The major countries of origin of FDI have been China, Russian Federation, USA, United Kingdom and Kazakhstan.

Table 2: Foreign Direct Investment by country of origin 2007 - 2017

Country	Million USD	%	Sectors
China	2 250,00	30%	Communications, construction, financial services, geological exploration and survey, installation of technical equipment, industry, construction and other services
Russian Federation	1 574,00	21%	Construction, geological intelligence communication, financial services, healthcare, industry, construction, trade, energy, tourism and other services
USA	670,10	9%	Communications, financial services, education, agriculture, health, infrastructure rehabilitation and shore fortified work, construction, geological exploration and exploration, industry
United Kingdom	616,90	8%	Geological exploration and research, construction, financial services, industry, trade
Kazakhstan	564,70	8%	Financial services, geological prospecting, and exploration, industry, trade
Philippines	417,60	6%	Agriculture, road construction, maintenance, installation of technical equipment, financial services, all aspects of governance at the state level, health
Iran	281,70	4%	Industry, construction, financial services, trade
Azerbaijan	241,90	3%	Financial services
Luxembourg	225,80	3%	Financial services
Cyprus	191,60	3%	Construction, tourism, trade
United Arab Emirates	190,70	3%	Financial services, geological exploration and survey, industry, trade
Germany	174,90	2%	Financial services, installation of technical equipment

Source: Statistics agency under the President

The difficult environment for doing business in Tajikistan has also reflected the low level of FDI for other than larger scale extractive industry investments like in mining and power supply. Attracting a wider scale of FDI for Private Sector Development including PPP arrangements is linked to improvements in the business climate as discussed in sections above.

5.6 Public-Private Partnerships

The GoT is putting a lot of emphasis on Public Private Partnership (PPP) to mobilize private equity, technology and management skills for investments and operations of larger scale infrastructure projects. In recent years it has also included some smaller scale investments in education and health. Current legislation and regulations in the field of public procurement applicable to Public-Private Partnerships in Tajikistan consists of the following legislation:

- Law on concession
- PPP Law

The laws are guiding the institutional framework for PPP. There are four major areas, where PPP projects have been implemented or are being initiated:

- Power sector
- Transport sector
- Water supply and utilities
- Social

Tajikistan's first case involved private investments in the power supply sector in the eastern region of Gorno Badakhshan Autonomous Oblast (GBAO) in 2000¹³. The International Finance Corporation (IFC) and the Aga Khan Fund for Economic Development (AKFED) jointly set up Pamir Energy to redress the economic conditions in the GBAO by achieving a stable supply of electric power. Pamir Energy is a joint venture company owned 70 percent by AKFED and 30 percent by the IFC. The company took over the operation and 500 employees of the state-run company.

The 25-year concession contract with the Tajik government prescribed that the power plant assets would remain under the ownership of the state government and specified the details of construction and repair work to be performed by the Pamir Energy. It also set out the provisions for the determination of electric power tariffs and operation of the joint venture firm, including power supply services and monitoring. Pursuant to the agreement between the state government and Pamir Energy, the power tariff rate scheme introduced a lifeline tariff block to set a very low rate of 0.25 US cents per kilowatt-hour for the minimum electric power consumption needed to live, specifically 200 kWh per month in winter and 50 kWh per month in summer.

Two other PPP projects were the Hydro Power Plants of Sangtuda 1 and Sangtuda 2, located on the Vakhsh River. The construction of Sangtuda 1 cost 720 million USD, where Russian government and companies have 75 percent of shares and Tajikistan has 25 percent. The power plant is operated by Sangtudinskaya GES 1, a company controlled by Inter RAO UES¹⁴, which is one of the largest Russian public energy companies.

The power plant Sangtuda 2¹⁵ was finished with the involvement of Islamic Republic of Iran; it was built and is operated by Iranian company Sangob. GoT has invested 40 million USD in the project and Iran 180 million USD. Under an agreement between the two countries, Iran will own the plant for 12 years before handing it over to Tajikistan.

There is one PPP transport project serving the maintenance of the Dushanbe - Chanak highway. Innovative Road Solutions LTD, a branch of internationally held and managed company, maintains and charges a toll on about 334 km of this highway, which was built by the GoT financed from a loan from Chinese.

Another PPP transport project is the construction of the railway line which will be part of railroad branches stretching over 22 km to the largest silver mine Koni Mansuri Kalon and

¹³ Progress with Public Private Partnership Projects in Developing Countries, IFIC, JICA

¹⁴ https://en.wikipedia.org/wiki/Inter_RAO

¹⁵ https://en.wikipedia.org/wiki/Sangtuda_2_Hydroelectric_Power_Plant

further to Mastchoh area. Approximate value of the project is 45 million USD. Other and smaller scale projects include water supply and developing basic infrastructure for a “Free Economic Zone”.

There are number of smaller PPP projects, such as reconstruction and management of a Kindergarten 133 in Dushanbe city, project “Creation of the center to fight against Hepatitis” based on the agreement of Ministry of health and social protection and “Tajikinnovation” company for 15 years and 20 mln. somoni. In addition “Electronic payment of transport system in Dushanbe city” project, based on the agreement of Dushanbe Administration and “Avesto Group” LLC for 5 years and 24 mln.somoni.

