TAJIKISTAN

Public Expenditure Review

Strategic Issues for the Medium-Term Reform Agenda (P172237)

December 2021

Macroeconomics, Trade and Investment Global Practice
Europe and Central Asia Region

WORLD BANK GROUP
Macroeconomics & Fiscal Management

Document of the World Bank

Confidential

GOVERNMENT FISCAL YEAR
January 1–December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of October 20, 2021

Currency Unit = Tajikistan Somoni (TJS)
US$1 = TJS 11.29

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

ADB	Asia Development Bank
CAB	Current Account Balance
CBA	Cost-Benefit Analysis
CIT	Corporate Income Tax
CIS	Commonwealth of Independent States
DSA	Debt Sustainability Analysis
EEU	Eurasian Economic Union
FDC	Funded Defined Contribution
FDI	Foreign Direct Investment
FEZ	Free Economic Zone
GBAO	Gorno-Badashkhan Oblast
GDP	Gross Domestic Product
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LIC	Low-Income Country
LMIC	Lower-Middle Income Country
MoEDT	Ministry of Economic Development and Trade
MoF	Ministry of Finance
NBT	National Bank of Tajikistan
NDC	Notional Defined Contribution
OECD	Organization for Economic Co-operation and Development
PCF	Per capita financing
PER	Public Expenditure Review
PFM	Public Financial Management
PIM	Public Investment Management
PIP	Public Investment Program
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
SCISPM	State Committee on Investment and State Property Management, Government of Tajikistan
SOE	State-Owned Enterprise

TSA	Treasury Single Account
UHC	Universal Health Coverage
VAT	Value Added Tax
WBG	World Bank Group

Vice President	Anna Bjerde
Country Directors	Lilia Burunciuc and Tatiana Proskuryakova
Country Managers	Jan-Peter Olters and Ozan Sevimli
Regional Director	Lalita Moorty
Practice Manager	Sandeep Mahajan
Lead Economist	Ivailo Izvorski
Task Team Leader	Gohar Gyulumyan

TABLE OF CONTENTS

Figures

Tables

Boxes

Acknowledgments

This report is part of the Tajikistan Public Expenditure Review led by Gohar Gyulumyan (Senior Economist and Task Team Leader, EECM1). Sarah Nankya Babirye (Program Assistant, GMTE2) and Idibek Rahimov (Temporary, ECCTJ) provided administrative support, and Nigina Alieva helped disseminate the report. In addition to this report, the team produced background papers on Tajikistan's tax system (G.P. Shukla, Consultant, EECM1), a cast study on the cost of air pollution in Tajikistan (Elena Strukova Golub, ET Consultant, SCAEN), a tax-gap analysis (Joey Raymond Ghaleb, Senior Public Sector Specialist, EECG1, Roel Dom, Young Professional, EMFTX and S. Mauricio Medinaceli, Consultant under the leadership and guidance of Raul Felix Junquera-Varela, Lead Public Sector Specialist, EECG1,) and a study on public investment management practices (Emmanuel F. Cuvillier, Resident Representative, MNCDZ). Sector-specific chapters were led by the following set of authors:

- *Addressing Macro-Fiscal Challenges*: Bakhrom Ziyaev (Economist, EECM1), Saumya Mitra (Consultant, EECM1), and Gohar Gyulumyan (Senior Economist, EECM1);
- *Attaining Sustainable Public Financial Management*: Moses Wasike (Lead Financial Management Specialist, EECG2), Gohar Gyulumyan (Senior Economist, EECM1) and Shuhrat Mirzoev (Consultant, EECM1) with contributions from Hassan Aliev (Senior Public Sector Specialist, EECG1), Dilshod Karimova (Procurement Specialist, EECRU) and Farid Talishli (Senior Economist, MCDDF, IMF);
- *Reforming Tax Policy and Administration for Sustainable and Inclusive Growth in Tajikistan*: Gohar Gyulumyan (Senior Economist, EECM1) and G.P. Shukla (Consultant, EECM1) with contributions from Bakhrom Ziyaev (Economist, EECM1);
- *Improving Efficiency of Public Investment Management*: Emmanuel F. Cuvillier (Resident Representative, MNCDZ), Pierre Prosper Messali (Senior Public Sector Specialist, EECG1) and Hassan Aliev (Senior Public Sector Specialist, EECG1) with contributions from Zuhro Qurbonova (Consultant, EECM1);
- *Improving Health*: Sven Neelsen (Economist, HHNGE), Kate Mandeville (Senior Health Specialist, HECHN) and Irina Postolovska (Senior Economist, HECHN);
- *Upgrading Education*: Shuhrat Mirzoev (Consultant, EECM1) with inputs from Hiroshi Saeki (Senior Economist, HECED) and Saodat Bazarova (Senior Education Specialist, HECED);
- *Reforming the Pension System*: Oleksiy A. Sluchynskyy (Senior Economist, HECHN) and Lidiia Tkachenko (Pension Policy Consultant, HECSP);
- *Improving Intergovernmental Fiscal Relations*: Galina Kurlyandskaya (Consultant, EECG1) and Saodat Sayfutdinova (Consultant, EECG1) with contributions from Iryna Shcherbyna (Senior Public Sector Specialist, EECG1).

The team is grateful to Lilia Burunciuc and Tatiana Proskuryakova (Regional Directors, ECCCA), Sandeep Mahajan (Practice Manager, GMTE2), Jan-Peter Olters and Ozan Sevimli (Country

Managers, ECCTJ), and Ivailo Izvorski (Lead Economist, EECM1) for their guidance and useful comments. The team is also thankful to Mona Prasad (Lead Economist, EECM2) and Evgenij Najdov (Senior Economist, EECDR) for peer reviewing the report at the concept-note stage, and Ralph Van Doorn (Senior Economist, EEAM2), Kai Kaiser (Senior Governance and Public Sector Specialist, EECG1), Ellen van de Poel (Senor Health Economist, HHNFG), Sachiko Kataoka (Senior Economist, HEAED) and Gonzalo Javier Reyes Hartley (Senior Social Protection Specialist, HSPGE) for reviewing the report at the decision-review stage.

The team would like to thank government officials from the Ministry of Finance, the Ministry of Economic Development and Trade, the Tax Committee and Customs Service, the State Committee on Investment and State Property Management, the Ministry of Education and Science, the Ministry of Health and Social Protection of the Population, the State Pension Fund of Tajikistan and other government agencies for their cooperation in conducting the analysis, and for the comments and suggestions provided on various sections of the draft report.

EXECUTIVE SUMMARY

Tajikistan has achieved rapid growth since the late 1990s, with its economy growing by an annual average of over 7 percent between 1998-2019, recovering from the devastation of the of the civil war. Economic growth has held up well even after the onset of the COVID crisis in early 2020 and is projected to increase to above 6 percent in 2021 from 4.5 percent last year. Growth has translated into gains on poverty reductions and several social indicators. Even so, GDP per capita in 2020 was only $860, substantially below the pre-independence income levels, and vastly insufficient to tackle the significant remaining development challenges.

Tajikistan's most valued asset is its human capital, but in a context of a young, fast-growing population whose economic potential is stymied by limited opportunity for the private sector. At 30 births per 1,000 people in 2019,[1] Tajikistan has the highest birth rate in the ECA region, with a mean age of population below 24 years. At present, it is a challenge to provide job opportunities, decent social assistance and meet the population's demands in healthcare, education, and other public services. Address population dynamics into more favorable and productive human capital requires higher and more efficient public spending on social services. It also calls for a more conducive environment for the private sector, so it can create opportunities for the country's young, rapidly expanding labor force.

The Rogun hydropower plant (HPP) offers another opportunity for Tajikistan to upgrade its economic potential based on its comparative advantage in a clean energy generation. It is expected that the plant, once completed, will eliminate the country's electricity shortage that constrains broader economic activity and depresses households' living standards. Over time, it will also produce surplus electricity whose exports to regional countries will provide Tajikistan with much-needed export and fiscal revenues. To meet these expectations and increase the returns to public investments in the Rogun HPP, complementary reforms would need to be implemented to secure fiscal sustainability, sharpen competition, enhance regulatory functions of public institutions, enhance rule of law and efficient functioning of the financial system to facilitate the dynamic development of the private sector.

In order for Tajikistan to achieve its development potential, effective management of the government's budget will be essential—in a setting in which fiscal space is highly constrained, fiscal and public debt risks are high, and the efficient and effectiveness of spending is generally low. Fiscal space has been compressed by the weak finances of state-owned enterprises (SOEs), substantial state aid with modest economic returns, and the very high government infrastructure spending that limits scope for outlays on health and social assistance. The large COVID-related spending since last year has only exacerbated the situation. Continued weaknesses in public financial management (PFM), including lax oversight of SOEs, the low credibility and predictability of budget plans, and inaccuracies in the application of public-sector accounting standards and budget classifications, *inter alia*, have contributed to mounting fiscal risks. The country's limited range of exports, high import dependency, and reliance on remittances

[1] World Bank. 2021. World Development Indicators

raises external risks, which are compounded by a public debt stock that is mostly denominated in foreign currency.

This Public Expenditure Review (PER) takes stock of the key fiscal challenges and proposes policy options to improve the sustainability, effectiveness, efficiency, transparency, and accountability of public finances. On sustainability, the PER's main recommendation is that the authorities start reducing the substantial fiscal incentives as they implement the new tax code to prevent loss of revenues. On the effectiveness and efficiency of government spending, the PER proposes options to strengthen PFM and public investment management to ensure citizens get better value for money with stronger results. The allocation of spending between capital outlays and expenditures on human capital needs to be rebalanced to ensure that human capital increases as the citizens' aspirations for plentiful and better paying jobs also increase, and to better safeguard against the consequences of climate change and environmental degradation whose effects fall disproportionately on the poor. The ultimate goal of the PER is to support the authorities in steadying fiscal policy to help rejuvenate the country's growth model, thereby raising living standards for all citizens.

A. Addressing Tajikistan's Macro-Fiscal Challenges

The COVID-19 pandemic interrupted Tajikistan's medium-term fiscal consolidation plans. The 2020 budget law envisaged reducing the 2020 fiscal deficit to 2 percent of GDP from 2.7 percent in 2019 but pandemic-related tax and spending measures in the context of weaker growth increased the deficit to 3.2 percent. Following substantial borrowing since 2015 to finance infrastructure spending and bail out two systemic banks, government debt rose to 50 percent of GDP by the end of 2020 from 27.4 percent in 2014.

Government revenues are higher than those of relevant comparators, providing valuable resources for the budget but also raising concerns about the tax burden for small- and medium-size enterprises. Tax revenues amounted to 20 percent of GDP in 2019-2020 compared with 16.8 percent in lower middle-income countries. The authorities are invited to reconsider their plans to raise further the tax burden to align it better with their development priorities of creating a more business friendly environment that ultimately generates more and better paying jobs.

Tajikistan's public spending increased from 28.5 percent of GDP in 2010 to 30.5 percent in 2018-20, mainly reflecting higher capital expenditures and public wages. The construction of Rogun hydropower plant (HPP) has been a major driver of expenditure growth. It will remain substantial till at least the end of this decade. According to the revised schedule,[2] completion of the project is estimated to require an additional $5.1 billion in construction costs[3] and funds for resettlement of people affected by the construction. Finding a solution to the construction of Rogun that does not squeeze government spending on health, education, social assistance and other infrastructure needs to be one of the most important priorities for the government.

[2] The revised schedule for completion of the Rogun HPP construction assumes sequenced public and private financing, consisting of a combination of state budget spending, grants, concessional loans, and commercial debt.
[3] Rogun Financing Options Study, World Bank, 2021

The targeted Social Assistance (TSA) program has evolved from a small pilot in two districts in 2011 into a government's flagship consolidated program of social assistance by 2020. Despite the progress, spending per person amounts to only about 5 somoni a month (about $0.47), making only a modest dent in reducing poverty. Increasing this transfer to 15 somoni a month ($1.4) is likely to lift above the poverty line about half of the people below the poverty line who receive targeted social assistance. The fiscal impact of such an increase is likely to amount to about 0.2 percent of GDP, a manageable increase with a large payoff.

