

GOVERNMENT OF THE REPUBLIC OF TAJIKISTAN

« INTERIM POVERTY REDUCTION STRATEGY PAPER »

(Developed by the Working Group Created Based on the Order of the
President of the Republic of Tajikistan on March 24, 2000)

DUSHANBE – 2000

I. INTRODUCTION

1. The poverty reduction and growth strategy is a priority of the government and is supervised by the President of the Republic of Tajikistan, E. Sh. Rahmonov. In March 2000, President Rahmonov issued a special order to set up a working group to develop an Interim Poverty Reduction Strategy Paper.¹
2. Since the signing of the Peace Agreement in June 1997, Tajikistan has made substantial progress in achieving macroeconomic and financial stabilization, and implemented a number of structural reforms necessary for the efficient functioning of a market economy. The government has been supported in these efforts by the International Monetary Fund's Poverty Reduction and Growth Facility and a Structural Adjustment Credit from the World Bank. As a result of these efforts the government has succeeded in resuming economic growth and improving the population's living standards following a period of decline after 1992.
3. Despite this progress, Tajikistan remains the poorest country among all the republics of the BRO and one of the poor countries in the world with very low per capita income. The government realizes that rapid economic growth is the main instrument for raising the population's living standards and reducing poverty. To reach this goal, Tajikistan has started the process of developing a comprehensive poverty reduction strategy, which will involve broad participation of the public. The process of consultations will include the representatives of civil society, international donors, and direct consultations with the poor.
4. Poverty assessment activities in Tajikistan began in 1999 and involved two groups of experts working together with a World Bank mission. A number of seminars on poverty were held for a large group of experts. On the basis of these seminars, the first draft of the national program on poverty reduction was produced. The poverty level of the population was identified, principal modalities for conducting poverty assessments and surveys were determined, the necessary legal framework was developed, and social protection mechanisms and other means aimed at poverty alleviation were specified.
5. The main task of this paper is to describe and characterize the current poverty reduction strategy and its shortcomings, and work out measures to remove such shortcomings with external assistance. It will be the basis for the subsequent process of

¹ The working group prepared presentations for TV and radio broadcasting to inform the public about developments with regard to the poverty and growth strategy. It traveled to towns and rayons to explain its objectives and goals, as well as made known through mass media its proposals and recommendations. The seminars held include: "Poverty Assessment in Tajikistan", organized by the government of the Republic of Tajikistan and World Bank; "Social Costs of the Transition Period", organized by the Ministry of Labor and Employment; and "Health Reform", organized by the Ministry of Health and International organizations.

broad public participation in elaborating the full-fledged Poverty Reduction Strategy Paper. The government of the Republic of Tajikistan will identify, through broad public participation, the poverty reduction objectives, prioritize actions, and specify the public involvement mechanism to monitor the implementation of those actions.

6. To ensure rapid growth and encourage investments, the government has been implementing with the support of the IMF and the World Bank a three-year macroeconomic program including policy measures described in Annex I to this Paper. The government also intends to request another three-year arrangement under the IMF's PRGF in 2001, and continue cooperation with the World Bank to expand its program of structural reform. This interim paper is conceptual and preliminary. It contains directions for policy actions on poverty reduction, and will be transformed through a public participatory process, into a full-fledged PRSP paper by Spring 2001.

II. POVERTY PROFILES

7. The problem of poverty for Tajikistan is not new. Prior to gaining independence, per capita income in the country was the lowest and the population living in poverty was the highest among the BRO countries. In 1997, the UNDP ranked Tajikistan in the 115th place among 174 countries according to the Index of Human Factor Development (IHFD).

8. Poverty in Tajikistan is a multidimensional phenomenon. As is demonstrated by various surveys, poverty, defined in terms of income and consumption levels, is very high. Poverty, however, is primarily due to limited employment opportunities and low wages, particularly in the agricultural sector. In part, this reflects the country's low level of productive assets. However, poverty in Tajikistan also shows in decreasing access to such basic public services as education, health care, and water supply etc. This has hit the low income segments of the populations particularly hard. There also exists a big divergence in poverty between urban and rural areas. In addition, the civil war, economic and social imbalances combined with the transition from a centrally planned economy to a market economy have weakened the social protection systems, both formal and informal protection mechanisms.

9. According to the population's perception, poverty is manifested in a lack of clothing, shortage of goods, insufficient wages, low pensions, shortage of land and cattle, as well as in a number of other indicators. About 60 percent of the population consider themselves poor. According to the government's official poverty line criterion, 83 percent of the population is poor, and one third is classified "very poor". Based on a purchasing power definition, almost 20 percent are very poor, i.e. their income is below US\$1.075 per day purchasing power parity.

10. Income generated from employment remains the most important source of revenue for all households. However, other sources of income, such as revenue from sale of food and household goods, cover equally large share of overall income. Cash

allowances are small; among the poorest households, such benefits account for only 8 percent of total income.

11. Economic inequality has increased. Expenditures at the richest households' are four times those of the poorest ones. The poorest households spend 79 percent of their budget on food. They cover most of this need through subsistence farming and humanitarian aid. The share of cash expenditure on food purchases is similar in all groups of the population. Expenditures in absolute terms on items like clothing, books, durable goods, vacations, wedding expenses, however, vary significantly between the rich and poor households.

12. In the past, there was no significant link between the household ownership of consumer goods and their level of income. At present, there is a significant correlation between per capita expenditures and ownership of durable goods. The majority of households (79 percent) possess land plots, although these are generally small. However, individuals in the upper income group own twice as much land as individuals in the lower income group.

13. The results of the Living Standards Survey in Tajikistan (LSST) undertaken in 1999 indicate that poverty in Tajikistan is largely a rural phenomenon. 76 percent of population lives in rural areas. Only 18.6 percent of the urban population are very poor, against 23.4 percent of the rural population. Of the total poorest segments of the population, 18.5 percent live in urban areas, and 81.5 percent in rural areas. Of these, 45.7 percent live in Khatlon Oblast, 26.1 percent in Leninabad Oblast; 19.2 percent in RRS (Rayons of Republican Subordination); 6.9 percent in GBAO; and only 2.1 percent in Dushanbe. The survey also shows that the concentration of the poorest population is in GBAO, and accounts for 39.1 percent of the population living in that region.