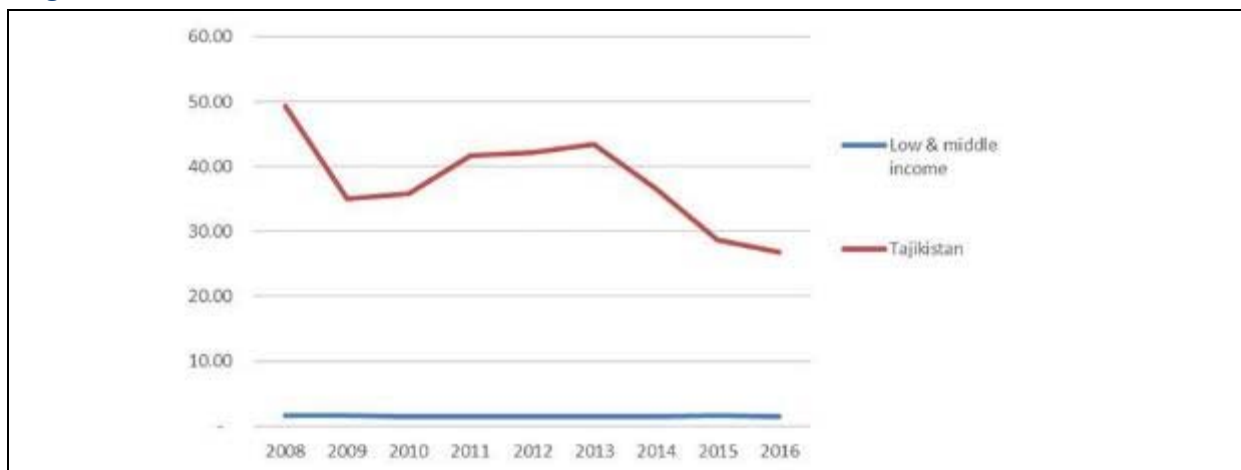
While PPP arrangements through concessionary contracts has served to bring in additional management and technology as well as private equity and debt finance to implement the country’s vast potential in mining, power and water supply, smaller to medium scale PPP arrangements can be considered in other sectors as well provided the main challenges related to business climate as described in section above are addressed, in particular as related to financial market and tax policy/regulations. New PPP arrangements linked to SOEs restructuring/divestment can likely also attract FDI to bring in technology and management for improved productivity and profitability under PPP arrangements.

5.7 Remittances

Tajikistan has been unable to create enough jobs for its growing labor force. Since 2006, the population has increased by 17 percent, while formal employment rose by only 10 percent. Employment growth in the industry was minimal and only modest in agriculture and services, the two largest sectors. The relatively small construction sector experienced the highest growth rate (8 percent), driven mainly by remittances. This low growth in overall employment, as well as limited internal labor mobility, explain the relatively small contribution of domestic employment to poverty reduction.

The above are among the main reasons for why remittances are at an exceptionally high level in Tajikistan as compared to the average of LMICs. Household income has been reliant on remittances stemming from employment in among others, the Russian Federation. The flows have declined as a share of GDP and forecasts suggests a further reduction of these flows, among others related to economic development in host countries and further exchange rate depreciation.

Figure 13: Personal remittances as a share of GDP



Source; World Bank – World Development Indicators

Despite the declining trend, remittances still play an important role in financing household investments and spending. However, less is used for savings and/or investment in productive assets. Thus, an issue to explore is if there is an opportunity to direct this source of finance for productive investments, an issue which is linked to business climate and entry of new financial intermediaries and instruments in the financial sector.

Large remittances, if properly channeled within an improved business environment, could lead to much higher investment. Examples of this in other countries with high levels of remittances include Armenia, the Kyrgyz Republic, Lesotho, Vietnam and Nepal, where private investment averaging 19 percent of GDP. These high rates of investment, including private investment, suggest that Tajikistan need to reduce the state’s footprint in the economy, prioritize public expenditures within a realistic fiscal envelope, and significantly improve the business environment.

Vietnam’s remittances a source for private sector enterprise development

According to central bank data in Vietnam, 27-30 percent of remittances between 2010 and 2013 went into businesses in Vietnam, one of the top remittance-receiving countries in the world. In 2015, however, that figure was 70 percent. In total, Vietnam’s overseas remittances, more than half of which come from the United States, are equal to as much as 8-10 percent of the nation’s GDP. The Central Institute for Economic Management in Vietnam has counted 120 billion USD in remittances sent to Vietnam between 1999 and 2015.

Once used primarily to support family members, overseas remittances in Vietnam are now being used to invest in SMEs in the country. Recent surveys show that Vietnam’s overseas remittances are no longer primarily used to support family members. In 2015, just 6 percent of Ho Chi Min city remittances were provided for family support while 72 percent of the money went into establishing and expanding local businesses, according to central bank data. Another 22 percent of remittance money was used to invest in real estate. This development is largely attributed to a change in the Vietnamese business climate.

6 Government plans and commitments to implement NDS and SDGs

6.1 National policies, plans, and targets

The long-term strategy of the GoT is presented in the National Development Strategy 2030 (NDS). The strategy was developed according to the provisions of the Constitution of the Republic of Tajikistan, Law of the Republic of Tajikistan «On state forecasts, concepts, strategies and programs of socioeconomic development of the Republic of Tajikistan» and in line with the long-term country development goals and priorities, among others as presented by the President in 2014 and 2015.