High government debt represents one of Tajikistan's most important vulnerabilities the authorities face over the medium-term. As a result of the aggressive debt accumulation. driven in large part by government spending on the Rogun HPP, the country's level of debt distress shifted from moderate to high in 2017. Despite some debt reduction in the following years, the level of debt distress has remained unchanged. The latest DSA from 2021 suggests that the country's sovereign debt is most vulnerable to exports shocks and contingent liabilities. One external debt-burden (debt service-to-exports ratio) indicators breach the respective threshold under the baseline scenario but falls below the threshold in 2028. Debt is assessed to be sustainable based on the authorities' commitment to fiscal consolidation measures of around 2 percent of GDP in 2021-22 and avoidance of non-concessional borrowing. In case fiscal adjustment falls short or the authorities resort to non-concessional borrowing, the debt path may deteriorate, putting debt sustainability under further pressure. A more severe or prolonged COVID-19 shock could heighten debt vulnerabilities. On the other hand, greater-than-expected progress with economic diversification or higher energy and non-energy exports would improve debt sustainability over the longer term.

Prospects for healthy public finances with adequate room for expenditures on human capital crucially depend on the country's economic prospects. The economic outlook, in turn, hinges on the availability and efficacy of vaccines, the pace of vaccination in Tajikistan, and the resiliency of the global economy. Considering the recent announcement of the G7 countries' donation of 1 billion vaccines during the following year, it is expected that Tajikistan will receive additional doses of vaccines over the coming months. However, the timeline of such deliveries to Tajikistan has yet to be confirmed, and it is unlikely that a large proportion of the population at the level envisioned in the NDVP will be reached before the second quarter of 2022.

Structural challenges, including economic losses stemming from inefficient SOEs and challenges in the business environment, continue to weigh on Tajikistan's future development. With a few exceptions, most large SOEs are loss-making, and dividends from the SOEs to the state budget are trivial. Moreover, SOEs benefit from substantial state aid in the form of tax incentives, direct or indirect subsidies for loan repayments, arrear clearance, and tax write-off. The preferential treatment of state entities distorts the level playing field and efficient allocation of resources in the economy.

Tajikistan has been making progress in improving the business environment, but more effort is needed to achieve notable outcomes. The private sector faces challenges in receiving essential public services. The protection of property rights, the rule of law, and corruption require the utmost attention to foster private sector development.

Reducing the risk of debt distress while creating the budgetary space to finance investment in human capital and stepped-up social assistance needs to be a priority for the government fiscal policy. The authorities are advised to advance gradual fiscal consolidation over the medium term, refrain from non-concessional borrowing, and consider additional measures to help ameliorate other potential fiscal risks.

B. Improving Public Financial Management

Improved effectiveness and efficiency of spending requires strengthened public financial management (PFM).[4] The main areas of improvement include better budget planning, sustained treasury and accounting reforms, improvements in public procurement, and measures to mitigate fiscal risks.

The latest 2017 PEFA assessment reveals modest progress in the PFM system in Tajikistan. Progress was recorded on the predictability and control in budget execution, accounting, recording and reporting, and external scrutiny and audit. On the other hand, credibility of the budget and comprehensiveness and transparency of public finances deteriorated in comparison with the 2012 PEFA assessment.

There are several areas that need the government's attention. Among these:

- Budget planning could be strengthened to enhance the credibility of public spending and increase overall fiscal discipline. This refers to both the poor quality of revenue forecasting and the significant level of deviation of expenditure outturns from approved plans. It is also important to strengthen coordination between the MoF, the NBT, MoEDT and other relevant ministries to ensure that budget parameters are based on a solid and consistent macro-framework.

- Treasury and accounting reform should continue, building on achieved progress to date. The Ministry of Finance has made considerable progress in strengthening its treasury system and adopting national accounting standards, based on the International Public Sector Accounting Standards (IPSAS).

- Building on existing momentum, the public procurement system should be further strengthened. The government has strongly supported modernization of its public procurement system, which culminated in the roll out of e-procurement system and framework in 2019. The electronic procurement portal, IT-based business processes, and capacities of the Agency for State Procurement of Goods, Works and Services were strengthened. In the meantime, adoption of new public procurement legislation has been delayed and further effort is required to strengthen integration of the e-procurement system with the TFMIS and tax administration.

- Fiscal risks remain untenably high in Tajikistan and should be addressed**.** The SOEs are numerous and have benefitted from substantial state aid, including publicly guaranteed

[4] The GRID paper, *op. cit.* Also, *Investing in Human Capital for a Resilient Recovery: The Role of Public Finance* (World Bank, 2021). This section draws on these two documents.

borrowing, subsidies and bailouts. The Ministry of Finance has taken important steps towards better managing fiscal risks, including the adoption of a mid-term Fiscal Risk Management Strategy, strengthening of oversight and monitoring functions of large SOEs, and publishing audited financial reports of a number of SOEs. The government should continue building on these good practices by progressively expanding oversight and monitoring coverage, adoption of International Financial Reporting Standards (IFRS) across all public interest entities, operationalization of the draft methodology for fiscal risk assessment of large SOEs and improve SOE legislation.

The government continues strengthening its audit framework and practices, but challenges remain. Independent audit methodologies and capacities continue to be strengthened, although more effort is required to expand coverage to all government ministries and departments. The Chamber of Accounts has progressed in terms of improving its systems and processes and has in the past ten years evolved into a potentially well-functioning supreme audit institution. Those efforts require to be complemented by updated legislation, mandate and scope of operations in order to improve its independence and effectiveness.

The PER suggests important steps and reform directions to enhance the upstream and downstream elements of the PFM system. As a first step, the report suggests strengthening the linkage between policy planning and budgeting, enhancing the credibility of budget planning by adopting technically sound forecasting tools and following the updated GFSM standards in budget classification and recording practices. The authorities are also invited to consider policies to strengthen fiscal risk management by operationalizing the new fiscal risk assessment methodology in the monitoring of large SOEs, reforming the procurement system, and improving the performance monitoring and evaluation of PFM reforms.

C. Reforming Tax Policy and Tax Administration

Tajikistan's tax take relative to GDP is higher than most relevant comparators, but the challenge is to strike a balance between the level and efficiency of tax collection and ensuring investment-friendly business environment. The tax revenue to GDP ratio grew from 13 percent of GDP in the early 2000s to above 20 percent of GDP in 2019. While domestic revenue mobilization is an important priority for ensuring adequate funding of national development plans, how much and in what fashion the authorities raise the needed revenues should not place an undue burden on enterprises, especially the small- and medium-sized ones.

The key challenges confronting the tax system in Tajikistan are numerous, but tax exemptions that amount to about 9 percent of GDP are one of the most important ones. Other challenges include: (ii) inadequate taxation of excisable goods and public "bads" which could shift the burden of taxation from labor and capital income to consumption and production of sin goods; (iii) weak progressivity of income taxation which leads to equity concerns and distributional effects of the fiscal policy; (iv) inefficient VAT refund system and restrictive provisions for loss carryforward provision which creates obstacles for export expansion and investment attraction; (v) inadequate emphases on encouraging taxpayers' voluntary compliance and excessive reliance on inspections and audits to ensure tax collection; and (vi) insufficient geographic and sectoral coverage of e-services provided by the tax authorities, including electronic processing of declarations and electronic invoicing.

The Tajik government has prepared fundamental revisions to the Tax Code that aim at streamlining tax policy, simplifying the tax administration, and reducing the compliance cost for taxpayers. Further, the envisaged amendments strive to eliminate contradictions and provisions for dual interpretation, reduce the number of taxes and streamline tax regimes, and increase the transparency of the tax system. The draft Tax Code also establishes new requirements for granting tax exemptions and eliminating some of the existing tax exemptions. The challenge for the authorities when implementing the tax code is in ensuring revenue neutrality.

Tax policy reforms for the medium-term may focus on further simplification and improved progressivity. As almost half of tax revenues are accounted for by the value-added tax (VAT) in Tajikistan, the design and administration of this tax instrument should receive a priority attention. It will be essential to revamp the current VAT refund system, introduce zero-rated VAT for all exports, and allow taxpayers below the VAT threshold to voluntarily register and move from the special tax regime to VAT. Another important direction for tax reforms includes the gradual elimination of tax exemptions, which could help broaden the tax base and create the opportunity for lower tax rates. The authorities may consider streamlining the multiple tax rate practice for the CIT and VAT and establishing single rates for all businesses.

Improved tax administration would be key to further encourage voluntary compliance by taxpayers and, thus, reduce the administrative burden on businesses while ensuring adequate fiscal revenues. Key reform directions should focus on raising taxpayer awareness of the tax legislation, streamlining tax calculation procedures, enhancing the level of competence of tax authorities, simplify tax rules and instructions and implementing a compliance risk management program. Revisiting the modus operandi at tax administration by enhancing analytical skills, reducing the number of inspections, focusing audits on key taxpayer and economic sectors, improving taxpayer services, and increasing reliance of e-services would help to increase operational efficiency of tax administration and lower the tax compliance cost for taxpayers.

D. STRENGTHENING PUBLIC INVESTMENT MANAGEMENT

There is ample evidence about the growth-enhancing effects of effectively selected, appraised, and managed public investments. In addition to its direct effects on output, public investment raises the return on private investment and creates new opportunities to utilize private capital. Tajikistan's still large infrastructure challenges deter foreign and domestic private investment. More efficient public investment in transportation and communication, among others, would help connect people, businesses and markets and spur faster economic growth.

Public investment in Tajikistan amounts to about 13-15 percent of GDP—an extraordinarily high ratio by international standards. However, weak project selection and management combined with the enormous fiscal burden of the energy sector severely undermines its efficiency. Such large and inefficient investment spending crowds out other public outlays, including on health and social assistance. The government's Targeted Social Assistance program, for example, accounts for just 0.1 percent of GDP and spends the equivalent of under $0.5 per recipient per month.

Therefore, a main challenge for achieving the country's objectives of sustained and high output growth and rapidly improving living standards lies in improving public investment's operational quality and efficiency. The authorities need to develop an integrated, coherent PIM policy that encompasses public-private partnerships (PPPs). Management responsibilities should be clearly defined within the PIM system; the design, selection, and economic appraisal processes for investment projects should be improved; and project management, execution, monitoring, and evaluation should be strengthened. Finally, key performance indicators should be formally established and embedded in the PIM system.

E. Improving Healthcare

Tajikistan trails other Central Asian countries in key health indicators such as life expectancy, child mortality, and stunting, leading to a substantial loss of human capital. Tajikistan's healthcare system is still based on the Soviet S*emashko* model, which is characterized by central planning, input-based financing, and the very limited participation of private healthcare providers. There is no social or private health insurance; instead, healthcare funding comes from general taxation, foreign assistance, and out-of-pocket payments, which are mostly informal. Public spending on healthcare has grown rapidly over the past decade, but at US$18 per person per year, or 2.2 percent of GDP, health spending falls far short of the US$40–US$80 per capita needed to provide basic health coverage.[5] Moreover, public funding accounts for only one-quarter of total healthcare spending in the country.

The input-based allocation of public healthcare resources is the leading cause of inefficiency in the Tajik health sector. Input-based financing causes substantial regional inequalities in public healthcare spending per capita, as the allocation of resources reflects the concentration of health facility and healthcare workers, not local demand or national policy priorities. Funding also tends to be skewed toward expensive hospital and specialist care, while cost-efficiency primary care remains underfunded. Input-based financing has contributed to an oversupply of hospital beds, which are only occupied an average of 65 percent of the time, impedes efficiency-oriented staffing decisions, and inhibits the use of performance incentives.

Inadequate and inefficient public healthcare spending weakens service quality, contributes to the underutilization of health resources, and increases household exposure to high out-of-pocket costs. While the input-based financing system is the root cause of most inefficiencies in the health sector, a lack of infrastructure, equipment, and clinical knowledge further undermines healthcare provision. Treatment capacity is especially limited for NCDs, which account for a growing share of the country's disease burden. In addition, widespread self-medication and inadequate prescription safeguards lead to polypharmacy and the overuse of antibiotics. Overall, an estimated 9,400 deaths per year could be avoided by expanding access to quality healthcare.

Preliminary data indicate that public healthcare spending increased sharply in the wake of the pandemic. The attention that COVID-19 has brought to the health sector may provide an

[5] This is the estimated cost of provuding an essential benefit package in low- and lower-middle-income countries. See: Watkins, David A, Jinyuan Qi, Yoshito Kawakatsu, Sarah J Pickersgill, Susan E Horton, and Dean T Jamison. 2020. "Resource requirements for essential universal health coverage: a modelling study based on findings from Disease Control Priorities." *The Lancet Global Health* 8 (6):e829-e839.

opportunity to substantially increase domestic healthcare funding and implement efficiency-enhancing reforms that have long been on the policy agenda. Greater domestic public healthcare spending could be funded through reallocation of public resources from low-priority programs in other sectors, including some in public investment. Higher excise taxes on alcohol and tobacco will increase the general revenue pool, from which the allocation to health can be increased. Such taxes also could curtail unhealthy behaviors.