14. Children in Tajikistan are exposed to higher risk of poverty, compared to adults. The risk of poverty increases rapidly depending on the number of children under 15 years of age in the family. Only 7 percent of persons living in households without children are poor, compared to 31 percent of those who live in households with 5 children or more. Due to the civil war the problem of "street children" has deteriorated. Another group for concern are children under institutional care. The financial, physical, intellectual and emotional development of these children is at risk, and they face difficulties in receiving education or employment. As a result, many of them have been involved in criminal activities.

15. The probability of older people (above 65 years of age) to fall into poverty is higher than for other adults. Their share in the bottom 20 percent of per capita income bracket is 22.7 percent, compared with 20.8 percent for those between 16-64 years of age. However, due to smaller age cohorts, older people constitute only a small portion of the total number of the poor (4.1 percent). The percentage of the poor among those over 75 years of age is higher than that among children. Therefore, the elderly living alone are

probably the poorest. According to the Ministry of Social Protection (MSP) data, around 9,000 lonely pensioners are the least protected group of the population.

16. Official statistics do not show any significant difference in poverty between the male and female populations. However, the women's position is more difficult than that of men. This reflects partly the fact that many women work in the public sector, in particular health and education spheres, where pay levels are significantly lower than in other spheres. There is a special problem of households headed by women. The civil war has led to approximately 25,000 households headed by women, mostly in the Khatlon Oblast and Garm rayon. Such households often have less access to land and other agricultural resources.

17. As in other countries, the risk of poverty is inversely proportional to the education level. Poverty is more common among those who have not received secondary and higher education. The LSST indicates that the probability of being among the poorest households is two and a half times higher for people without secondary education than for those having higher education.

18. There is no clear correlation between the labor market status and poverty. The fact that a person has a job is not important, rather it is important whether he gets paid. It is also important to note that employment-generated income provides only one third of the total income for households that belong to the bottom 20 percent of the per capita income distribution. For those that belong to the richest 20 percent, about half of the total income comes as wages.

19. The health care system is going through difficult times and the poorest groups of the population suffer from insufficient access to quality health services. Budget expenditures on health are one of the lowest in the CIS region, and since 1991 spending on health has significantly declined in real terms. At the same time, budget allocations on health are not utilized efficiently.

III. SOCIAL PROTECTION SYSTEM

20. The break-up of traditional economic relations and the transition period have worsened the material situation of the "traditionally poor": pensioners, and large and single-parent families. At the same time, a new category of the "working poor" has emerged. In parallel with increasing number of people belonging to unprotected groups, the government's capacity to finance social protection has substantially declined.

21. There exist two types of social allowances in Tajikistan: the cash compensation program for the poor, and benefits provided as social insurance for the pensioners, disabled and other needy people. The total financing for the cash compensation program should amount to about TR 6 billion in 2000 assuming that the number of people eligible for such allowance is approximately 1 million (less than 20 percent of the population). In practice, however, payments of cash compensations have been much less, in part because

the real value of the compensation is so low that people do not collect them. Only about 5 percent of the population receives these benefits instead of 20 percent eligible. Two reforms have been undertaken recently to improve the ways to effect such payments. The objectives were to reduce operational costs, as well as to simplify the rules for submitting required documents, and to move from monthly to quarterly payments. However, these reforms have not had significant effect.

22. Pensions are the second type of social protection. Average pension benefits in relation to average wage has fallen from 50 percent in 1995 to 35 percent in 2000. The pension system functions somewhat better than the cash compensation system but there are still significant problems associated with past arrears and low levels of pensions.

IV. IMPEDIMENTS FOR POVERTY REDUCTION

A. Impediments for Rapid Growth

23. Tajikistan's investment climate has been severely undermined with the break-up of traditional economic relations within the BRO, the civil war, and the political and economic instability until 1997. Sharply declining volume of GDP and hyperinflation have reduced investments to very low levels.

24. The economy has, however, improved since 1997. Real GDP grew by 1.7 percent in 1997; by 5.3 percent in 1998; by 3.7 percent in 1999; and by 6.5 percent in the first half of 2000 (Annex I). Inflation has been contained within reasonable ranges and is broadly under control, although there has been some deviations from the targets established in the government's economic program. Since 1997, there has also been a gradual increase in real wages.

25. The shortage of investment remains acute, causing problems in the real economy through low productivity and weak infrastructure. The poor condition of infrastructure, in turn, does not encourage foreign investors and low national savings limit investments further. At the same time there exist large unused production capacities in the industrial sector. This reflects a loss of economic viability of many enterprises at market prices; the excessively large size of enterprises created during the Soviet times; obsolete technologies; the decline in domestic and external demand; and disruption in trade relations. Many enterprises now operate at 20-30 percent of capacity and have large inventories of unsold goods. In some areas, however, e.g., agro-processing industries, cotton, silk, vegetable and fruit production enterprises are capable of producing competitive goods. The bulk of enterprises need to be deeply restructured and require new technologies and highly qualified managers.

26. The private sector is emerging, however, and covers mainly trade and services. Growth potential of the private sector has not yet been fully utilized. Impediments for growth include an imperfect legal framework and insufficient incentive mechanisms. For

example, bankruptcy procedures and realization of creditor rights have not yet been developed.

27. Despite the fact that the bulk of the labor force is qualified, many workers are employed in unqualified positions, especially in agriculture. Since independence, many people have lost their jobs, but the overwhelming majority of those (85,4 percent) employed in 1999 held the same job as in 1997. At the same time, most new participants in the labor market, in particular school graduates, remain unemployed. Even with the resumption of growth, the supply of new jobs remains limited. The public sector is shrinking because of the lack of resources, while growth of the private sector has remained limited.

28. The interrelation between the labor market and poverty reflects excess labor and limited employment opportunities. Excess labor reflects the heavy demographic pressure due to high population growth (although declining now), as well as insufficient economic growth. Increasing labor demand by further lowering wages would be totally unrealistic, as current salaries and wages are already very low. Limited land resources and the large share of the rural population aggravate the imbalance between demand and supply in the labor market. Idle labor resources are concentrated among the young, typically those who enter the labor market for the first time, and among women in some regions.