The NDS presents among others two overarching goals:

- The long-term socio-economic development of the country
- Policy directions to address challenges for private sector development

They have been translated into four strategic goals;

1. Energy security and efficient use of electricity;
2. Exit from communication dead-lock and turn country into a transit country;
3. Food security and access to good quality nutrition;
4. Expand productive employment.

To achieve these goals partly or in full, the NDS was developed based on three different forecast scenarios;

1. “Baseline”; maintaining current agro-industrial development with a gradual solution of infrastructure problems. Demand maintained by external sources of financing, including remittances.
2. “Industrial”; implementation of existing and planned energy and infrastructure projects. Rational use of water, energy and other resources, expansion of existing production capacities in industry and agriculture sectors. Implementation of structural economic reforms and public administration.
3. “Industrial innovative”; the institutional base for innovation will be strengthened with the formation of innovative approaches to solving economic and social problems. Rational use of new integration opportunities, diversification of the national economy and a significant increase of exports of goods and services.

While the above, and in particular scenario three assumptions, are not clearly spelled out as to how they will be implemented. The latter present an assumed technology shift in which more investments are made in education and research combined with investments in industries assumed to be the main growth sector as compared to the traditional primary sectors (agriculture) currently serving as the main domestic economic activity for employment and income generation.

Achievement of the goals outlined in the NSD is planned through three stages:

1. The first stage (2016-2020) – based on investments and development of export-oriented and import substitution production;
2. The second stage (2021-2025) – the fast growth of investments in the real sector and infrastructure;
3. The third stage (2026-2030) – the transition from investments based industrial growth strategy to knowledge and innovation-based development.

The first stage is reflected in the Midterm development program 2016-2020.

6.2 NDS coherence with SDGs

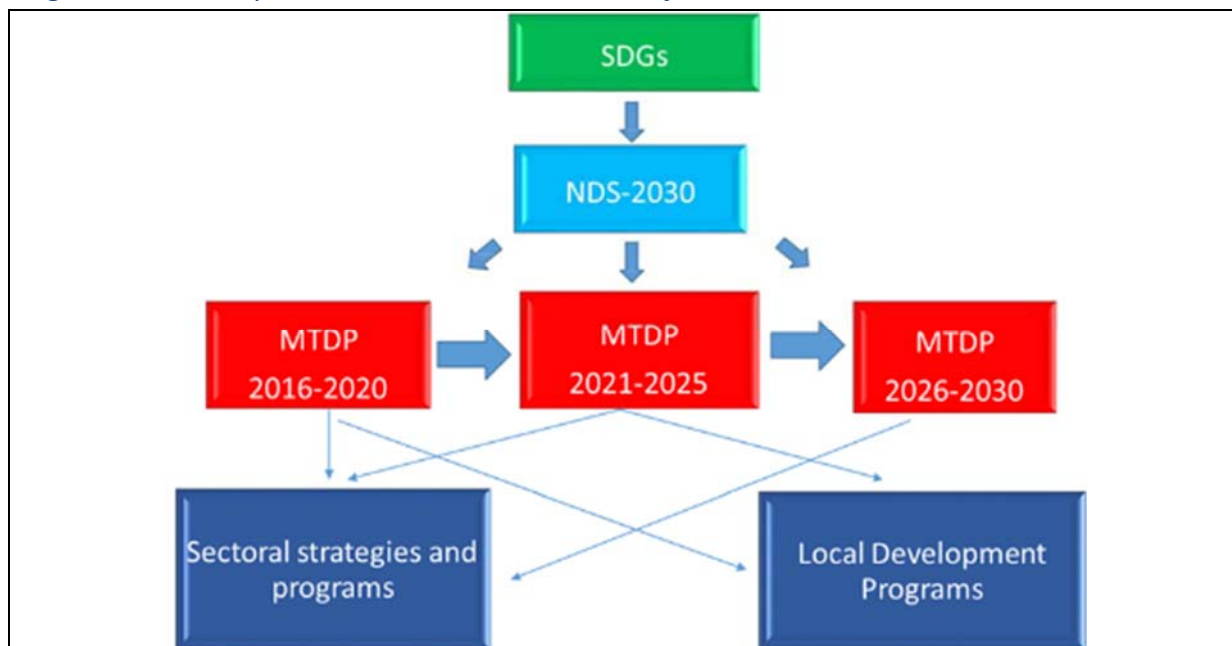
NDS is developed based on the Republic of Tajikistan's international commitments to the SDGs approved at the 70th session of the UN General Assembly in September 2015.

National consultations on SDGs Agenda presented the main priorities of the country's development after 2015 and the NDS is reflecting the GoT's intent to implement these priorities. These priorities are the following:

- education;
- healthcare;
- employment;
- inequality;
- combating corruption;
- food security and nutrition;
- good governance;
- social welfare;
- prevention of potential conflicts;
- energy security, environmental protection, and management of demographic processes.

NDS implies a close coordination between institutions and improved accountability of state administration bodies. Business and civil society will have to play an important role in the implementation of these priorities. Performance of the state institutions will be based on a national system of evaluation and forecasting of future development. Therefore, issues on strengthening institutional development towards good governance principles, efficient and transparent management as well as financial control through the introduction of modern information technologies at all levels of government are some key elements. The NDS/SDG implementation mechanism is illustrated in the figure below.