The authorities need to consider increasing public healthcare outlays to levels more appropriate for ensuring the citizens' access to a package of essential health benefits. At the same time, the effectiveness and efficiency of public healthcare spending needs to be improved. Raising healthcare efficiency could be achieved by appropriate consolidations of healthcare facilities after careful analysis and shifting from the historic, input-based provider payment with protected line items to a strategic purchasing model. The health sector's financing model also needs to be improved, notably through the introduction of an independent payer organization. Centralizing all public funds in a single unit will help to increase the transparency of the budgeting process, replace input-financing for hospitals with a mix of case-based financing and fee-for-service reimbursement for high-cost services, and adjust the current per capita financing policy in line with successful capitation mechanisms in other countries.

F. Upgrading Education

Tajikistan has a high rate of adult literacy. At 99 percent in 2018, Tajikistan's literacy rate among adults 15 years or older is significantly higher than the 60.5 percent average for low-income countries. Gross enrollment rates and other quantitative indicators are also high, but data limitations prevent a thorough analysis of educational attainment.

Education services have become more accessible and equitable following the introduction of a per capita financing model and a sustained increase in public education spending. The coverage rate of preschool education among children ages 3-6 rose from 12.3 percent in 2015 to 15.9 percent in 2019. Enrollment, transition, completion, and survival rates in general secondary education have also significantly improved. The challenge for the government is to keep abreast of population growth of about 2 percent per year and rapidly rising demand for schools, teachers, educational materials, and other inputs. The population is expected to increase by a cumulative 20.7 percent between 2021 and 2030, implying a significant increase in education spending.

In 2019, education spending amounted to 5.4 percent of GDP, or 17.8 percent of total government spending, among the largest shares of public spending. As in other ECA countries, personnel costs dominated the education budget, leaving a relatively small share for capital spending and other outlays, with negatively effects on education quality. To keep pace with rising living standards, the inflation-adjusted wage bill for general secondary education nearly doubled during the last decade, while the normative unit costs per student and per institution increased by just 130 percent, further narrowing the share of nonwage spending. The pandemic intensified pressure on the government's already narrow fiscal envelope, leading to cuts in the education budget, especially capital spending.

Education spending relies heavily on revenues transferred to and collected by subnational governments, which weakens the sector's financial stance. In 2020, subnational governments financed over 80 percent of total education spending in Tajikistan. More than 93 percent of schools and all preschools relied on revenues generated by subnational governments, but revenue predictability is generally low and negatively affects the quality of expenditure planning and execution. Currently, 35 out of 68 municipalities are in a weak financial situation and receive intragovernmental fiscal transfers to cover their expenditure needs. However, these transfers do not explicitly target nonwage education spending, and thus revenue shortfalls at the local can directly reduce spending on education services.

Pandemic-induced learning losses are expected to have a decades-long impact on economic growth and productivity. A sharp decline in learning-adjusted years of schooling among student cohorts affected by the pandemic are projected to cut their lifetime earnings by 2.3 percent per year, representing an annual economic loss of up to US$219 million.[6]

To help overcome the pandemic learning losses and meet the goals set under the National Strategy for Education Development through 2030, the authorities are invited to estimate the costs of the program and prepare a detailed action plan for a realistic transition from the current 11-years to 12-years of general secondary education schooling by 2030. It is recommended that the authorities consider separating the two big reforms (transition to a 12-year education and preschool enrollment increase to 50 percent by 2030) over time: the Tajik government may not have the required resources, including the trained personnel as well as the teaching/learning materials and updated curricula, to implement both reforms at the same time throughout the six-year transition period. Other recommendations refer to the reduction of the number of budget allocation administrators, strengthening the link between policy planning and budgeting to guarantee funding on a per capita basis, ensuring state co-financing for Child Development Centers and bolstering financial regulation and oversight of those centers, which would strengthen expenditure planning and fiscal discipline, improve the efficiency and effectiveness of public spending in the education sector.

G. Reforming the Pension system

Tajikistan's pension expenditures represent the smallest share of GDP of any former Soviet republic. This reflects the country's young population and modest pension benefits, as well as its low formal labor-market participation rate, large-scale labor migration, and low average wages. As a result, a large number of people in retirement age receive few or no benefits. Irregular indexation and poorly calibrated parameters of the new notional defined contributions (NDC) scheme cause significant lags in pension benefits behind wage and GDP growth. Due to the lack of indexation and the switch to the new notional defined contributions (NDC) scheme, pension expenditure fell from 4.1 percent of GDP in 2014 to 3.3 percent in 2018-19.**As a consequence of the poorly calibrated transition, the average NDC pensions are 25 percent lower, than amounts under the old defined-benefit scheme, and this gap will likely widen over time.** The NDC also exacerbates the gender gap in pension payments. Earlier retirement age reduces the period of notional capital accumulation, which tends to reduce pensions for women more than for

[6] These projections assume a year of schooling increases annual earnings by 8 percent on average. Estimated losses in US dollars are expressed in 2011 purchasing-power-parity terms.

men. Women already face a greater risk of poverty due to the wide gender gap in wages and a lack of compensation for unpaid contributions during maternity leave.

The mandatory funded Defined Contribution pillar (FDC scheme) has been operating as a reserve fund of the Agency for Social Insurance and Pensions without proper independent or technical oversight. The FDC assets are kept in accounts at the Amonatbank State Saving Bank, and in the event of a revenue shortage, the Agency is entitled to use those assets to temporarily cover the financing gap. As contributions are not properly capitalized, the mandatorily funded pillar may soon face contribution revenues that are inadequate to finance its payouts. About 40 percent of new pensioners receive small lump-sum payouts from the mandatorily funded pillar, and these payments amount to just 0.01 percent of GDP.

Tajikistan needs to reform its pension system to help manage the worsening demographic trends and social pressures. The total number of pensioners will grow by 36 percent to 1 million people within the next five years. Pension expenditures will reach 1.7 times their current level, but, if the current system remains unchanged, pension benefits will lose 20 percent of their purchasing power, and the pension-to-wage ratio will fall from 22 percent in 2020 to 16 percent in 2025. These are challenges that need a timely solution.

To address the challenges, the PER recommends measures aimed at supporting the social and financial sustainability of the pension system. The authorities are advised to conduct an in-depth analysis to identify the reasons leading to much lower pensions under the new NDC scheme than under the legacy DB scheme and address the gap, including at least two policy actions: (i) revise the valorization procedure for notional capital in individual NDC accounts, and (ii) provide compensation for periods during childcare leave, compulsory military service, etc., to cover those periods with pensionable rights. Clear rules need to be introduced for regular indexation of the current pension benefits, including minimum indexation coefficient. The social pension coverage for people with disabilities, elderly and other categories of social pensioners needs to be improved, and the administration of the pension system be strengthened, using the advantages of the centralized personified records and the data exchanges with all existing government information systems. An alternative to the current social pensions could be the introduction of a universal basic/state pension financed by the state budget transfers. It would help address the issue of coverage and adequacy of pension benefits. If the reduction in the social contribution rate is approved, likely leading to an emerging deficit in pension financing, that could be used as an opportunity to convert deficit financing of the insurance program to a new programmatic financing, which would have better optics and political accountability.

H. Improving Intergovernmental Fiscal Relations

Subnational governments play a key role in funding social spending in Tajikistan, but a lack of rules-based regulation weakens subnational public service delivery. Almost 90 percent of funding for general education and 70 percent of funding for healthcare is channeled through subnational governments. However, many intragovernmental transfers are on an *ad hoc* basis, and their unsystematic nature significantly reduces the quality and predictability of subnational budgets. Some transfer arrangements are opaque, which increases the complexity of intergovernmental fiscal relations, undermines the efficiency of public spending, and prevents the application of uniform rules across subnational governments. Consistent sectoral policies must be established at the national level via per capita financing norms that apply to all subnational governments regardless of their location or administrative level.

Tajik legislation does not clearly delineate revenue sources and expenditure obligations between the central and subnational governments. The budget system covers different types of subnational governments located in different parts of the country. The top tier of subnational administration includes two regions (*oblasts*), one autonomous region and the city of Dushanbe. These first-tier subnational governments have different authorities and functions, and lower-level county governments may be subordinates of multiple higher tiers, which complicates the budgetary structure. This complexity makes it difficult to introduce uniform rules for intergovernmental fiscal relations that respect revenue and expenditure prerogatives and allocate resources equitably.

The current practice of policy planning, budgeting, and execution is institutionally fragmented between subnational governments and central line ministries, leading to administrative silos, weak coordination, and the diffusion of accountability. Relations between subnational governments and line ministries must be strengthened across the budget cycle. Line ministries are usually proactive in developing strategic plans and drafting budgets for their respective sectors, regardless of the geographic location of public programs. There is little evidence that subnational governments are involved in developing the Medium-Term Expenditure Framework, while line ministries exercise insufficient oversight over budget execution and reporting by subnational government to ensure that their activities align with sectoral strategic plans and the Medium-Term Expenditure Framework. Meanwhile, annual modifications in the intragovernmental distribution of revenue from national taxes increase instability and unpredictability in the revenue bases for both the central and subnational governments.

An unclear legislative delineation of expenditure powers between tiers of government results in ad hoc decisions on the reallocation of spending between the central and subnational governments. The analysis suggests that some public administrative functions are funded only by selected subnational governments, preventing a uniform approach to fiscal equalization across the public sector. In principle, subnational expenditures are determined by an expenditure-needs estimate defined in central regulations. In practice, however, the absence of a clear legal division of expenditure obligations compels the central government to negotiate directly with each subnational government and perform a “direct calculation” of expenditure needs. The establishment of norms for per capita education and healthcare spending constitute an important step toward formula-based expenditure-needs estimation, but further actions are required, including the elaboration of a mechanism for delivering appropriate funds to subnational governments.

It is advisable to task the Presidential Administration with a function of overseeing the process of intergovernmental fiscal reform as the latter involves various stakeholders both at the central and sub-national governments’ level. Moving toward more transparent, rules-based, and predictable intergovernmental fiscal relationships could help address challenges in service delivery and advance Tajikistan’s strategic development objectives. The Inter-ministerial Working Group on Intergovernmental Fiscal Relations, established in 2015 under the auspices of the Office of the President, has significantly contributed to the new PFM Strategy by developing the goals and tasks of intergovernmental reform. Now there is a need to set up institutional arrangements for monitoring the implementation of these tasks.

To improve socially important public service delivery at the subnational level, the PER suggests legislative amendments and policy revisions. The goals of these changes are to define functional responsibilities and spending obligations of each budget tier and assign taxes to each level of SNG, including the shares of national taxes, at least over the medium term. Further, the policy changes should help ensure adequate targeted transfers to SNGs for financing of education and healthcare sectors in accordance with centrally established per capita norms. A transparent formula for allocation of equalizing transfers to SNGs will also be needed. In addition, the authorities may consider harmonizing the hierarchic (administrative-territorial) structure of SNGs, which will help streamline inter-governmental fiscal relations and improve the budgeting practice.

I. RECOMMENDATIONS

The PER recommends reforms in key policy areas. First, adopting a new approach to fiscal policy, both on the revenue and expenditure sides of the budget, could facilitate adherence to fiscal discipline and support more inclusive growth agenda. Second, revamping the tax system by reducing exemptions could broaden the tax base and alleviate distortions, while enhancing taxes on goods with negative externalities could strengthen incentive structures. Third, increasing investment in human capital could help ensure an inclusive and sustainable post-pandemic recovery and productivity of the Tajik economy in the long run. Fourth, reforming public investment and public financial management systems could yield efficiency gains, improve governance, and strengthen social and economic inclusion. More detailed policy recommendations by thematic areas analyzed in this PER are presented below (Table ES-1).