29. The agricultural sector is characterized by two features which aggravate poverty among the rural population. These are: (i) incomplete land reform which does not allow effective use of the land and agricultural production opportunities; and (ii) weaknesses in the current management and operating system of major agricultural subsectors, especially cotton production. More generally, organizational structures, management systems and government thinking in agriculture are still far from requirements of a market economy. In addition, equal access to land, in particular for the rural poor, is impeded by the high costs and complicated procedures for getting land use certificates, the lack of information on procedures, and the lack of knowledge about land use rights.

30. A further problem is the limited access to markets in nearest districts and towns because of informal barriers and high transaction costs. In the case of cotton, there is lack of competition, interference by the government, delays in payments and unjustified underpricing for raw cotton. Besides, there is often shortage of inputs, including quality seeds and water during the growing and planting seasons.

31. Other problems in agriculture include: the debt stock of agricultural enterprises accumulated in previous years; the increasing risk of collapse of the irrigation and drainage infrastructure; large subsidies on water and electricity hindering the development of agriculture; and weakening human resources and institutions in charge of development of land and water resources.

B. Problems in Education and Health Sectors

32. All levels of education face similar problems: insufficient financing, lack of textbooks, training supplies, equipment including even small accessories; outflow of teaching staff; and lack of relevant training programs. The salaries of university professors, as well as other teachers, are low, and even these have been paid with delays. Many teachers have left their jobs in search for new employment in the private sector.

33. Education and health facilities are managed by the local government authorities, but they lack adequate funds to provide high level services. Thus, local authorities are not able to finance adequate education and health services and maintain historically high levels of performance indicators. Besides the low level of spending, there are also problems caused by the deviation of actual expenditures from those planned in the government budget.

34. Barriers for access to education exist on both demand and supply sides. Children do not attend school because of the low quality of education, because of problems at home, or generally because of poverty. Poor families are less likely to enroll their children in schools than other families. However, about 97 percent of eligible children attend primary schools according to the school statistics, and about 85 percent attend secondary schools. Although these figures are still high, they are significantly lower than in the past.

35. The perception that education has become meaningless, especially at the secondary level, is directly related to the very limited labor market opportunities, and irrelevance of the current school curricula in meeting the demands of a modern labor market. Furthermore, due to the destruction of many school buildings during the civil war and lack of funds necessary for maintenance of school buildings, many schools, especially in rural areas, are currently inoperational.

36. In the health sector, the gap between budgeted and actual costs is widening. At the same time, while there is an oversupply of facilities, beds and personnel, there is lack of medical equipment, supplies and medicines. This suggests ample room for efficiency gains. Another problem is low salaries of health workers, less than half of the average wage in other sectors.

37. In sum, there has been not only a serious decline in budgetary allocations for health care, but also, funds allocated have not been used optimally. Access to health care for the poor is a major problem, especially as cost recovery schemes have been introduced and privatization has expanded.

C. Institutional Problems

38. Since independence, Tajikistan has made significant progress toward a market economy, and a number of functions earlier fulfilled by the state are now given to the private sector. Nevertheless, limited progress has been made in reforming the government

structure and institutions. There is duplication of functions among different ministries and state institutions. Meanwhile, their role in policy making is limited. Perspectives, organizational structures, staff distribution, and experience of ministries and local authorities continue to reflect old legacies. Interrelation and distribution of responsibilities between central and local authorities still needs to be improved. The judicial systems also need to be strengthened.

V. MAIN PRINCIPLES OF THE POVERTY REDUCTION STRATEGY

39. In its poverty reduction strategy, the government will rely on the following key principles: encouragement of export-led and labor intensive growth; sufficient provision of basic social services; targeted income support to the poorest; and efficient governance and increased security.

40. Economic growth is the principal mechanism for providing the future generations with opportunities to find adequate employment and reach higher living standards. To this end the government will conduct sound macroeconomic policies; promote enterprise restructuring and private sector development with priority in agriculture; encourage financial sector development; improve telecommunication and other infrastructure; and rehabilitate energy and transport sectors. A higher per capita income growth will be based on private sector initiative. Therefore, the government will support radical enterprise restructuring and create a favorable environment for the development of the private sector. It will improve the utilization of resources in the public sector while redirecting expenditures so that they will benefit the poor.

41. The country's comparative advantage is in its agricultural sector with abundant water resources, favorable climatic conditions for crop production and live-stock farming, and a cheap labor force. Restructuring the agricultural sector is a priority for poverty reduction as poorest families live in rural areas. Since land resources are limited, increase in farm productivity is a key. Agricultural restructuring will therefore focus on the development of private farming which has proved to yield the highest productivity and best distribution of income.

42. Due to the lack of capital and excess labor resources (true unemployment is estimated at 33 percent) the government will implement policies to encourage labor-intensive growth. The government will analyze, and if necessary revise, the legislation and rules regulating the labor market. Labor market policies and social insurance programs will be developed with a view to creating a flexible labor market. Training programs consistent with current needs will continue to be implemented and focused specifically on training and retraining people dismissed as a result of privatization and structural adjustment.

43. The government will also take measures to create a competitive banking system, to ensure a stable environment for the provision of financial services to the population and enterprises. In addition, it will implement policies to encourage the development of

telecommunication and other infrastructure sectors to increase competitiveness in the context of global trade to maximize growth and the development of highest value added goods for exports. The government recognizes that emerging internet technologies are essential for Tajikistan, especially for the younger generations and for teaching in schools.

44. Provision of basic social services is the second key direction of the proposed strategy. The poor need to be provided with adequate human capital to be in a position to utilize new opportunities. The availability of basic services in the areas of education and health, as well as their high quality, are not only a human right but also a substantial poverty alleviation factor. The government will seek to update the quality and level of education, as well as the quality of health care provided to the poor. The income support element of the proposed strategy on poverty alleviation aims at providing targeted assistance to the poorest, i.e. people experiencing utmost difficulties or needs. Such category includes children and the elderly.