Figure 14: SDG implementation mechanism for Tajikistan



Source: Ministry of Economic Development and Trade of RT, 2017.

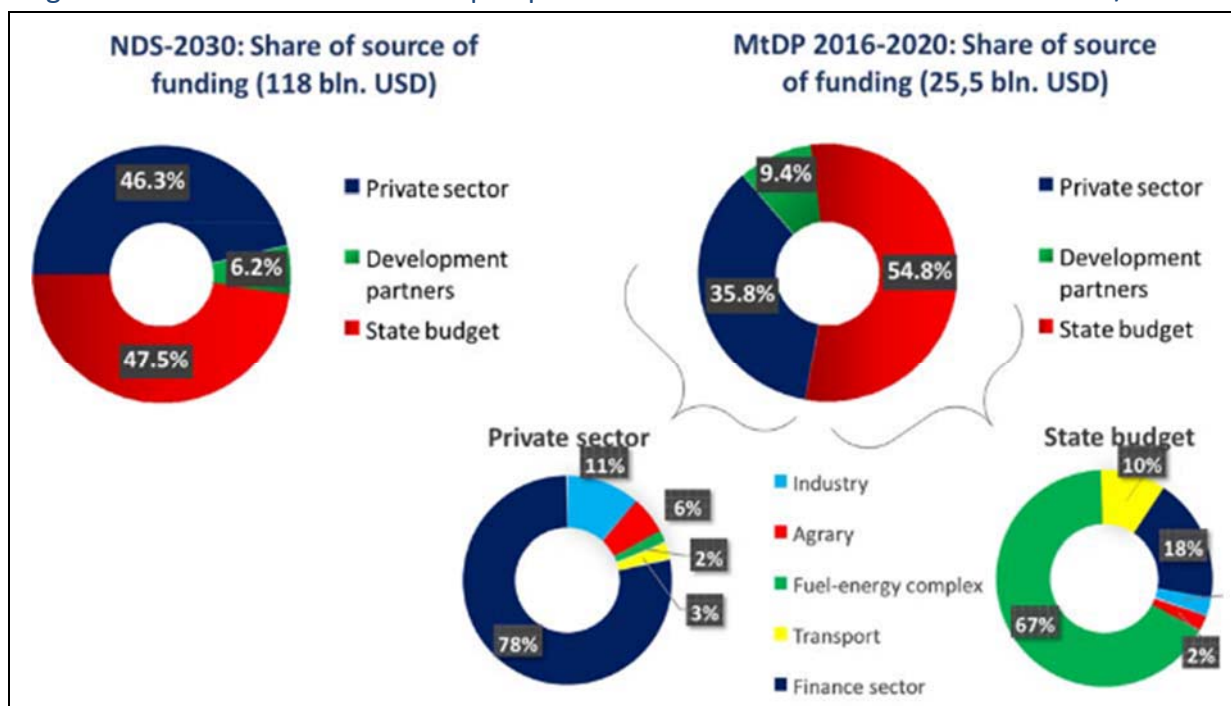
According to the Rapid Integrated Assessment¹⁶, 78 percent of SDG targets are reflected in the national and key sectoral strategic programs, hence NDS coherence with NDS is relatively high.

6.3 Financing of NDS and SDG

Financing of the NDS and SDGs is a key challenge. The team of the MEDT conducted a simulation model using Revised Minimum Standard Model – Extended (RMSM-X) to forecast the resource requirement for implementation of the NDS 2030 and SDGs. In accordance to the projections made, to achieve goals outlined in the strategy by the 2030, the stated resource needs would be a total of 118 billion USD with an almost equal share between public and private sector with the gap of 6.7 percent assumed to be financed from Development Partners.

¹⁶<http://www.undp.org/content/undp/en/home/librarypage/sustainable-development-goals/rapid-integrated-assessment---mainstreaming-sdgs-into-national-a.html>

Figure 15: Financial needs and the prospective sources of the finance to achieve NDS/SDGs



Source: Ministry of Economic Development and Trade of RT, 2017.

At this stage, Tajikistan is lagging behind in attracting required financial resources for MtDP 2016 - 2020 and the NDS 2030. Despite the relatively short period passed from adopting the strategy, there is still no clear evidence of how the plans will be implemented. It's within this context that a DFA can assist GoT in identifying new and emerging opportunities for finance combined with policy reforms and institutional arrangements for improved public-sector planning and management to attract additional program-based finance and arrangements for attracting finance for private sector development.

6.4 Public sector management and finance reforms in support of implementing NDS and SDGs

Several diagnostic reports, in particular the Public Expenditure and Financial Accountability Assessment (PEFA), the IMF's Report on The Observance of Standards and Codes (ROSC), and the World Bank's Programmatic Public Expenditure Review, have shed light on the situation on PFM in Tajikistan.

Among the most important challenges are the high degree of fragmentation of the budget process, where the MoF deals directly with a high number of spending entities; substantial deviations between the planned and implemented budget, both in amount and composition; absence of a proper commitment tracking and control system linked with the decentralized procurement system; pending reforms in the treasury, cash management; the absence of an organizational classification of the budget; and inadequate public access to fiscal information.