Table ES-1: Summary of Recommendations

Recommendation	Timeframe
Addressing Macro-Fiscal Challenges	
Reach fiscal and debt sustainability by (i) pursuing fiscal discipline and refraining from non-concessional borrowing to address vulnerability from a high risk of debt distress; and (ii) balancing the composition of public spending from heavy emphasis on infrastructure towards social sectors.	Medium-term
Create much-needed fiscal space by: (i) tempering the spending on the Rogun HPP project to levels that are consistent with debt sustainability, permitting the state to allocate the resulting resources for physical and human capital investments; and (ii) remove preferences for SOEs and level the playing field for private sector.	Short-term, immediate
Attaining Sustainable Public Financial Management	
Improve credibility and predictability of budget planning by adopting a technically sound revenue forecasting model, strengthening expenditure planning capacities in the Ministry of Finance and line0ministries, and enhancing linkages between policy planning and budgeting, including full implementation of MTEF.	Short- to medium-term

Upgrade budget implementation practices by: (i) introducing accurate accounting for revenues and expenditures, and credible estimate of the fiscal balance; (ii) following the updated GFSM standards in budget classification, sectorization and recording practices and completing integration of remaining modules of TFMIS.	Medium-term
Improve the programming of capital investment financing to take account of recurrent operating and maintenance costs by (i) harmonizing the budgeting process between line ministries' budget and technical departments; and (ii) strengthening medium-term forecasting of capital expenditures funded from budget and external sources.	Medium-term
Enhance fiscal risk management by: (i) operationalizing the new fiscal risk assessment methodology in the monitoring of large SOEs and accelerating the adoption of IFRS; (ii) and improving SOE governance, operational efficiency and increasing their public accountability by publishing independent audits reports.	Continuous
Improve performance monitoring, evaluation, and oversight by: (i) strengthening financial accounting and reporting capacity of line ministries, and the fiduciary monitoring and oversight capacities of the Ministry of Finance; and (ii) strengthening the audit capacity and independence of the Chamber of Accounts.	Continuous
Advance institutional reforms, organizational structure and responsibilities by modernizing the organizational structure of the Ministry of Finance, focusing mainly on optimizing the Main State Budget Department and the Main Public Debt Management Department.	Medium-term
Reform public procurement by improving the electronic public procurement system, including e-complaints mechanism and capacity development in the Public Procurement Agency and other procuring entities.	Medium-term
Reforming Tax Policy and Administration[7]	
Broaden the tax base by eliminating inefficient tax exemptions to create room for lowering the tax rates.	Immediate
Scrutinize tax incentives/expenditures by conducting a cost –benefit analysis of revenues foregone versus new investments attracted.	Continuous
Refrain from a multiple rate practice and stipulate single tax rates for CIT and VAT for all businesses to avoid complexity, disputes, and possibility of misclassification.	Medium-term
Improve the VAT design by (i) lowering the VAT threshold; (ii) revamping the current VAT refund system to make it operational; and (iii) envisaging zero -rated VAT for all exports.	Short- to medium-term
Introduce a real progressivity in the PIT structure.	Medium- to long-term
Reform the excise tax to ensure adequate fiscal revenues, and positive health and environmental implications by: (i) envisaging automatic indexation of excise rates for inflation on sin goods; and (ii) introducing excise on carbon emissions.	Medium-term
Improve taxpayers' self-compliance by raising taxpayer awareness of the tax legislation, reducing the tax burden, streamlining tax calculation procedures, enhancing the level of competence of tax authorities, simplify tax rules and instructions to have a single interpretation and application of tax legislation, and producing and implementing a compliance risk management program.	Continuous

[7] The timeframe for tax policy recommendations is suggested by taking into account the on-going revisions of the Tax Code to ensure stability and predictability of the policy environment.

Revisit the modus operandi at tax administration by: (i) producing a tax gap analysis to estimate the magnitude of lost revenues due to poor taxpayer compliance and weak tax administration; and (ii) reducing the number of inspections and focusing audits on key taxpayer and economic sectors.	Continuous
Continuously improve taxpayer services by increasing the operational efficiency of call centers, providing better information about the Tax Committee's website and the procedure for working with it, and enhancing taxpayer skills in electronic declaration and electronic invoicing.	Continuous
Improve the tax administration's institutional model by creating a dedicated unit to monitor transfer pricing and BEPS practices; and improving Tax Committee's communication with taxpayers through e-mail, single window and other IT platforms.	Medium-term
Improving Efficiency of Public Investment Management	
Strengthen the existing PIM Governance Framework by upgrading PIM procedures into a PIM manual with (1) general guidelines for the economic appraisal of investment projects; and (2) sectoral guidelines for selected, key line ministries (Energy, Education, Health, and so on).	Short to medium term
Develop technical/professional capacity by launching a Train-the-Trainer program for the central and regional governmental levels in project design, appraisal, and selection.	Continuous
Improve capital investment projects' upstream initiatives by strengthening the public investment management governance framework and improving the regulatory impact analysis methodology of new and existing investment incentives.	Immediate, continuous
Improve the registration process of projects by creating a National Registry of Investment Projects (NRIP); and developing project profiles, for both PIP and PPP operations.	Medium term as the National Registry of Investment Projects requires investments
Improve PIP and PPP downstream initiatives by upgrading project management skills at all stages - project execution, monitoring, and follow-up.	Immediately, continuous
Formalize the role of key performance indicators in the context of PIM.	2021–22
Develop a PIM policy, including both PIP and PPP operations, through the formalization of the institutional setting for Tajikistan.	Medium term
Increasing Funding for Healthcare	
Increase public spending on health to move closer to funding levels needed to provide a package of essential health services	Short term, ongoing
Expand activities to increase access to and uptake of modern contraceptive methods to limit population growth	Immediate
Undertake analysis identifying health facility, hospital bed and health workforce redundancies and potential for consolidating healthcare facilities	Ongoing; commission updated facility masterplan now.
Introduce a single payer organization that centrally pools public healthcare funding and distributes using strategic purchasing mechanisms.	Create organization in the short term, gradually transitioning over 3–4 years.
Replace input-based financing of primary care providers with full-fledged capitation.	Initiate transition now; gradually transition over 3–4 years.
Gradually complement global hospital budgeting with case-based and fee-for-service financing elements	Intensify work on design now;

	gradually transition over 3–4 years.
Integrate the country's two parallel benefit packages.	Immediately.
Include a centrally procured outpatient drug package.	Design now; implement gradually.
Revise and extend fee exemptions for more effective poverty targeting.	Short term
Tighten regulation of drug prescription practices.	Short term
Systematically update facility infrastructure and equipment.	Ongoing
Focus more on building consensus for reforms by conducting systematic political economy analysis and stakeholder mapping in technical assistance and government policy, and by forming strategic alliances for policy reform.	Immediately, ongoing
Upgrading the Education system	
Improve budgeting of the education sector by: (i) revising the per capita formulae to reflect important spending components and increasing per-capita normative allocation; (iii) incorporating population growth into the budget estimates; (iv) improving financial management of special funds of education institutions; and (v) encouraging private sector participation and ensuring proper recording and reporting.	Short- to medium-term
Estimate costs of policy changes proposed by the National Strategy for Education Development for up to 2030 and envisage different financing scenarios for different macro-fiscal outlook, pace of reforms and policy options.	Immediate
Strengthen the link between policy planning and budgeting by ensuring guaranteed and targeted inter-governmental fiscal transfers.	Medium-term
Improve governance in the education sector by reducing and optimizing the number of main administrators of budget allocations (MABAs).	Gradual consolidation throughout the medium-term
Enhance financial regulations and financial oversight of the education sector, such as in Child Development Centers, and ensure stronger expenditure planning and fiscal discipline.	Short- to medium-term
Conduct a comprehensive performance review of PCF in general secondary education to learn lessons and consider its gradual expansion in professional educational institutions as part of a new innovative financing mechanisms.	Medium-term
Make publicly available and accessible data on learning outcomes to allow assessing efficiency of public spending on education.	Throughout the medium-term
Reforming the Pension System	
Index pensions annually and establish clear rules for determining the minimum indexation coefficient.	Medium term
Conduct an in-depth analysis of the reasons that pensions assigned under the new NDC scheme are much lower than legacy DB pensions and address that gap, including at least two policy actions: (i) strengthen the valorization procedure for notional capital in individual NDC accounts, and (ii) provide compensation for periods during childcare leave, compulsory military service, etc., to cover those periods with pensionable rights.	Immediately, short term
Improve social pension coverage of people with a disability, elderly people, and other categories eligible for social pension.	Ongoing, in line with improved administration of social programs

Consider the possibility of introducing a universal basic / state pension as an alternative to social pensions to strengthen the adequacy and improve coverage of the pension benefits.	Short- to medium-term
Establish the practice of a regular actuarial analysis of the pension system as a tool to guide financial and budget planning. This function could be conducted either in house or outsourced.	Short- to medium-term
Improving the Inter-Governmental Fiscal Relations	
Harmonizing the hierarchic (administrative-territorial) structure of SN Gs, which among other benefits, will help to streamline inter-governmental fiscal relations and improve the budgeting practice.	Medium- to long-term
Amend the current legislation to define functional responsibilities and spending obligations of each budget tier (state and self-government).	Medium-term
Legislatively assign taxes to each level of SNG on a permanent bases, including shares of national taxes (at least for a medium-term).	Medium-term
Provide targeted transfers to SNGs for financing of education and healthcare sectors in accordance with centrally established per capita norms. Alternatively, reassign subordination of relevant subnational institutions under the auspices of the central government and provide direct funding for these institutions from the central budget.	Short- to medium-term
Targeted transfers from the state budget implies also **changes to the revenue-sharing arrangement and centralization of national taxes** (VAT and CIT) in the State Budget.	Short- to medium-term
Approve a law envisaging introduction of a transparent formula for allocation of equalizing transfers to SN governments.	Medium- to long term
Improve budget classification to accurately reflect different kinds of intergovernmental transfers (general purpose and targeted) and track separately.	Immediate, short-term

Chapter 1. Addressing Macro-Fiscal Challenges

A. Trends in the Real Economy Before COVID-19

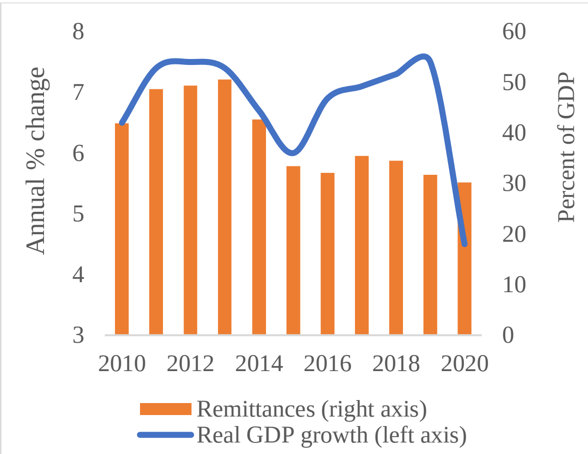
1.1 **Prior to the pandemic, Tajikistan experienced a decade of solid economic growth and sustained poverty reduction, but macroeconomic and environmental pressures were steadily mounting.** The GDP growth rate averaged 7.0 percent per year between 2010 and 2019, and the national poverty rate fell from 34.3 percent in 2013 to 26.3 percent in 2019.[8] However, despite years of rapid growth and poverty alleviation Tajikistan remains the poorest country in the Europe and Central Asia (ECA) region. In 2019, Tajikistan's GNI per capita was just US$1,030, far below the average of US$8,036 for low- and middle-income ECA countries. Tajikistan's per capita income is also well below the levels of regional comparators such as Armenia (US$4,680), Moldova (US$4,590), Uzbekistan (US$1,800), and Kazakhstan (US$8,820).

1.2 **Remittance inflows, official donor assistance, and public infrastructure investment drove economic growth over the last decade.** Remittances from migrant workers, mostly in Russia, remained a significant contributor to household consumption, which in turn supported consistently high economic growth rates (Figure 1.1). Remittance inflows peaked in 2013 at one-half of GDP and were the dominant source of financing for private consumption. Meanwhile, substantial amounts of official donor assistance averaged 5.3 percent of GDP per year between 2010 and 2019, boosting public expenditures and further accelerating overall growth (Figure 1.2).

[8] In 2019, the national poverty line was 213.51 Tajik somoni (SM) or about US$22.6 per person per month.

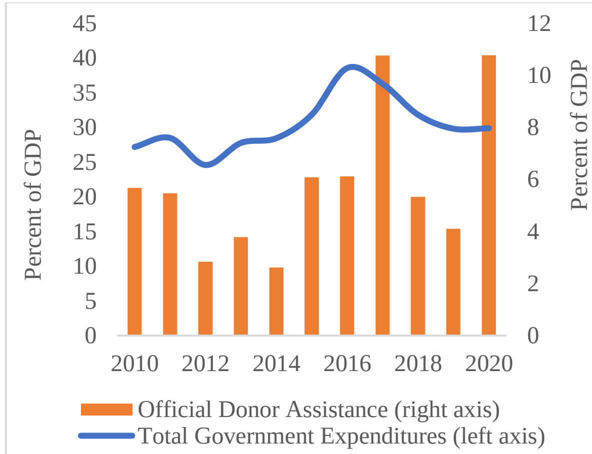
Official donor assistance not only helped the government finance development projects, but it also mitigated the impact of the business cycle by increasing the space for countercyclical fiscal policy.