45. Poverty reduction requires also better governance supported by stronger institutions both in the public and private sectors. These institutions must work in a transparent and accountable manner, and be available for the whole population, including the poor. The government intends to implement institutional reforms with the purpose to efficiently provide public services. To improve planning, transparency, and efficiency in public expenditures, a medium-term fiscal framework (MTFF) will be introduced. A related component of the proposed poverty alleviation strategy is to ensure a safe and efficiently managed security mechanisms so that people can live and take care of themselves in a safe physical environment.

VI. KEY POLICY ACTIONS OF THE POVERTY REDUCTION STRATEGY

46. Rapid growth is the main instrument for material improvement of the living standards. There is a strong relationship between macroeconomic stability and growth. The government, in consultation with the IMF, has drafted a macroeconomic framework for the next three years projecting that the economy will grow at the rate of 5-6 percent that period. This framework is supported by overall structural reforms, including reforms in trade, fiscal, and financial systems, agriculture, and in the delivery of public services. Under the framework, enterprise privatization will be emphasized as essential for growth and higher efficiency, and measures will be taken to strengthen institutional and legislative environment, and to encourage foreign and domestic investments. New measures will also be developed to strengthen the social safety net. The reforms and measures aimed indirectly and directly at poverty reduction are summarized in the attached Policy Matrix (Annex I).

A. Macroeconomic Framework for 2000-2003

47. Sustainable economic growth can only be achieved in a stable macroeconomic environment which is one of the key conditions for attracting local and foreign investors.

Accordingly, the following macroeconomic targets are set for 2001-2003 (Annex II): (i) increase real GDP growth to at least 5 percent annually; (ii) reduce inflation to 7 percent annually; and (iii) increase official international reserves to three months of imports. In order to meet the inflation and foreign reserve targets, our strategy is based on reasonably tight fiscal and monetary policies. A low inflation rate and implementation of extensive structural reforms will support growth especially in agriculture, where Tajikistan has a comparative advantage and low labor costs. The latter will also support industrial production which has a substantial potential to increase productivity. Growth opportunities exist elsewhere as well, in particular in power and mining sectors.

48. Monetary and exchange rate policies will be directed to support the balance of payments and contain inflation. A stable monetary policy will help increasing domestic savings and investments. Velocity of the money stock is projected to decline by 5-6 percent a year, as low inflation strengthens confidence in the national currency. With a view to strengthening policy implementation, the NBT will improve short-term liquidity management, and increasingly rely on indirect monetary policy instruments. The NBT will not issue directed credits to the economy, including to the cotton sector and infrastructure. As soon as the secondary treasury bill market has developed, short-term financing will also be carried out through a Lombard facility.

49. The government and the NBT will pursue a flexible exchange rate policy without using either formal or informal restrictions on foreign exchange transactions. Since wages in U.S. dollars are still quite low, some projected appreciation of the real exchange rate over the medium term should be consistent with maintaining competitiveness.

50. Fiscal policy will be a critical element in our macroeconomic strategy. Budget revenue should increase from 14 percent of GDP in 2000 to almost 16 percent in 2003, mainly resulting from improvement in tax administration. This, in turn, will allow public expenditures to grow in real terms, and imply a further reduction in the fiscal deficit. The latter reflects the need to avoid inflationary budget financing, restrain domestic demand in order to improve the external balance, and provide room for expansion of the private sector. The financing of the deficit will be from external loans, treasury bills, and privatization proceeds.

51. Social sector expenditures will consist of two main components. First, the basic social budget will cover health care, education, pension provision and the revised cash compensation system. Around 42 percent of the total expenditures will be allocated for these purposes in 2001 (6.3 percent of the GDP). The second component will consist of special transfers for implementation of the poverty reduction programs. This component will amount to 14 billion TR (0.7 percent of the GDP) in 2001. These resources will be mainly used for investments in health care, education and other social services. Other expenditures will be constrained. However, a new Public Investment Program (PIP) will be prepared for the prospective Consultative Group Meeting in Spring 2001 to attract foreign financing. The priorities of the PIP will reflect the Poverty Reduction Strategy.

B. Labor Market and Private Sector Development

52. The government strategy will aim at growth with intensive use of labor resources. Small-scale agricultural processing and labor-intensive services will play an important role. Developing a labor market which is conducive for job creation and provides incentives for growth and expansion of private sector activities is one of the key components of the strategy.

53. These goals suggest drafting a new law on employment, including clear regulations on labor contracts. Observance of legal norms by all participants, as well as effective court procedures, are important. In the short-term, priority will be given to timely payment of salaries and reduction of government overstaffing.

54. To improve entrepreneurial skills and support new private business initiatives, the government will establish small and easily accessible private business centers to provide initial training, consultations, and monitoring of private business development. One policy direction will be to channel part of public work programs through private businesses. In this respect, the role of private business centers could become quite important.

55. The government intends to strengthen the privatization process by:

- submitting large share holdings to private owners with full control over enterprises, with preference given to experienced strategic investors. This can attract new investments and know-how in privatized enterprises;
- switching to evaluation of enterprise value on the basis of cash flows. For privatizing large-scale enterprises, the government will hire consulting firms;
- introducing procedures to evaluate the solvency of privatization participants and ensure observance of regulations on advance deposits with the purpose of reducing nonpayments by winners of privatization tenders/auctions.

56. With a view to improve economic incentives, the government intends to:

- stop the practice of tax offsets and the use of directed credits, as well as prohibit barter transactions;
- prevent budget arrears on wages and pensions, and accumulation of deferred payments to state owned enterprises, including energy and gas enterprises;
- continue improving the legal framework necessary for development of the private sector by simplifying registration and licensing procedures and reducing room for abuse. In particular, the government will ensure that government agencies will not interfere in the operations of the new private companies;

- adopt a more effective antimonopoly law and establish an independent antimonopoly agency;
- take measures to eliminate infrastructure-based obstacles to interregional and international competition through reforming the state sectoral committees and corporations controlling access to wholesale and distribution networks;
- deregulate and stimulate investments in road construction, telecommunication, road and air transport;
- improve public awareness about the activities of the government;
- take measures to eliminate regional fragmentation of markets, which hinders consolidation and economies of scale effect;
- strengthen public confidence in the financial system through supporting competition in the banking sector.