At the sub-national level, the PFM weaknesses include: (i) inadequate treatment of budget arrears in the budget preparation process (the inventory of budget arrears is not complete, and plan for clearing arrears does not exist); (ii) discretionary allocation of planned and surplus revenue; (iii) inadequate ICT technology at the local treasuries; (iv)

insufficient communication lines between treasury offices and line departments; (v) weak commitment controls with no proper link to public procurement; (vi) inaccurate, untimely, paper-based budget reporting; and (vii) inadequate asset management and valuation with no account of asset depreciation and real market value of assets.

Implementing PFM reforms in Tajikistan presents multiple challenges:

- The country only emerged from a post-Soviet Union civil war and remains a fragile democracy with documented high levels of public sector management challenges.
- Shortage of skilled human resources, in part because of the educational impact of the civil war, and in part because of the fact that many skilled workers have migrated.
- Tajikistan is transitioning from a centralized to a market economy, requiring major changes to governance and to institutions.

As a response to the above challenges, the GoT is engaged in wide-ranging programs of public financial management reforms. These include introducing a multiyear budget (MTEF), implementing a Treasury Single Account, developing Tajikistan Public Sector Accounting Standards consistent with international Standards (IPSAS), a new Financial Management Information System, a modernized Treasury and an extensive program of training. Most PFM reforms are still primarily technical but lay the foundation for improved governance and addressing the many challenges prevailing, among them;

- The need for Government to take control of the reform process, and to use advisers to provide technical support according to government priorities.
- PFM reforms need to be appropriately sequenced taking account of priorities and the feasibility of sustainable reform.
- The challenge of coordinating multiple development partners, each with their own agenda and methodology, to take account of the above lessons.

The PFM Reform Strategy serves as a reference for development partners to offer technical assistance. The key development partners currently engaged in supporting various PFM reform and capacity building measures are the European Commission, the World Bank, DfID, IMF, UNICEF, ADB, USAID and GIZ.

7 Conclusions and recommendations

7.1 Conclusions from analysis

The analysis presented in this report shows that the GoT has developed a new NDS broadly in line with the SDC 2030 with a vision to promote private sector development for employment and income generation and with more public spending allocated to social service delivery and national infrastructure in support of the same. To achieve these targets the analysis, indicate that the GoT can mobilise additional finance for development. This, however, requires policy and institutional changes that promote a more conducive environment for private sector development and improvements in public sector management. The combined efforts of the above will make Tajikistan eligible for additional concessional development finance.

Some of the following are issues to be considered and should also be areas of focus in the follow-on DFA;

1. While the GoT budget is based on the formulation of an aggregate fiscal framework to determine the resource envelope for annual budgets (supply side) it should also develop MTEFs as sector level (demand side) based on costing of sector targets. This may serve as a first step in introducing program-based budgeting (PBB) with allocations for sector programs falling under relevant ministry rather than spread between numerous entities. The above will also serve as a basis for a larger share of funding provided as program aid with triggers related to outputs and outcomes rather than the financing of inputs through project tied aid at higher transaction costs. To demonstrate the above approach, 1 -3 ministries could be selected for piloting how a sector program with a result framework as a basis for PBB could potentially serve as the framework for joint program-based donor funding and attract additional concessional funding. The Committee on Environment Protection (CoEP) is an example of a government “ministry” with a potential to formulate a joint framework for support from its current arrangement of multiple financing partners supporting numerous standalone projects through individual arrangements which leads to high transaction cost for the CoEP. As there are several additional global and regional funds that could be considered, CoEP would be well placed to be considered as a pilot for the above.
2. There is an ongoing dialogue with private sector and development partners to review current tax policy and management as they are considered by many as prohibitive for private sector development. With a more conducive and predictable regulatory environment for private sector development, it will serve to attract various forms of concessional and non-concessional funding for SME funding. GoT may itself consider allocating start-up grants/concessional lending as well as business development services subcontracted to private sector management companies on a competitive basis. This is a similar approach to what has been successfully implemented in several other countries (venture funds, challenge funds, etc.).

3. An improvement in the regulatory environment, and in particular tax policy and administration, will serve to attract additional and more competitive forms of finance than what the current financial market in Tajikistan can offer today. It will also serve to direct remittances to productive investments as evidenced by many other countries with a large inflow of remittances.

The above address some critical elements to attract additional forms of finance; (i) improvements in public sector management, and (ii) business climate, both required if to attract additional forms of finance for development which are significant and diverse but requires that basic conditions and terms related to PSM and business climate are fulfilled.

7.2 Main recommendations for a Development Finance Assessment

This analysis was conducted on the initiative of UN in Tajikistan in preparation for a more comprehensive DFA. DFAs have been conducted in tenfold countries in Asia and some are underway in African countries. Several additional DFAs are at the planning stage based on the request of these country governments.

A key element in the implementation of a DFA with its resulting roadmap for mobilization of additional sources of finance for development is that they are government-led with the active participation of key agencies in its implementation. In Tajikistan, active participation of GoT will also be of particular importance to access data for analysis as they are only to a limited extent published.