Figure 1.1: Real GDP Growth and Remittance Inflows, 2010-20



Source: TajStat and World Bank Staff Calculations.

Figure 1.2: Government Expenditures and Official Donor Assistance, 2010-20



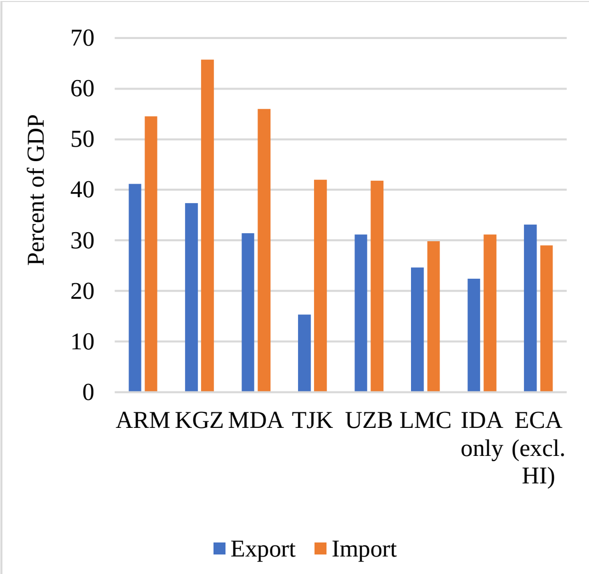
Source: TajStat and World Bank Staff Calculations.

1.3 **Private investment has contributed modestly to economic growth.** Foreign direct investment (FDI) equaled 7-12 percent of GDP before 2008, but FDI plunged during the global financial crisis and has yet to return to its pre-2008 levels. Slow progress on improving the business climate, the lack of a level playing field vis-à-vis state-owned enterprises (SOEs), and weak investor protections prevented the development of a robust and dynamic private sector in Tajikistan. Meanwhile, the government's efforts to stimulate private investment by providing generous tax exemptions, estimated at 6-9 percent of GDP, have not produced the expected outcomes. Among other deficiencies, these tax exemptions lack adequate cost-benefit analyses, are not tied to investor performance, and are adopted in an unsystematic and discretionary manner.[9] FDI averaged about 6 percent of GDP between 2016 and 2020, while investment by the domestic private sector reached just 3.5 percent during the same period.

1.4 **Limited private-sector development and the slow pace of industrialization has inhibited Tajikistan's ability to create a competitive export sector.** The country's export basket remains small and undiversified by the standards of global and regional comparators. Over the last decade, the overall export-to-GDP ratio has remained stable at about 15-17 percent, well below the 24.7 percent average for lower-middle-income countries (LMICs) and the 33 percent average for the ECA region (Figure 1.3). The export basket is dominated by metals and other minerals (73 percent of total merchandise exports), followed by textile products (16 percent), and other natural resources including electricity (6 percent) (Figure 1.4). The concentration of the export basket increases the vulnerability of the external balance to international commodity-price fluctuations. Tajikistan's service exports, which averaged just 3.3 percent of GDP during 2017-19, mainly consist of tourism, transportation, and financial services.

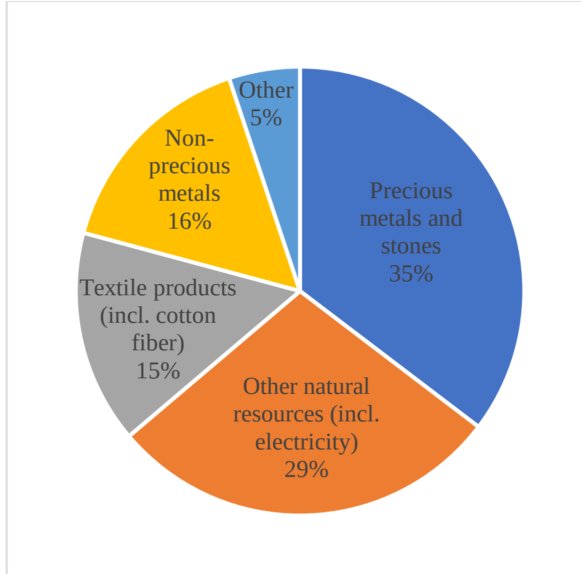
[9] See Chapter III for a more detailed analysis of Tajikistan's tax system.

Figure 1.3: Export and Import of Goods and Services, Tajikistan and Comparators, 2019



Source: World Development Indicators.

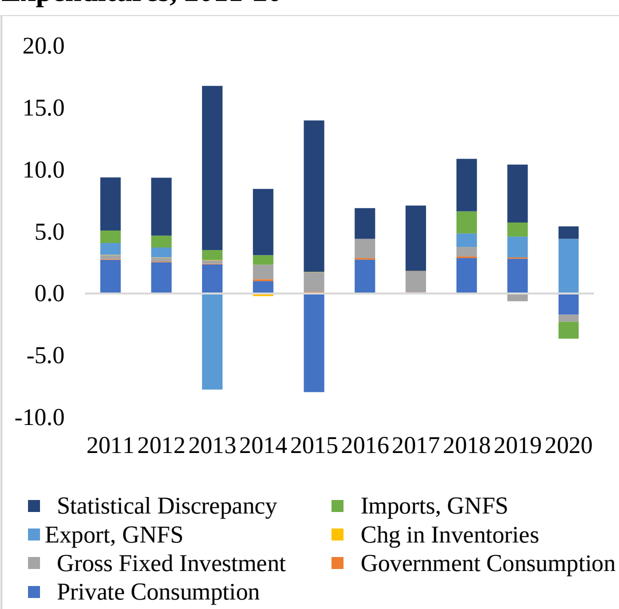
Figure 1.4: Composition of Goods Exports, Tajikistan, 2019-20



Source: TajStat and World Bank Staff Calculations.

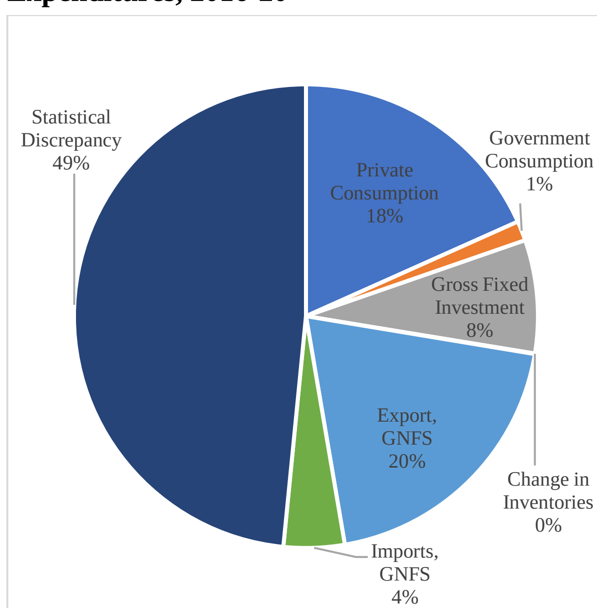
1.5 **The sectoral decomposition of growth highlights the importance of the services sector.** Services contributed almost half of all GDP growth until 2015, when remittances approached 50 percent of GDP (Figure 1.5). Between 2016 and 2020, the contribution of services to growth fell to 29.3 percent, behind the industrial sector (Figure 1.6). Traditional activities, including retail trade, transportation, and communications, drove the growth of the services sector. As the share of services in total output expanded, sectoral employment grew to almost 40 percent of total employment (Figure 1.6).

Figure 1.5: Evolution of GDP Growth by Expenditures, 2011-20



Source: TajStat and World Bank Staff Calculations.

Figure 1.6: Contributions to GDP Growth by Expenditures, 2016-20

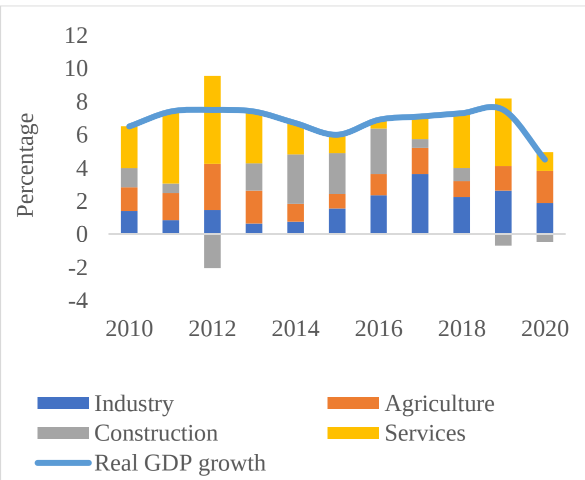


Source: TajStat and World Bank Staff Calculations.

1.6 **Following a process of deindustrialization that continued until 2010, the industrial sector's contribution to growth has increased in recent years, and the sector's share in total output expanded between 2010-14**. Between 2000-09, industry's contribution to growth was 22 percent out of total, supported by the production of aluminum and other base metals while aging Soviet equipment and loss of competitiveness led to the disappearance of light industries (e.g., shoes, textile). The pickup in Chinese private investments after 2010 and associated expansion of the mining industry, cement production, and domestically financed food processing fueled industrial output. Between 2016-20, the industry's contribution to GDP growth rose to 36.3 percent out of total. Due to capital-intensive technology, especially in mining, employment in the industry has remained relatively small and accounted for about 15.8 percent of total jobs in the economy.

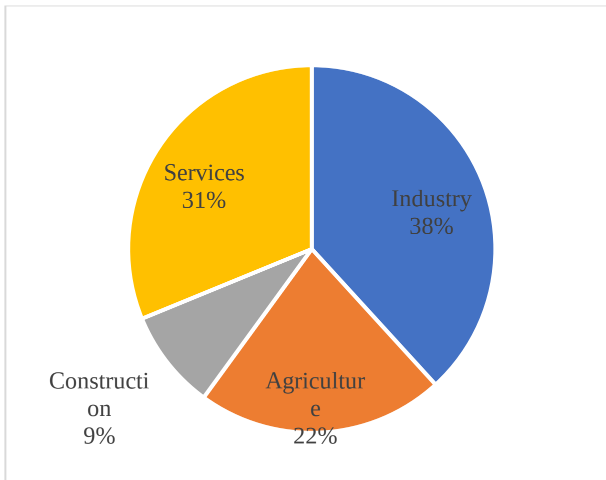
1.7 **The agricultural sector's economic role has changed substantially over time.** The sector's contribution to overall GDP growth ranged from 6 percent in 2005 to 67 percent in 2009 (Figure 1.7). In the past five years, its contribution averaged 23 percent and peaked at 43 percent in 2020 (Figure 1.8). Agriculture remains the country's primary employer and accounted for 45 percent of all jobs in 2019.

Figure 1.7: Evolution of GDP Growth by Sector, 2010-20



Source: TajStat and World Bank Staff Calculations.

Figure 1.8: Contributions to GDP Growth by Sectors, 2016-20



Source: TajStat and World Bank Staff Calculations.

B. TAJIKISTAN'S POLICY RESPONSE TO COVID-19

1.8 **The COVID-19 pandemic inflicted a major shock on the Tajik economy, with negative ramifications for lives, livelihoods, and overall socioeconomic wellbeing.** The pandemic slowed the real GDP growth rate from 7.2 percent in 2019 to 4.5 percent in 2020. Restrictions on labor mobility and economic activity at home and abroad decreased migrant remittances by 6.3 percent year on year (y/y), weakening consumer demand. Meanwhile, FDI plummeted by about 50 percent y/y. Although the mining industry benefitted from surging global demand for precious metals, domestic demand grew by just 1.5 percent y/y. On the supply side, the pandemic's impact on hotels, restaurants, and passenger transportation services was especially acute.