57. With a view to improving corporate and public sector governance, the government intends to undertake the following:

- prepare a plan to make corporate governance consistent with best international practices;
- introduce an effective system of containment and counterbalances for management of corporations with the help of external agents, such as banks and other creditors;
- introduce a requirement to conduct annual independent audits of financial statements for every corporation;
- develop a stock exchange and a state agency on supervision of securities' operations;
- develop bankruptcy procedures and realization of creditor rights;
- use the current official legal framework for effecting bankruptcy cases;
- develop an economic court system, which will be responsible for consideration of bankruptcy cases and other commercial issues;
- monitor and evaluate social policies by setting up a relevant unit at the Ministry of Labor and Employment and the Labor Research Institute.

C. Reforms in Agriculture

58. Since the majority of the poor population live in rural areas, the reduction of poverty requires acceleration of restructuring in agriculture, transfer of state agricultural

assets into private hands, and encouragement of initiatives and investments in the rural infrastructure. The starting point of the rural pro-poor strategy is to recognize that resource costs in the economy in general and in agriculture in particular have completely changed over the last 10 years.

59. Establishment of by-laws and the institutional framework will include:

- amending procedures and institutional arrangements at the national and district levels with the purpose to ensure fair and well-organized transfer of land and other assets of agricultural farms to individuals or groups of individuals;
- introducing a simple and cheap system of land registration, and reducing costs associated with getting land use certificate to an affordable level;
- drafting relevant rules, regulations, registration requirements and membership criteria, on the basis of which agricultural credit and savings associations can be established;
- drafting legislation on water resources, envisaging establishment and functioning of independent and autonomous water supply and water distribution organizations, as well as water-users associations;
- ensuring transparency in the pricing process within the state procurement arrangements;
- keeping raw-cotton producers informed about market developments;
- supporting competition in cotton ginning and trading;
- drafting and introducing mechanisms of gradual cost recovery on operating costs, maintenance work and repairs of the irrigation and drainage infrastructure;
- establishing a logistical and technical base for land and water resource management.

D. Education and Health Reforms

60. To ensure that sustainable growth increases people's living standards, the government will encourage human capital building by developing and implementing comprehensive and integrated strategies for health and education sectors. So far, the problem of deteriorated access to education has been addressed primarily through expanding the supply of services. Now it is important to focus on educating the poorest groups of the population, in particular those who no longer attend school. For this purpose the government will:

- continue to play a key role in financing the sector, in particular, to ensure the fairness of educational services. In addition, it is necessary to increase the efficiency of resources used;
- make sufficient funds available in the education budget for basic educational materials;
- continue to rehabilitate physical infrastructure, as well as increase funds for teachers' salaries;
- where necessary, cut down the number of staff, and increase student-teacher ratios.

61. Specific measures targeted at the poorest groups of the population will include the provision of free basic education materials; introduction of clear and explicit rules for charging student fee; to reduce the adverse impact of informal charges; introduction of targeted financial support for students based on needs and performance; introduction of impartial entry exams for higher educational establishments; as well as creation of kindergartens relying on the capacity of communities to mobilize community and parent contributions for inexpensive educational programs. Measures will also be taken to reduce divergence between urban and rural areas in access to high quality education.

62. The Ministry of Education will develop methods for monitoring and analyzing various sets of measures, for planning the education system development, and for controlling the enrollment and school attendance. Finally, the structure of the secondary education system will be analyzed with the purpose to adapt it to current demands of the labor market, and to introduce measures to improve the quality of secondary education.

63. The poorest groups including children and women at reproductive age of the population apply for primary medical treatment. Therefore, the principal direction in the reform of the health sector will be to channel resources towards basic health care. Another objective will be to improve the quality of primary medical services at the community level.

64. New approaches to state budget financing of the health sector will be introduced. Furthermore, the government will give the highest priority to raising the level and efficiency of health care expenditures. Measures will be taken in accordance with the Health Strategy Paper which deals with all the aspects of health care in Tajikistan over the medium and long-term.

E. Cash Compensation and Pension System Reforms

65. The main task in reforming the cash compensation system is to create an effective and realistic system. The new system will aim at providing support to the poorest groups of the population. Simplicity in addition to feasibility and transparent monitoring and control mechanisms will be the key criteria. The system will be based on allocating the compensations to the poorest through the secondary school system and parent-teacher

associations, with the direct participation and supervision of the central authorities. Children between age 6-15 from the 20 percent poorest families will be selected as beneficiaries. The coverage would be about 280,000 children. The list will also include children not enrolled in the secondary schools because of poverty (lack of clothes, shoes, textbooks etc.). School attendance would therefore be encouraged. The government plans to test the above-mentioned system in two pilot rayons and based on the experience gained, to implement it throughout the country starting 2001.

66. Improvements in the pension system will be based on the gradual implementation of “funded” schemes, taking into account guaranteed state pension provision for the elderly. Necessary legal documents will be drafted for this purpose. In the short term, it is important to ensure financing of the budgeted expenditures for adjustments in old-age social pensions.

F. Institutional Reforms

67. Restructuring state administration and improving the delivery of public services necessitate institutional reforms. The legal system will be reformed to improve transparency and reduce possibilities of subjective decisions. Work will continue to strengthen the judiciary by increasing salaries, as well as by improving working conditions and training programs for the judges. The flow of information available for the courts will be increased, and educational campaigns will be conducted to inform people of their rights and responsibilities under the law. The Ministry of Interior’s capacity to fight organized crime will be strengthened and cases of corruption will be made public.

G. Measures to Strengthen Public Expenditure Management

68. Implementation of the poverty reduction strategy will require elimination of shortcomings in the planning and management of public expenditures. Measures to be taken by the government to accomplish this goal include the following: (i) introduction of the strategic approach to determine priority public expenditures; (ii) adoption of a three-year rolling period to program public expenditures and their reform in a medium-term context; (iii) preparation of the investment and current budget in an integrated manner; (iv) refocusing budget management towards achieving results rather than merely using the allocated resources. This requires improvement in monitoring and control of public expenditures, so as to ensure that the resources have reached those who were targeted.