The following are the suggested next steps for the implementation of the follow-on comprehensive DFA;

1. Engage the GoT in the discussion of a comprehensive DFA on the basis of the draft ToRs attached to this report. As the MEDT is already the focal point for analysing the costs in achieving the SDGs and implementation of the NDS in alignment with the SDGs, they could serve as a point of entry. While MEDT may serve as the focal point, representatives of the President's Office, MoF, the private sector and civil society should be considered as members of a DFA "oversight committee" to guide the DFA and for quality assurance to the analysis, findings and recommendations. Once established the first item on the agenda should be to review the attached Terms of Reference.
2. For the DFA itself, the suggested main focus areas should be on;
 - a. Improvements in PSM by an in-depth review of the past and current attempts to improve PSM and PFM in particular. These are elaborated in the Public Administration Reform Strategy 2006-2015 and Public Finance Management Strategy 2009-2018. They may serve as a point of departure for suggesting areas of added focus for improved PFM (like introducing costing of targets as basis for sector MTEFs and PBB) to attract additional and program-based finance from external sources.
 - b. Based on the above, select some sectors as case studies to demonstrate how changes in planning and management can improve management of current sources of finance and mobilise additional sources of finance. The sectors that

could be considered are Environment, Education and Energy representing diverse sectors as to what sources of finance can be mobilised and extent of private sector participation (domestic or FDI) through different forms of PPP arrangements (service/management agreements and/or build operate transfer arrangements).

- c. Private sector development through a more detailed assessment of required changes in the regulatory environment, in particular tax policy and administration, to promote a more conducive environment for enterprise development. This should be combined with assessing different forms of financial and non- financial services that could be established on initiative of the GoT outsourced to private sector management companies. This would promote domestic SME development and pave the way for increased FDI from the private sector as well as numerous DFIs and social impact investors that target emerging markets like Tajikistan.

Annex 1: List of persons met

Name	Title/position	Institution/Organization
Aferdita Spahiu	Chief of Education	UNICEF
Aliev Abdujabbor	Head of Department	Department of preschool education- Ministry of Education
Ayten Rustamova	Country Director	EBRD
Bakhtiyor Bakhridinov	Director of Department of Statistics and balance of payments	The National Bank of Tajikistan
Bernadette Neu	Country Director	GIZ
Demenge Corinne	Consul	Swiss Cooperation Office
Pratibha Mehta	UN Resident Coordinator and UNDP Resident Representative in Tajikistan	UN/UNDP
Firdavs Usmoniyon	Head	Entrepreneurship Development Fund under the Government of Tajikistan
Gulbahor Naziri	Member of the Committee	Economic and Finance Committee of the Parliament of the RT
Hajime Kitaoka	Ambassador Extraordinary and Plenipotentiary	Embassy of Japan
Hassan Aliev	PFM Project Officer	World Bank
Heli Nykaenen	Program Officer	UN Volunteers
Hidajet Biscevic	Ambassador/Head of Delegation of European Union	EU
Hideki Tanabe	Chief Representative	Japan International Cooperation Agency (JICA)
Hugh Philpott	HMA	Embassy of the UK
Igor Pokanevych	Representative	WHO
Ikrom Safarzoda	Head of the department	Department of budgeting and statistics of the Ministry of Education
Ilhom Abdulloev	Director	OSI
Ilhomjon Aliev	Executive Director	AmCham
Ken Inoue	Representative	JICA Dushanbe
Kiril Handogin	3rd Secretary of the Embassy	Embassy of the Russian Federation
Kiyomiddin Davlatzoda	Deputy Director of agency	Agency of Statistics under the President of RT
Kristin Laabs	Country Director	KfW
Luciano Calestini	Representative	UNICEF
Manuchehr Asoev	Department of Monetary Policy and Research	The National Bank of Tajikistan
Manuchehr Rakhmonov	Head/Coordination Analyst	UN Resident Coordinator Office
Marjan Montazemi	Deputy Representative	UNICEF
Mirzo Olimov	Project Coordinator	UNDP

Muhammadi Boboev	Economist	ADB
Mutribjon Bahreddinov	Health Specialist	UNICEF
Nargiza Usmanova	Programme Analyst	UNDP

Name	Title/position	Institution/Organization
Nina Hajoyan	PFM Expert	EU project
Nurmahmad Sharopov	Banking Management Department	The National Bank of Tajikistan
Odiljon Tagoev	Head of Department	Department of foreign aid management of the SCISPM
Oyhon Sharifova	Deputy Chairman	Committee for Environmental Protection under the Government of RT
Pavel Stoloyarov	Attaché on Humanitarian Affairs	Embassy of the Russian Federation
Peter Fernandes Cardy	Head	DFID
Pradeep Srivastava	Country Director	ADB
Rafkat Hasanov	Project Manager – SPFM Team Leader	DAI
Robert Reno	Program Officer	USAID
Rustam Aminjonov	Director	Namo Consulting
Safarali Kurbonzoda	Head of the main department	Main department of investment management SCISPM
Sanja Bojanic	Deputy Country Director	UNDP
Sayvali Safarov	Head of the Main Department	Main department of the State Budgeting of the Ministry of Finance
Sharaf Sheralizoda	Head of the Secretariat	Consultative Council on improvement of investment climate under the President of Republic of Tajikistan
Sharif Rakhimzoda	Chairman of the Committee	Economic and Finance Committee of the Parliament of the RT
Shukhrat Mirzoev	Managing director	Irshat Consulting
Tuula Yrjola	Ambassador/Head of Office	OSCE
Umar Olimov	Project Specialist	World Bank/MoF
Walburga Roos	Country Director, Counsellor	Swiss Cooperation Office
Yuri Sobolev	Resident Representative	IMF
Yusufkhoja Kurbokhojaev	Social Policy Officer	UNICEF
Zebo Jalilova	SDG Technical Working Group Chair, UNDP Team Leader on Sustainable Economic Development	UNDP