1.9 **Slowing economic activity and declining remittances severely undermined household wellbeing.** At the peak of the pandemic, two out of five families reported reducing their food consumption, and indicators of food insecurity remained relatively high throughout 2020.[10] Households also reported challenges in accessing healthcare and receiving social assistance. The Listening-to-Tajikistan Survey found that about 15-20 percent of respondent households were not able to obtain medical care, and only 14 percent of households reported receiving new financial or in-kind support from the government at least once. The inability of returned migrants to travel abroad for work led to a significant increase in the unemployment rate, and an IFC survey found that about 67 percent of households reported income drops.[11] To cope with the income shortfall, 55 percent of households drew on savings, 20 percent borrowed money from family and friends, and 15 percent sold assets. Only 6-7 percent of households reported borrowing money from a financial institution, and about 9 percent temporarily stopped repaying loans. Overall, 75 percent of households reported a significant disruption in their financial wellbeing. Estimates suggest that the national headcount poverty rate has remained broadly unchanged from its 2019 level of 26.3 percent, marking the first pause in poverty reduction in two decades.

1.10 **The government adopted simultaneous public-health and economic-stimulus measures to mitigate the impact of the pandemic.** A high-level interagency task force chaired by the Deputy Prime Minister focused on the public health response, while the government implemented a range of fiscal and monetary policies to manage the economic effects of the crisis. Amendments to the 2020 state budget increased spending on healthcare and social protection by 44 percent and 10 percent, respectively, and the authorities expanded the provision of targeted social assistance nationwide, with eligible families receiving TJS 400 per year. The government also provided a one-time social assistance transfer of TJS 500 to vulnerable groups. Since September 1, 2020, public-sector wages and pensions increased by 10-15 percent over their previously planned level. The government also bolstered energy-sector outlays by 9 percent in line with the scheduled construction of Rogun HPP and reallocated about 1 percent of GDP to public healthcare, social assistance for vulnerable groups, and support for the agriculture sector. The government also purchased TJS 103.2 million in staple foods to resell to the public at subsidized prices and transferred TJS 180 million to the newly established state-owned Sanoatsodirotbank to support small and medium enterprises.

1.11 **The government implemented major fiscal measures on both the revenue and expenditure sides.** These included: (i) temporary tax holidays for medical institutions, tourism facilities and sports centers, catering organizations, international passenger transportation, and air navigation between April and September 2020; (ii) the provision of one-time assistance to vulnerable groups and the permanent expansion of targeted social assistance to all 68 districts of the country (iii) capacity-building for the healthcare system and allowances for frontline medical workers; (iv) the postponement of a scheduled increase in tariffs for utilities and public services until the end of 2020; (v) the temporary suspension of rent payments for state property owned by small and medium enterprises between May and August 2020; (vi) a temporary real estate tax holiday for individuals between May and September 2020; (vii) an exemption from customs duties, VAT, and excise taxes for imports of disinfectants, medicines, protective clothing, medical instruments, laboratory equipment, COVID-19 testing supplies, and the inputs necessary to produce those goods between July and September 2020; (viii) a reduction in the income-tax rate for individual deposits from 12 percent to 6 percent between June and December 2020; (ix) the

[10] Seitz & Rajabov, 2020
[11] COVID-19 Impact Assessment Survey, 2020

allocation of soft loans to firms, especially women-owned firms, that produce food and medical products; and (x) the purchase and distribution of seeds to support farmers.

1.12 **The monetary stimulus aimed to boost overall liquidity in the economy and increase flexibility on prudential norms.** The National Bank of Tajikistan (NBT) cut the policy rate by 200 basis points to 10.75 percent, reduced reserve requirements from 3 percent to 1 percent for deposits denominated in Tajikistan somoni (TJS) and from 9 percent to 5 percent for foreign-currency deposits, and asked banks to restructure loans and waive penalties for corporate and individual borrowers facing financial difficulties. The NBT committed to providing emergency credit to the banking system in the case of force majeure situations to shore up overall financial stability. Major monetary and financial policy measures included: (i) a reduction of the refinance rate by 100 basis points in May and by another 100 basis points in August 2020; (ii) the lowering of reserve requirements from 3 percent to 1 percent for somoni-denominated deposits and from 9 percent to 5 percent for foreign-currency deposits; (iii) the preparation of action plans by financial institutions to address potential pandemic-induced losses; (iv) an exemption on payments for the NBT's interbank settlement services until September 1, 2020; (v) the restructuring of loans and the introduction of grace periods for borrowers facing financial problems; (vi) the temporary suspension of lender-imposed penalties for firms and individuals unable to fulfill their obligations on term loans between May 1 and October 1, 2020; (vii) a recommendation to temporarily close unprofitable financial service centers until August 1, 2020; (viii) the prioritization of foreign-exchange access for businesses involved in importing essential goods, including medicines, grain, flour, vegetable oil, sugar and fuel, as well as those that support the fulfillment of the state's financial obligations; and (ix) a recommendation to suspend dividends or shareholder bonuses and to instead use these profits to boost corporate capital stocks.

1.13 **The government's response efforts helped contain the spread of the pandemic and restore economic activity, but at the cost of widening the fiscal deficit.** Fiscal and monetary stimulus supported a gradual resumption of economic activity during the second half of 2020. By midsummer, the government had started relaxing mobility restrictions and gradually reopening public spaces, albeit with strict precautionary measures still in place. However, a 2.6 percent (y/y) decline in tax collection, combined with the cost of the stimulus package, widened the fiscal deficit from 2.7 percent of GDP in 2019 to 3.2 percent in 2020. Suppressed domestic demand, the disruption of international trade, and the temporary tax relief granted to firms and households reduced tax receipts across the board, led by taxes on profits, income, and international trade. The government's injection of liquidity, coupled with supply-chain disruptions and currency depreciation, pushed the annual inflation rate to 9.4 percent. Nevertheless, the financial sector exhibited considerable resilience during the crisis.

C. Fiscal Developments and Sustainability

1.14 **Expansionary fiscal policies contributed to wide fiscal deficits and high levels of public debt throughout the past decade.** The fiscal deficit expanded from 1.5 percent of GDP in 2010-15 to 5 percent in 2016-20, contributing to a sharp increase in the public debt stock. Debt accumulation dramatically accelerated in 2016-17, when the government responded to the end of the commodity super-cycle by escalating public investment. To finance infrastructure spending, the government obtained concessional loans from official donors and issued a US$500 million (7 percent of GDP) Eurobond in 2017. Domestic debt increased due to a rescue package totaling US$490 million (6 percent of GDP) for two systemically important banks that became insolvent after a substantial drop in remittances and a sizeable depreciation of the exchange rate in 2014-16. As a result, Tajikistan's public debt stock increased from 27.4 percent of GDP in 2014 to 54 percent by end-2017.

1.15 **While revenue collection improved, the widening fiscal deficit steadily increased expenditure pressures.** Gains in revenue mobilization pushed the tax-to-GDP ratio from 18 percent in 2010 to 22.8 percent in 2014 before moderating to an average of 20.1 percent during 2018-20. Meanwhile, total expenditures rose from 28 percent of GDP in 2010-15 to 33.3 percent in 2016-20. Expenditure growth was led by public investments in infrastructure, particularly in the energy and transportation sectors. Regular increases in public-sector wages combined with rising interest payments drove the growth of current spending. Interest payments rose sharply from 0.5 percent of GDP in 2017 to 1.2 percent in 2018 after the government began borrowing on international capital markets.

1.16 **Following a major fiscal expansion in 2016-17, the government attempted to restore debt sustainability through budgetary consolidation.** The fiscal deficit narrowed from an average of 8.2 percent of GDP in 2016-17 to 2.7 percent in 2018-19 as the authorities slashed capital outlays, particularly in the energy sector. While current expenditures remained broadly unchanged, public spending on the energy sector fell from 13.4 percent of GDP in 2017 to 5.9 percent in 2019, cutting the public debt stock to 44 percent of GDP by end-2019 (Table 1.1).

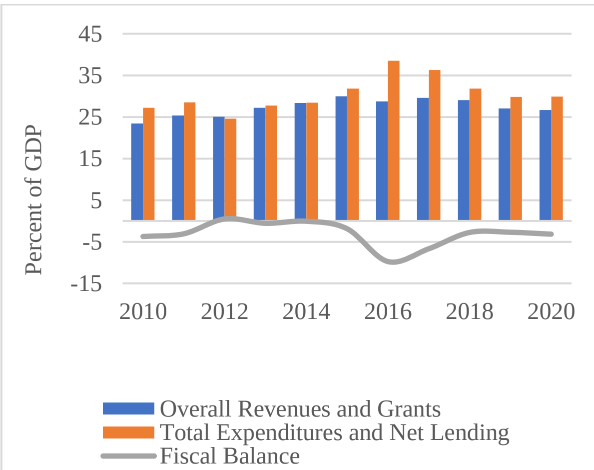
Table 1.1: The Evolution of Key Fiscal Indicators, 2010-2022

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021f	2022f
Overall Revenues and Grants	23.4	25.4	25.1	27.2	28.4	29.9	28.8	29.6	29.1	27.1	26.7	27.9	28.1
Tax revenues	18.0	19.5	19.8	21.1	22.8	22.0	20.6	21.5	21.2	20.4	18.6	20.9	21.1
Non-tax revenues	3.3	3.6	3.8	3.6	4.0	5.0	5.2	5.6	4.9	4.5	4.5	4.2	4.3
Grants	2.2	2.3	1.5	2.5	1.5	3.0	3.0	2.4	2.9	2.2	3.5	3.1	2.7
Total Expenditures and Net Lending	27.2	28.5	24.6	27.7	28.4	31.8	38.5	36.3	31.8	29.8	29.9	30.5	30.2
Current expenditures	13.8	15.8	15.7	17.7	18.2	18.1	17.6	18.2	18.3	17.2	17.5	17.9	18.0
Capital expenditures	13.2	12.6	9.0	9.9	10.2	13.8	15.0	18.2	13.6	12.6	12.4	12.5	12.3
Net lending	0.1	0.1	-0.2	0.2	0.0	-0.1	6.0	-0.1	-0.1	0.0	0.0	0.0	-0.1
Statistical discrepancy (+ = additional spending)	-3.9	4.9	2.1	0.6	-2.5	-1.7	-0.8	-2.3	0.5	-1.1	0.2	0.0	0.0
Fiscal Balance	-3.7	-3.1	0.5	-0.6	-0.1	-1.9	-9.8	-6.7	-2.8	-2.7	-3.2	-2.6	-2.2
Total Financing	-0.2	8.0	1.6	1.1	-2.5	0.1	8.9	4.4	3.3	1.6	3.4	2.6	2.2
Net external	2.8	2.7	0.4	0.1	0.0	1.9	1.3	7.3	0.9	0.5	5.7	1.9	1.5
Net domestic	-3.0	5.3	1.2	1.0	-2.5	-1.7	7.6	-2.9	2.3	1.1	-2.3	0.7	0.7
Public Debt	34.5	33.4	30.3	28.7	27.4	34.6	43.4	54.0	48.3	44.0	51.1	52.6	51.6
External debt	32.2	31.1	26.3	24.8	23.8	31.2	33.1	44.6	40.1	36.6	44.4	44.9	42.5
Domestic debt	2.3	2.3	4.0	3.9	3.7	3.5	10.3	9.3	8.2	7.4	6.7	7.6	9.2

Source: Ministry of Finance and World Bank Staff Projections.

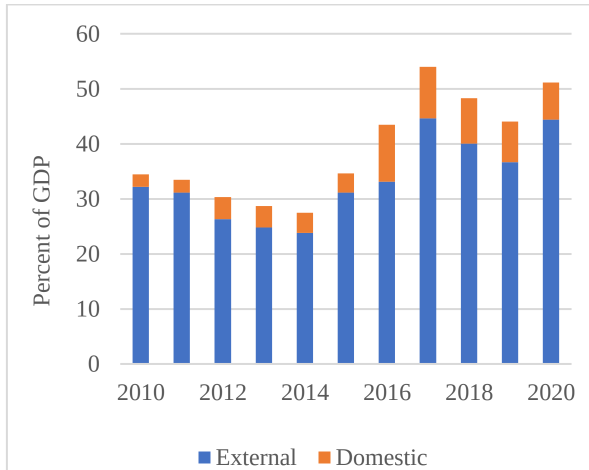
1.17 **The COVID-19 pandemic interrupted the government's medium-term plan for fiscal consolidation.** The initial budget law envisaged further lowering the 2020 fiscal deficit to 2 percent of GDP, but the pandemic-induced crisis prompted the authorities to amend the state budget to account for lower economic growth, falling tax receipts, and the need for increased spending to safeguard lives and livelihoods. The amended state budget estimated the fiscal deficit at 5.8 percent of GDP, but the actual deficit reached just 3.2 percent, as successful health initiatives and the relaxation of mobility restrictions accelerated the economic recovery. Government borrowing financed the deficit (Figure 1.11 and Figure 1.12).