69. The government is also implementing measures to improve budget execution. The key measures include: (i) strengthening of treasury operations so as to ensure timely disbursements and improve reporting and control of expenditures; (ii) full recording of the expenditures under projects financed through external sources; and (iii) better reporting by the local governments of the services that they render.

70. The government has started implementation of the above measures through the introduction of a Medium-Term Financial Framework (MTFF) and other initiatives to

strengthen procedures for budget execution. This framework will ensure that sector policy and public expenditures are being executed taking into account not only the poverty reduction strategy, but also the constraints set by the macroeconomic framework. Preparation of the MTFP for 2001-2005 has started, and will be completed in the beginning of 2001. Our preliminary MTFP is presented in Annex V. Preparation of the full-fledged PRSP will be closely linked with the preparation of the MTFP. The poverty reduction measures of the PRSP will be reflected in a more specific MTFP, thereby ensuring an interrelationship between the government poverty reduction strategy and planned expenditures.

VII. PARTICIPATORY APPROACH AND PRSP PREPARATION SCHEDULE

71. The government will follow a public participation process during preparation, implementation and supervision of the PRSP (Annex III). For this process, the government will shortly come up with the list of organizations that ministries consider important in their respective spheres. After analyzing these submissions, the government will design clear-cut selection criteria for inclusion of participants in the preparation process to ensure wide and transparent representation. All national organizations and associations will need to analyze how they can contribute to reaching the objectives of the PRSP. They will be required to include a PRSP action plan in their own agenda in order to develop mutual understandings for implementation and monitoring.

72. Forms of consultations with the participants (to take place during the second half of 2000 and beyond), include, inter alia, interviews, seminars and conferences. In order to ensure that participants will be fully a part of the process, the government will continue its public information campaign to increase knowledge about the PRSP. The participatory process for the PRSP will reach its highest point at a national seminar prior to completion and approval of the PRSP in June 2001. The government intends to specifically focus on information sharing and consultations with foreign donors. In this context, a round table will be organized to address problems in health care, education and social protection in the context of the poverty reduction strategy. Mid-term budget reviews will provide access to all information for the donors regarding the expenditure forecasts and priorities of the government. The government intends to use this mechanism to have comprehensive consultations with the donors on the PRSP process.

VIII. MONITORING AND PROGRESS INDICATORS

73. The Presidential Working Group set up to develop the PRSP will report to the president and the government and will be responsible for the day-to-day management and monitoring of the poverty reduction strategy. Sector Working Groups will be responsible for the development of policies and measures within the limits of the state budget for the sector.

74. The government will take measures to improve mechanisms for regular and timely collection, analysis, and publication of data required to monitor various social

indicators. As mentioned earlier, in cooperation with the World Bank, the government has already conducted a poverty assessment, based on a survey of household living standards. Assisted by the World Bank and the Asian Development Bank, the government will continue to work on reviewing incomes and expenditures of the households. The results of all surveys will be published and the government is committed to consult with all the participants regarding the results. Mechanisms will be designed in order to collect data on some of the selected sector indicators (e.g., drop out and graduation rates in education, and incidence of infectious diseases).

75. In order to collect more information about the health status and nourishment level of children, the government, supported by the UN, will carry out a Multiple Indicator Review. The government will also start collecting a number of indicators required for assessing progress in social development, including indicators for health care, nourishment, education, and access to main social services and utilities. Such indicators will include average life expectancy at birth, immunization rate, mortality rate among the newborns and children under 5 years of age, maternal mortality, percentage of students enrolled in primary and secondary education, drop-out and graduation rates, access to safe water and treatment facilities, and other social development indicators. These indicators will be collected and published yearly.

76. In addition to data requirements, a comprehensive survey is required to grasp deeper understanding on the nature and reasons of poverty, and subsequently assess the effectiveness of the different policy measures. The capacities to conduct such an analysis in Tajikistan need to be strengthened and the government is considering the creation of a center responsible for the analysis and monitoring of the poverty as a branch of the State Statistical Agency. A first task of the Center would be to draw out a poverty map based on available data, and to develop an action plan for subsequent data collection and analysis.

77. The government is using a minimum monthly consumption basket of 20,000 TR as a poverty line. According to benchmark, TR 527 billion, more income per year (or 40 percent of the GDP), would be needed in order to bring people out of poverty. The cost of eliminating severe poverty using a poverty line of just TR 10,000 per month would require TR 75 billion a year, equivalent to 5.5 percent of GDP. Eliminating extreme poverty below a poverty line of (TR, 7557) would require TR 27 billion a year, equivalent to 2 percent of GDP.

78. In contrast, total public expenditures for social sectors amounted to just 5.3 percent of the GDP in 1999, including 2.1 percent of GDP allocated for education, one percent of GDP for health care and 0.1 percent of GDP for social protection. Therefore, elimination of the extreme poverty would theoretically require a significant increase (20 times) in the current level of public expenditures for social protection. This is a daunting task given the current state of the economy.

IX. FOREIGN AID

79. Tajikistan has accumulated a large stock of external debt, amounting roughly to 100 percent of GDP at the end of 1999. Taking into account this fact, the government is committed to strictly limit any increase in its external debt. Accordingly, the external current account deficit will be reduced to less than 6 percent of GDP in 2003. Financing of this deficit will require long-term assistance from foreign donors, including grants, as well as concessional or close to concessional lending equivalent to more than US\$110 million a year during 2000-2003. The government is committed to collaborate with the donors about the issuance and effective use of these resources. Debt servicing is expected to remain at a reasonable level of less than 15 percent of exports, while the stock of foreign debt should progressively decline in percent of GDP. In order to improve the capacity of the economy to cope with unfavorable external challenges, financial policies will aim at reaching and maintaining gross international reserves of the National Bank at the level equivalent to three months of imports. The government will limit its issuance of guarantees only to few policy-based lending by multilateral institutions.