Annex 2: Draft Terms of Reference for a Development Finance Assessment (DFA)

Background

Significant changes are taking place in the development finance landscape worldwide. Developing countries like Tajikistan are going through a transition in terms of mobilizing and managing resources - both domestic and external as well as public and private - to finance their development plans and aspirations. Tajikistan has also made a strong commitment to the achievement of the Sustainable Development Goals (SDGs).

The Third International Conference on Financing for Development, held in Addis Ababa in July 2015, opened the discussions on how to mobilise the unprecedented amounts of financial resources that will be required to achieve the SDGs. The Addis Ababa Action Agenda assumes that countries will use their own national development strategies and plans to respond to the SDGs. In this regard, Governments are now increasingly requesting for support to take forward policy and institutional reforms to enable more integrated management of a broader set of financial flows to support the implementation of their national priorities and the SDGs.

In this connection, Tajikistan plans to undertake a Development Finance Assessment (DFA), which will consider the links between finance and national development priorities and the scope for a stronger alignment of finance with Tajikistan's National Development Plan and the SDGs moving forward. In particular, the assessment will help provide recommendations for a roadmap for how to mobilize additional sources of finance for development required to achieve the SDGs.

Overall objective

To deliver a Development Finance Assessment which provides an overview of development finance flows and the institutions and policies that align this finance with national development priorities, to include recommendations for a roadmap which will increase the alignment of financing flows – both public and private - to Tajikistan's National Development Plan and the 2030 Agenda.

In particular, the DFA will:

1. Provide an overview of the evolution of the flows of financing for development and their allocation and contribution to national priorities and results, as expressed in plans and policies at national, sector and sub-national levels. In particular, the overview will look to how systems can be strengthened to better align finance with Tajikistan's national development priorities and the Sustainable Development Goals (SDGs)
2. Assess the role of the planning and budgeting process in linking both public and private finance with results, in the context of the SDGs
3. Assess the roles and responsibilities of national institutions and their associated policies in managing or influencing the development of individual financial flows to contribute to the national development plan and SDGs

4. Analyse the interface between different flows and the complementarities between the different sources of development finance in contributing to achieving national priorities and the SDGs

Scope of Work

The scope of work provided below will be further adapted to the Tajikistan context as part of the consultations to be undertaken with the DFA Oversight Team and during the Inception Mission planned for [DATE]. The scope of work should be read in association with the DFA Methodological Guidance (attached), as the Team Leader will have overall responsibility for ensuring that the DFA process and report reflects the DFA Methodological Guidance, including overall objectives; scope of analysis (quantitative and qualitative); content of analysis; and standard contents for the DFA report.

The scope of the DFA is summarized as follows;

1. Conduct an assessment of national planning and budgeting systems and their results orientation. The DFA will focus on the potential means to finance the country's national development priorities. The assessment will seek to identify how priorities have been formulated in plans and strategies in the last planning cycle at thematic levels, as well as in the National Development Strategy. The DFA will include a particular focus on an assessment of the alignment of national development priorities and targets with financial strategies and allocations. The analysis will include an assessment of the degree to which plans and policies include targets which are costed; how results frameworks function in practice; the coherence between sector/thematic plans and the SDGs; and the extent to which multiple stakeholders are involved in the planning and monitoring process.
2. Undertake mapping and analysis of financing for development flows over the last 10 years and their associated policy and institutional frameworks. Development finance flows will be analysed according to two main categories: by source (domestic/external) and distinguishing them by public or private nature. This analysis will look to assess both quantitative trends in the changing nature of the development finance landscape over the past 10 years (depending on availability of data), as well as the policy and institutional coherence across flows in terms of their alignment with development priorities and the SDGs.
3. Conduct in-depth analysis of policy and institutional options for strengthening the alignment of priority flows with the National Development Strategy and the SDGs. The DFA Oversight Team chaired by the [Ministry of] will determine three selected sector Ministries/ Agencies as case study areas for further in-depth analysis to determine options for strengthening their potential for accelerating progress in the implementation of the national development priorities and the SDGs. The analysis will include projections of the future evolution of these priority flows into the next 10 years. In addition to potential quantitative analysis, the assessment will include more detailed policy and institutional analysis of the options to make the best use of these

resources for financing the SDGs. The outcome of the initial analysis proceeding this DFA¹⁷ has suggested that this area of the DFA in Tajikistan might focus on:

- a) Improvements in Public Sector Planning and management to promote changes to program aid and attract additional sources of funding on concessional terms.
 - b) Changes in tax policy and administration to improve the climate for private sector development.
 - c) Linked to the above identify financial and non-financial services with associated management arrangements and sources of additional concessional and blended funding for venture capital/challenge funds for private sector investments.
4. Produce a Roadmap of actions for achieving the national development goals and SDGs. The DFA will provide the government with policy and institutional recommendations for strengthening the alignment of development finance flows with national priorities and results. Part of the dialogue embedded in the DFA process will lead to the agreement of a roadmap which will support the government to i) implement the main recommendations of the DFA analysis; ii) visualize the next logical and feasible steps to develop an Integrated National Financing Framework (INFF); and iii) identify the basis for support to be provided to the government as part of the proposed broader efforts to implement national development goals and the SDGs This will require consultation with a range of stakeholders within the Oversight Team and beyond, throughout the process.