Figure 1.9: Revenues, Expenditures, and the Fiscal Balance, 2010-20



Source: Ministry of Finance and World Bank Staff Calculations.

Figure 1.10: Public Debt Dynamics, 2010-20



Source: Ministry of Finance and World Bank Staff Calculations.

Government Revenues

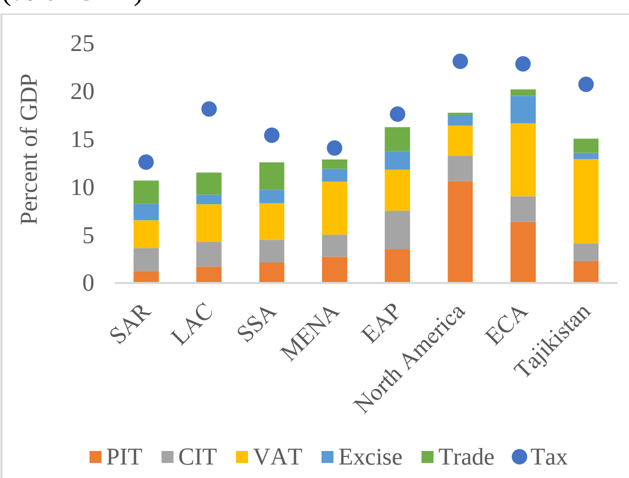
1.18 **The pandemic and ensuing economic crisis caused total revenue to fall from an average of about 30 percent of GDP during 2015-18 to about 26-27 percent during 2019-20.** Tax revenues contribute almost 75 percent of all fiscal revenues and range from about 20-22 percent of GDP. Nontax revenues represent about 15-17 percent of total revenues, or about 4.5-5.5 percent of GDP, while grants make up the remaining 10 percent of revenues, or 2-3 percent of GDP. VAT has been the biggest contributor to tax revenues, reaching 8.5 percent of GDP in most years and sometimes exceeding 10 percent—levels comparable to some developed countries. VAT is followed by corporate income tax (CIT), personal income tax (PIT), and social security taxes, which each represent about 2.5 percent of GDP (Table 1.2). Most tax revenues have remained stable over time, though CIT revenues have increased and revenues from trade taxes have declined.

Table 1.2: Revenue Collection in Tajikistan, 2010-20
(Million TJS and percent of GDP)

Revenue	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Nominal GDP (TJS million)	24,705	30,069	36,161	40,525	45,605	48,402	54,471	61,094	68,844	77,355	82,543
TJS million											
Overall Revenues and Grants	**5,789**	**7,634**	**9,061**	**11,018**	**12,933**	**14,494**	**15,674**	**18,075**	**20,000**	**20,952**	**22,025**
Total Revenue	5,239	6,956	8,518	9,994	12,232	13,059	14,058	16,599	18,016	19,257	19,102
Tax Revenue	4,435	5,876	7,146	8,538	10,405	10,642	11,244	13,165	14,629	15,772	15,356
Corporate income taxes	331	408	577	701	807	1,009	1,031	1,504	1,651	1,901	1,703
Personal income taxes	448	578	730	914	1,096	1,301	1,348	1,569	1,780	1,914	1,874
Social security taxes	567	783	947	1,081	1,374	1,372	1,383	1,574	1,726	1,688	1,677
Property taxes	86	104	17	156	182	207	242	300	358	371	374
Value added taxes (VAT)	1,826	2,513	3,077	3,705	4,637	4,553	4,750	5,340	5,911	6,427	6,392
Excises	168	189	186	282	364	327	339	390	425	593	621
Other domestic taxes on goods and services	557	698	785	1,119	1,346	1,317	1,502	1,782	2,021	2,070	2,012
International trade and operations taxes	452	604	728	580	599	556	649	706	755	808	703
Non-tax revenues	804	1,080	1,372	1,456	1,827	2,417	2,813	3,434	3,388	3,485	3,746
Grants	550	678	543	1,024	701	1,434	1,617	1,476	1,983	1,695	2,923
In percent of GDP											
Overall Revenues and Grants	**23.4**	**25.4**	**25.1**	**27.2**	**28.4**	**29.9**	**28.8**	**29.6**	**29.1**	**27.1**	**26.7**
Total Revenue	21.2	23.1	23.6	24.7	26.8	27.0	25.8	27.2	26.2	24.9	23.1
Tax Revenue	18.0	19.5	19.8	21.1	22.8	22.0	20.6	21.5	21.2	20.4	18.6
Corporate income taxes	1.3	1.4	1.6	1.7	1.8	2.1	1.9	2.5	2.4	2.5	2.1
Personal income tax	1.8	1.9	2.0	2.3	2.4	2.7	2.5	2.6	2.6	2.5	2.3
Social security taxes	2.3	2.6	2.6	2.7	3.0	2.8	2.5	2.6	2.5	2.2	2.0
Property taxes	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Value added taxes (VAT)	7.4	8.4	8.5	9.1	10.2	9.4	8.7	8.7	8.6	8.3	7.7
Excises	0.7	0.6	0.5	0.7	0.8	0.7	0.6	0.6	0.6	0.8	0.8
Other taxes	2.3	2.3	2.2	2.8	3.0	2.7	2.8	2.9	2.9	2.7	2.4
International trade and operations taxes	1.8	2.0	2.0	1.4	1.3	1.1	1.2	1.2	1.1	1.0	0.9
Non-tax revenues	3.3	3.6	3.8	3.6	4.0	5.0	5.2	5.6	4.9	4.5	4.5
Grants	2.2	2.3	1.5	2.5	1.5	3.0	3.0	2.4	2.9	2.2	3.5

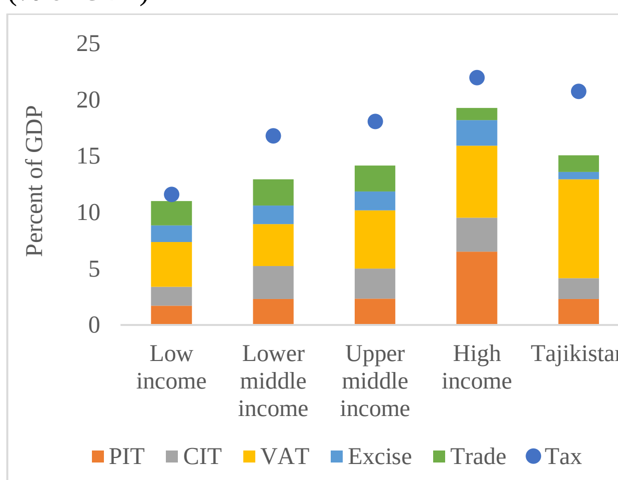
Source: MoF, TajState and WB staff calculations.

Figure 1.11: Tax Revenue Collection by Region, 2010–18
(% of GDP)



Sources: IMF and World Bank Staff calculations.

Figure 1.12: Tax Revenue Collection by Income Group, 2010–18
(% of GDP)

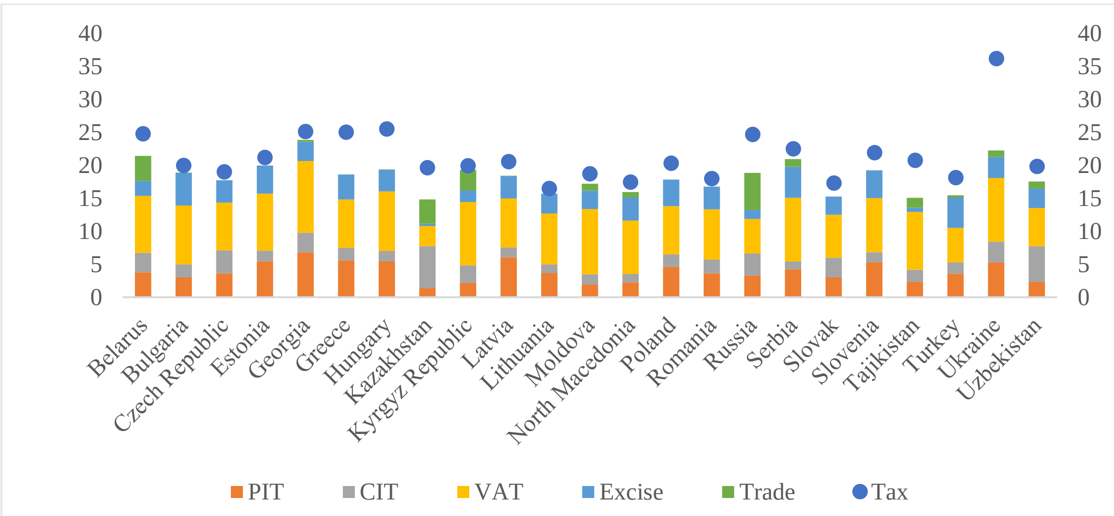


Sources: IMF and World Bank Staff calculations.

1.19 **Rapid economic growth, growing remittances inflows, and tax system improvements have boosted revenue performance.** Tax collection in Tajikistan compares well with regional and income-group averages. In 2019, taxes at all government levels represented 21 percent of

GDP, compared with a regional average of 13.4 percent (excluding high-income countries) and an average of 16.8 percent for lower-middle-income countries worldwide (Figure 1.12 and Figure 1.13) Tajikistan's performance exceeds that of middle-income countries both in terms of total tax revenue and in terms of revenue from individual taxes such as PIT, CIT, and VAT. However, the regional averages mask important country-specific differences in terms of total tax intake and collection by tax type (Figure 1.13), and the stock of tax credits in Tajikistan cannot be reliably estimated. Moreover, since 2020, a combination of slower economic growth, increasing tax exemptions, changes to the VAT threshold, and lower tax rates applied to specific economic sectors has reduced overall tax receipts.

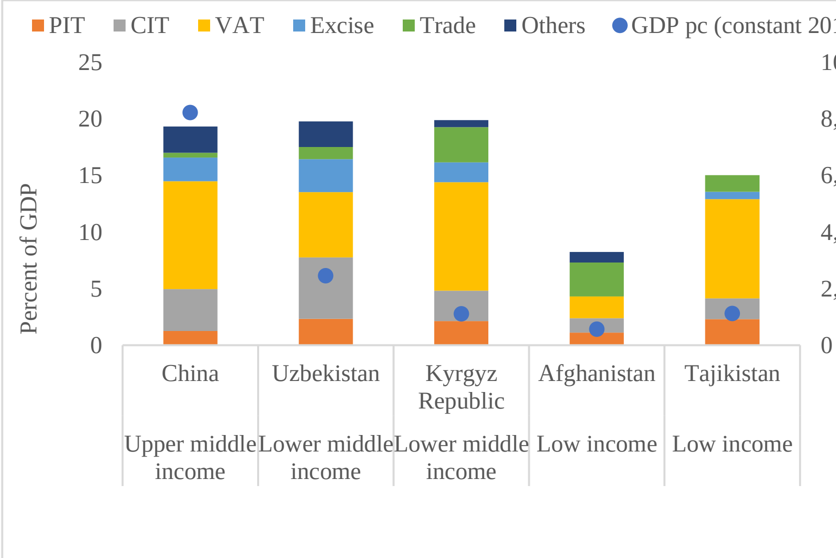
Figure 1.13: Tax-Revenue Collection, Tajikistan and Regional Comparators, 2010–18
(% of GDP)



Sources: IMF and World Bank Staff calculations.

1.20 **VAT is Tajikistan's most important tax on goods and services and its primary source of tax revenue.** In the past five years, VAT has accounted for 40 percent of total tax revenue, or about 8-10 percent of GDP, reflecting Tajikistan's consumption-based, import-reliant economy (Figure 1.14). The share of VAT receipts from foreign trade remains high at 64 percent, though it has fallen steadily from 80 percent in 2007 and 71 percent in 2010. While the share of VAT from domestic sales has been climbing as local manufacturing increasingly substitutes for imports, the domestic-VAT-to-import-VAT ratio remains low at just 51 percent in 2020.