80. The government, with assistance of the international financial institutions will seek ways to significantly reduce the debt burden, thereby freeing budget resources for the financing of poverty reduction. In order to fulfill the objectives of this poverty reduction strategy, the government is appealing for the support of the international financial organizations and the donor community in the form of grants, technical assistance, as well as program and project financing on concessional terms. It looks forward to further specify the support needed in the context of the prospective third Consultative Group Meetings in Spring 2001.

Tajikistan: Policy Matrix, 2000-2003

Structural Policy Measures	Timing
A. Fiscal policy and Institutions	
1. Phase out the sales taxes for cotton and aluminum.	2001-2002
2. Review excise taxes with a view to improve revenue performance	2001
3. Streamline and prioritize the Public Investment Program	2000
4. Increase the share of social spending in the 2001 budget	2001
5. Ensure timely payment of government wages, and pensions	Continuous
6. Improve tax administration by:	
(i) strengthening Large Taxpayers Inspectorate;	2000-2001
(ii) increasing use of asset seizure and the bankruptcy law to enforce tax payments;	2000-2001
(iii) implementing the VAT reform, including staff training;	2000-2001
(iv) completing the computerization of the STC; and	2000-2001
(v) eliminating automatic taxation through banks' settlement accounts for all enterprises.	2000
B. Social spending	
1. Implement a program of providing allowances to the poorest 20 percent school children based on community targeting.	2001
2. For the health sector:	
(i) rehabilitate 200 health facilities in the rural area	2000-2003
(ii) implement a comprehensive program of health service reform in 8 pilot districts;	2001-2002
(iii) reform the health sector to channel resources to improve primary health care	2002
3. For the education sectors	
(i) rehabilitate 220 schools.	2000-2001
(ii) retrain 10,000 teachers in active learning methods.	2001
(iii) provide basic education materials free of charge to the poor.	2002
(iv) introduce clear and explicit rules for student fees, with financial support for poor students based on needs and performance.	2002
(v) reform the secondary school system to improve its quality and adaptability to the needs of the market economy.	2000-2003
4. Rehabilitate the pension system by:	
(i) increasing the age for pension eligibility by 6 months each year;	2000-2003
(ii) freezing working pensioners' benefits;	2001-2002
(iii) developing a detailed plan and strategy for pension reform that includes the introduction of individual retirement accounts; and	2001
C. Governance reform	
1. Complete the treasury reform by:	2001
(i) setting up regional treasuries in the remaining 6 rayons subject to availability of banking facilities;	2000
(ii) extending treasury coverage of payments to all central and local government transactions; and	2000
(iii) completing preparation of a detailed treasury instruction manual	2001
2. Submit to Parliament a new law on public finances.	2001
3. Eliminate tax offset mechanism in state debt service to Uzbekistan through Tajik Rail.	2000
4. Publish fourth quarter budget execution, MTFE, and PIP documents.	2001

Tajikistan: Policy Matrix, 2000-2003

Structural Policy Measures	Timing
5. Establish an independent external audit agency.	2001
6. Introduce a "black book" mechanism for private enterprises.	2000
7. Finalize a plan for judicial reform.	2000
8. Complete the public procurement reform.	2001
D. Financial sector reform.	
1. Introduce repos and reverse repos and introduce Lombard facility.	2000
2. Phase out NBT credit auctions.	2001
3. Implement bank restructuring programs for Agroinvestbank, Savings Bank, Vneshekonombank, and Orionbank (see Annex II).	2000-2001
4. Conduct annual audits of the NBT by an internationally reputable firm.	2000-2003
5. Publish the audited financial statements for the commercial banks and the NBT.	2000-2003
6. Increase gradually, and strictly enforce, minimum capital requirements for banks to US\$3 million	2002
E. Privatization	
1. Privatize(full payment received) medium and large scale enterprises cumulatively since January 1, 1998 as follows: 280 sale contracts with 250 full payments; 340 sale contracts with 310 full payments.	End- 2000 Mid-2001
F. Private sector environment	
1. Start to develop TADAZ in accordance with the restructuring plan agreed with IFC.	2001
2. Identify state-owned enterprises responsible for most tax and interenterprise arrears and develop their restructuring plans.	2000-2001
3. Establish small and easily accessible private business centers	2001-2003
4. Prepare a plan to make corporate governance consistent with best international practices	2002
G. Land reform	
1. Establish a land registry system in the State Committee for Land Resources (SCLR) and ensure that: (i) requirements that newly created farms register with other agencies or institutions are eliminated, and (ii) registration fees are kept to a minimum.	2001
2. Restructure state and collective farms by: (i) issuing land use and land share certificates, and (ii) registering the newly established farms with the land registry system as follows (cumulative since June 2000): Additional 60 farms since June 2000 Additional 120 farms during 2001	2000 2001
H. Agriculture	
1. Amend procedures and institutional arrangements to ensure fair transfer of land and agricultural assets to private sector 2000-2002	2000-2002
2. Begin rehabilitation of the irrigation system by developing a plan for improving cost recovery.	2001
3. Develop a rural credit system.	2000-2002
4. Establish a unit in the SCLR for supporting newly established private farms.	2000
5. Review the present system of taxing agricultural enterprises with the objective of introduction changes to make the system simpler and more equitable.	2001

Tajikistan: Policy Matrix, 2000-2003

Structural Policy Measures	Timing
6. Draft legislation for improved management and distribution of water resources	2002
I. Legal reform	
1. Enact a new Secured Transaction Law to improve contract enforcement.	2001
2. Amend the Bankruptcy Law to introduce specific liquidation mechanisms.	2001
3. Amend the Law on Collateral to provide for better enforcement.	2001
4. Develop a new Law on Employment consistent with incentives for growth and private sector development.	2002
J. Energy	
1. Approval of Energy and (Transport) Laws and completion of the reorganization of related ministries.	2000
2. Submit to ADB an action plan for full cost recovery for electricity use with the following targets:	2000
(i) Industry:	
75 percent cost-recovery	2001
100 percent cost-recovery	End-2002
(ii) Households:	
100 percent cost recovery	2005
3. Phase-out special electricity tariff for TADAZ:	2001-2002
4. Submit to ADB an action plan for reducing the accounts receivable of Barki Tajik and Tajikkumservice to an average of:	
6 months	2001
3 months	2002
5. Submit an action plan to ADB for corporatizing and commercializing Barki Tajik.	To be determined as part of Energy Sector Action Plan under preparation with ADB.
K. Telecom sector	
1. Develop and implement strategy for the reform of telecom sector, including regulatory framework, with a view of establishing competitive operating environment and attracting foreign investment.	2000-2001

Sources: Tajik authorities.