Team composition

A team comprised of two consultants will be contracted to undertake the above scope of work;

1. One international serving as Team Leader. The team leader should have a minimum master degree in economics and 10+ years of relevant professional work experience in undertaking assignments on development finance/economic analysis and/or public financial management and demonstrated the ability to serve as team leader from previous assignments. The Team Leader has overall responsibility for delivery of the Tajikistan DFA Report and leading consultations with an oversight team constituting key agencies and representatives in Tajikistan during the DFA process.
2. One national consultant with a minimum master degree in economics and 5+ years of relevant professional work experience in undertaking assignments on development finance/economic analysis and/or public financial management.

¹⁷ "Financial analysis to support SDGs implementation in Tajikistan"

Annex – Analytical Framework for DFA

A DFA uses Integrated National Financing Framework (INFF) as an analytical framework to produce a roadmap that a government may implement to effectively and efficiently mobilize and utilize finance to achieve the SDGs and national development goals.¹⁸ The DFA provides a roadmap of actions based on the following INFF dimensions;

1. A national development vision/plan with a well-articulated set of priorities and results related to the SDG agenda, including costed targets and indicators.
2. Leadership and political buy-in at the highest level of government.
3. Institutional coherence and management capacity at various political, technical, and working levels.
4. Finance opportunities; more efficient use of existing finance and accessing additional financial sources for development.
5. A system for monitoring and evaluation of the effective use of finance for results, in various time frames.
6. An enabling environment for accountability and dialogue for the use of finance for results.

The point of departure for the DFA is an analysis of financial flows the last 10 years. It maps the domestic and external, public and private capital flows that potentially can serve to finance a country's policy targets and SDGs. To contextualize the financial mapping, the comparison is made to regional averages and/or countries at a similar income level measured by Gross National Income (GNI) per capita.

The mapping is organized into three analytical levels. At the highest level (level 1) the analysis covers a) domestic public; b) external public; c) domestic private; and d) external private flows. At level 2 the analysis covers conventional disaggregation of each of the level 1 financial flows, whereas level 3 analyses financial flows of specific interest where data availability allows for detailed disaggregated analysis in areas of relevance and interest (e.g. tax and non-tax revenues, different forms and channels of ODA grants, funds for promoting private sector investments and Public-Private Partnerships).

Data should be subject to triangulation between different sources, using national official statistics and public-sector finance data presented by the government as the primary source. In addition, the data analysis, in particular at disaggregated levels, should be supplemented by data and results from surveys and reviews undertaken on particular subjects. Table 1 categorizes the financial flows included in a DFA as domestic/external and public/private.

¹⁸ United Nations Development Program (UNDP)/Asia Pacific Development Effectiveness Facility (AP-DEF). "Development Finance Assessment and Integrated Financing Solutions: Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda." (2017).

Table 1: Categorization of financial flows included in the financial flow analysis

	Public	Private
Domestic	<ul style="list-style-type: none"> - Tax revenues - Non-tax revenues - Government borrowing 	<ul style="list-style-type: none"> - Domestic equity - Domestic credit - National NGOs
External	<ul style="list-style-type: none"> - ODA grants and loans - Other Official Flows (OOF) 	<ul style="list-style-type: none"> - International financial markets - International NGOs - Foreign Direct Investment (FDI) - Remittances

Following the mapping of financial flows, the results analysis of the INFF dimensions to identify challenges and opportunities at policy, management and institutional levels for more efficient use of current and additional sources of finance is presented.

The INFF dimensions are assessed based on three sources of information, i) the outcome of the financial mapping, ii) primary data from interviews with public and private sector stakeholders collected by the DFA team, and iii) secondary data from diagnostic studies such as the Public Expenditure and Financial Accountability (PEFA), Public Expenditure Reviews (PER), sector studies and reviews and thematic studies and surveys. Based on this analysis, baselines of each of the six INFF building dimensions are summarized.

The above is followed by a prospective analysis that presents the trends and composition of the country's finance flows compared with other countries at a similar income level. The analysis aims to illustrate the potential that the country may have to mobilize additional finance.

The analysis is based on primary financial data provided by Ministry of Finance/Planning, Central Bank and National Bureau of Statistics and various sector ministries and agencies. These are combined with data from, among others, the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), various United Nations agency databases as well as others. This is done, among others, to make a comparison to other countries in the region and at the same income level. In addition, the analysis is supplemented by data and results from various surveys undertaken to enable further analysis at disaggregated levels.

The DFA also collects qualitative data from a range of stakeholders including government institutions, private sector institutions, NGOs, and development partners, which provide additional information by sharing relevant assessments, reviews and evaluations, as well as government documents. A disaggregated analysis of some flows will in some cases be based on information from sample surveys, in which case they serve as estimates rather than actual accounts.