Macroeconomic Indicators, 1992-2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000 1/	2001 1/	2002 1/	2003 1/
GDP growth	- 29.0	- 11.0	- 18.9	- 12.5	- 4.4	1.7	5.3	3.7	5.0	5.0	6.0	6.0
Inflation CPI, (in percent e.o.p.)	1363.8	7343.7	1.1	2131.9	40.5	163.6	3.2	30.1	18.6	12.4	7.0	7.0
Consolidated budget (in percent of GDP)												
Revenues	35.2	37.2	56.0	17.5	13.1	13.7	12.0	13.5	14.0	14.5	15.0	15.5
Deficit (cash basis)	- 30.5	- 23.4	- 5.4	-11.9	- 5.8	- 3.3	- 3.8	- 3.1	-1.2	-0.6	0.1	0.3
Foreign trade and BoP												
Export (goods, in US\$ millions)	185	456	559	779	770	746	586	666	741	822	890	963
Import (goods, in US\$ millions)	240	639	686	838	786	809	731	693	787	859	917	993
Current account, BoP (in percent of GDP)	- 18.0	- 30.7	- 20.5	-14.6	-6.8	- 5.2	- 9.3	- 3.4	-5.7	-6.5	-5.6	-5.5
Gross reserves (in US\$ millions)	...	2	1	4	14	30	65	58	78	121	152	193
Exchange rate (e.o.p. TR/USD)												
Official exchange rate	415	1247	3550	288	334	747	977	1436	1990 2/	...	...	...
Monetary statistics												
Growth of ruble broad money	678.6	1483.9	115.9	318.5	139.6	2293.5	14.8	29.2	31.3 3/	...	...	...
Velocity of ruble broad money indicator	2.0	3.1	4.4	19.2	20.3	19.8	21.1	22.4	21.9 3/	...	...	...

1/ Projections.

2/ As of mid-September, 2000.

3/ End-June, 2000.

PUBLIC PARTICIPATION PLAN IN PRSP

The government will undertake the following steps in order to prepare for the process of public participation in the PRSP:

- Select a research institute to assist and support management of the PRSP process in cooperation with the local partners. These partners will carry out a comprehensive analysis of the participants and define mechanisms for the consultations.
- Conduct a seminar at national level to coordinate actions of the central government, line ministries, donors, and representative bodies regarding the PRSP process.
- Design explicit and transparent selection criteria for the participants.
- Develop institutional mechanisms for the participant collaboration in the PRSP, process including national seminars, focus groups and interviews, as well as public debates that could be implemented through mass media and letters.
- Initiate public information campaign to increase knowledge about the PRSP process among different groups of the civil society and communities, thus, increasing their capacity to clearly formulate their opinion in the context of the participating process.
- Staffing and training of local consultants, possibly university students who will be able to carry out consultations.
- Carry out consultations during the fall and winter 2000.
- In cooperation with partners, the research institute will evaluate and analyze information collected through consultation process and then integrate the conclusions into the PRSP.
- Conduct a seminar in June 2001 to discuss and approve the PRSP.

THE EFFECT OF ECONOMIC GROWTH ON POVERTY REDUCTION BY YEAR 2003

	2000	2001	2002	2003
GDP growth	5,0	5,0	5,0	5,0
(1) Poverty line =TR15,111 a month (USD 2,15 PPP a day, percent of poor)	65,4	62,0	57,7	52,6
(2) Poverty line=TR7,557 a month (USD 1,075 PPP a day, percent of poor)	16,3	14,9	13,0	11,7

Tajikistan: Medium-Term Fiscal Framework for General Government, 1999 - 2005

	Actual		Medium-Term Fiscal Framework												
	1999		2000		2001		2002		2003		2004		2005		2000-2005
	In mln. of Tajik rubles	In percent of GDP	In mln. of Tajik rubles	In percent of GDP	In mln. of Tajik rubles	In percent of GDP	In mln. of Tajik rubles	In percent of GDP	In mln. of Tajik rubles	In percent of GDP	In mln. of Tajik rubles	In percent of GDP	In mln. of Tajik rubles	In percent of GDP	Real cumulative growth, in %
Total revenue	181,686	13.5	237,367	14.0	291,851	14.5	346,585	15.0	398,122	15.5	451,252	16.0	511,812	16.5	45.6
Total expenditures	223,625	16.6	257,720	15.2	303,051	15.1	344,995	14.9	390,851	15.2	415,642	14.7	467,372	15.1	22.5
General Administrative Services	27,852	2.1	35,028	2.1	38,676	1.9	42,039	1.8	45,887	1.8	50,474	1.8	55,522	1.8	7.0
Protection Services	39,723	3.0	45,886	2.7	54,357	2.7	62,510	2.7	66,784	2.6	70,641	2.5	77,705	2.5	14.3
Social Services	75,242	5.6	93,909	5.5	127,079	6.3	152,811	6.6	174,893	6.8	192,343	6.8	220,162	7.1	58.3
Economic Services	62,977	4.7	56,497	3.3	48,313	2.4	53,229	2.3	66,651	2.6	64,855	2.3	74,443	2.4	-11.0
Interest Payments	7,939	0.6	20,400	1.2	27,330	1.4	28,250	1.2	29,440	1.1	30,130	1.1	31,010	1.0	2.6
Other Services	9,892	0.7	6,000	0.4	7,295	0.4	6,156	0.3	7,197	0.3	7,199	0.3	8,529	0.3	-4.0
Fiscal Balance	-41,939	-3.1	-20,353	-1.2	-11,200	-0.6	1,590	0.1	7,271	0.3	35,610	1.3	44,440	1.4	...

Sources: Ministry of Finance of Tajikistan; and IMF staff projections.