Figure 1.14: Tax-Revenue Collection at Tajikistan's International Borders, 2010–18
(% of GDP)



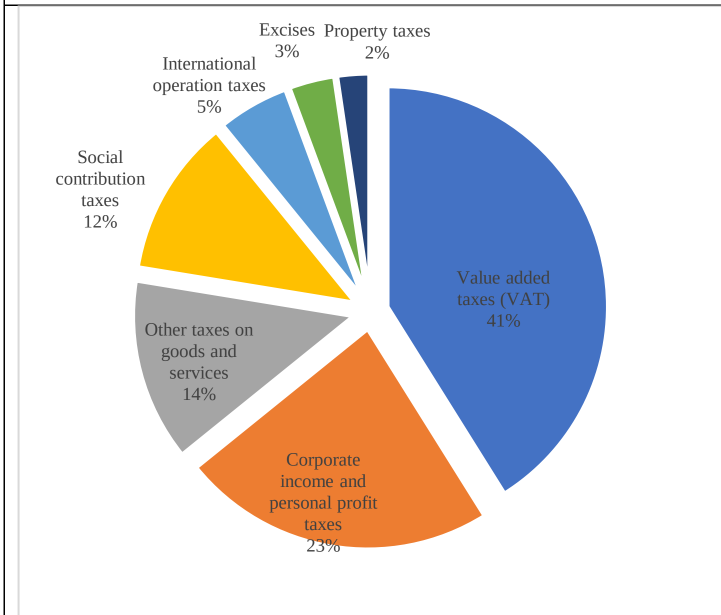
Sources: IMF and World Bank Staff calculations.

1.21 **CIT is the second-largest source of government revenue, accounting for 23 percent of total tax receipts in 2016-20 (Figure 1.15).** The contribution of CIT to the budget has steadily increased, rising from about 3 percent of GDP in 2009 to 4.9 percent in 2019 (Figure 1.16). The current tax code applies CIT rates of 13 percent to the production of goods and 23 percent to the production of services. This approach creates distortion in more sophisticated economic sectors, where many products are hybrids. The use of different CIT rates also increases administrative and compliance costs, and businesses may try to adjust their behavior to qualify for a lower rate.

1.22 **Nontax revenue is substantial and almost equal to CIT revenue.** In 2017-19, nontax revenue represented 4.4 percent of GDP, versus 4.7 percent for CIT revenue. Nontax revenue primarily derives from fees and duties charged for government services, proceeds from state-owned properties (including SOE dividends), [12] and fines and penalties for regulatory noncompliance. The collection of fines and penalties has recently increased as the government has intensified tax audits to meet its revenue targets.

[12] The law stipulates that SOEs transfer 10 percent of their profits to the state budget.

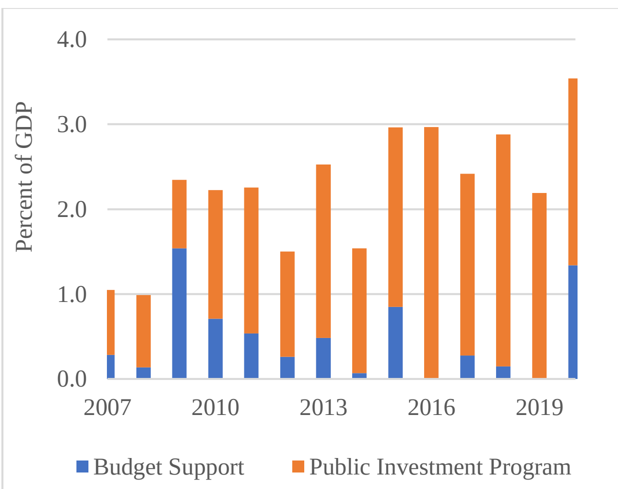
Figure 1.15: Sources of Tax Collections, 2016-20



Source: Ministry of Finance and World Bank Staff Calculations.

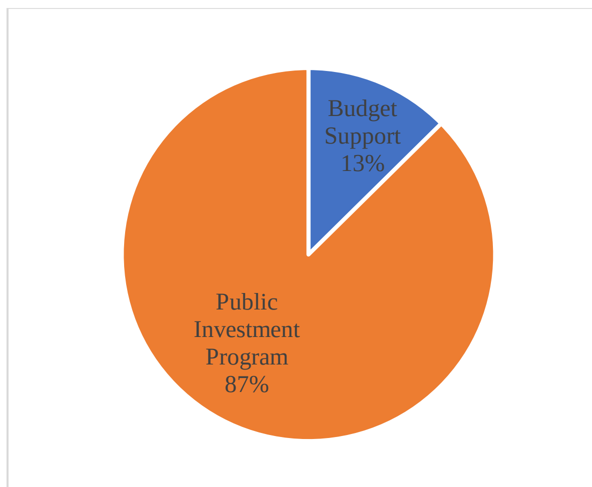
1.23 **Tajikistan receives significant support from external partners.** Donors have provided grants to support the country in developing its physical infrastructure and to finance the general budget deficit in times of economic headwinds. Public investment grants equaled an average of 2.4 percent of GDP over 2016-20, up from 1.1 percent in 2008-10. Similarly, budget-support grants spiked during the economic downturns of 2008-09, 2014, and 2020, representing 1.5 percent, 0.5 percent, and 1.3 percent of GDP, respectively (Figure 1.17 and Figure 1.18). Over the past five years, public investment grants accounted for 87 percent of total grant support.

Figure 1.16: Evolution of Donor Grant Support, 2008-20



Source: Ministry of Finance and World Bank Staff Calculations.

Figure 1.17: Composition of Donor Grants, 2016-20



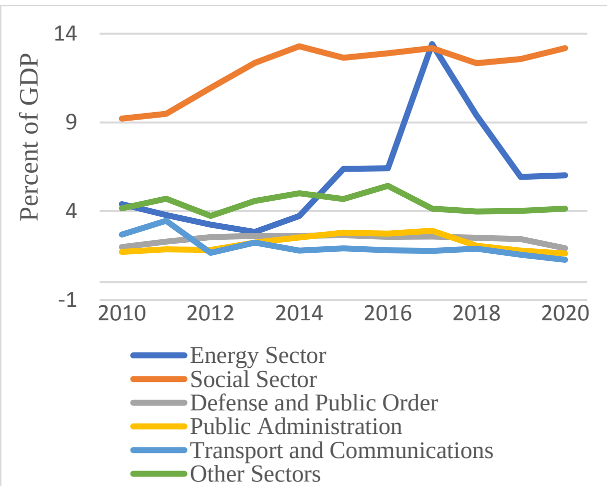
Source: Ministry of Finance and World Bank Staff Calculations.

Government Expenditures

1.24 **Public spending rose sharply from 28.5 percent of GDP in 2010 to 37.4 percent in 2016-17, then moderated to 30.5 percent in 2018-20.** The increase in expenditures was driven by infrastructure investment and the expansion of public services. Investments in the energy, social, and agricultural sectors drove the growth of capital expenditures. The share of external financing in total capital spending rose from 34 percent in 2010-15 to 39 percent in 2016-20. Meanwhile, public-sector wages and interest payments have put upward pressure on current expenditures, which account for almost 60 percent of total spending. The recapitalization of commercial banks caused net lending to spike to 6.0 percent of GDP in 2016.

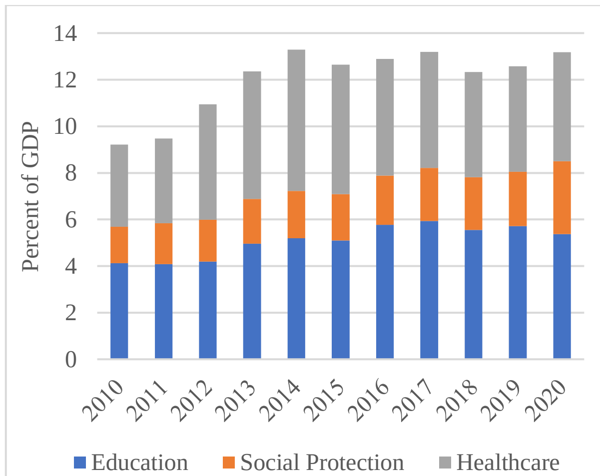
1.25 **The sectoral composition of spending reveals the government's clear prioritization of the social and energy sectors.** The authorities have directed almost 46 percent of total spending to programs involving healthcare, education, social protection, and culture. The second-largest share of public spending goes to the real sector, which accounts for 34 percent of total expenditure. The energy sector alone accounts for one-fifth of the state budget and over 40 percent of public investment. Energy security was identified as a major strategic goal in the National Development Strategy for 2016-2030 and its predecessors, which regarded the growth of the energy sector as pivotal to support industrialization, boost exports, and strengthen budgetary revenues. Tajikistan's rapidly growing population and increasingly ambitious targets for human capital development are driving the growth of social spending. Investing in human capital has been identified as another pillar of the country's development model, which seeks to promote economic competitiveness and industrialization through the expansion of science and technology (Figure 1.19 and Figure 1.20).

Figure 1.18: Evolution of Sectoral Expenditures, 2010-20



Source: Ministry of Finance and World Bank Staff Calculations.

Figure 1.19: Composition of Social Outlays, 2010-20



Source: Ministry of Finance and World Bank Staff Calculations.

1.26 **The construction of the Rogun HPP drives energy-sector expenditures.** In 2008, the authorities announced the resumption of the project, and during 2008-10 annual spending on Rogun equaled 4.5-5 percent of GDP. This share fell to 3-4 percent of GDP in 2011-15 due to a dispute over riparian rights with Uzbekistan, then rose to 13 percent in 2017 after the dispute was resolved. Financing for the Rogun HPP was partially secured through Eurobond issuance, as domestic resources were limited and donor financing for the project was not available. Between 2015 and 2020, energy-sector outlays accounted for one-quarter of total budgetary expenditures, and the Rogun HPP's pressure on the state budget is expected to remain elevated over the medium term. According to the revised schedule, annual financing needs from the budget will be limited at $200 million a year over the 2022-28 period. An additional expenditure of up to $175 million may be incurred if concessional financing of that amount becomes available.

1.27 **Social expenditures are primarily driven by the education and social protection sectors and less so by healthcare.** The steady rise of social spending reflects Tajikistan's demographic structure and rapidly growing population. Social outlays increased gradually from 5 percent of GDP in the early 2000s to 9 percent in 2009-11, then reached 11-13 percent in subsequent years (Figure 1.21). However, the share of social spending in the total state budget declined from 45-47 percent during 2012-14 to an average of 39 percent over the past five years. Large-scale spending on the energy sector, transportation, and other physical infrastructure has constrained opportunities to invest in the country's human capital development.

1.28 **The education sector accounted for 45 percent of total social spending during 2017-19.** Education expenditures rose from 4.4 percent of GDP in 2010 to 5.7 percent in 2019 (Figure 1.22), well above both the 3.4 percent average for low-income countries and the regional average of 4.8 percent. The successful introduction and implementation of a population-based financing mechanism in 2010 has effectively indexed expenditure growth and enhanced the education system's quality. This reform also afforded schools more autonomy over the management and allocation of public funds, which further increased school-level resources.

1.29 **The second-largest social sector is social protection, which accounted for 37 percent of total social spending between 2017 and 2019.** State budget expenditures on social protection rose gradually from 2-3 percent of GDP in the early 2000s to 5-6 percent in 2012-16. Pension schemes account for about three-quarters of social-protection expenditures, while social-assistance transfer programs to vulnerable households and social services for the disabled make up the rest. Pensions are financed through a social tax, with formal employers contributing 93 percent of total revenues, including around 35-40 percent from state-financed entities. Due to low profits and low tax rates, revenue from social taxes among the self-employed and agricultural workers is insignificant. In 2017, the government changed the pension system from a conventional defined-benefit model to a notional defined-contribution approach. This change, combined with the lack of an adequate indexation mechanism, reduced public pension expenditures from over 4 percent of GDP in 2012-16 to 3.3 percent in 2018-19.

1.30 **The targeted social assistance (TSA) program has evolved from a small pilot initiative to a nationwide system of targeted transfers**. Prior to 2011, social assistance was largely restricted to subsidies for electricity and natural gas, as well as a small conditional cash payment program to poor households with school-aged children. In 2011, the government established the TSA program, which gradually expanded from two pilot districts to 10, then 25, and reached 40 districts in 2016-17. After a significant delay, the program was rolled out to the entire country in mid-2020 and is expected to cover the 220,000 poorest households, or approximately 15 percent of the population. The government increased budget allocations to the TSA program from TJS 39 million in 2019 to TJS 86 million in 2020. However, the annual transfer amount of TJS 464 per household[13] remains inadequate to meet the program's objectives for poverty reduction and household wellbeing (Box 1.1).

[13] Given that the average household size is six people in Tajikistan, this amount is equal to TJS 6.4 per month per person. In 2019, the food/extreme poverty line was about TJS 166 per month per person.

Box 1.1: Recent Reforms to the Targeted Social Assistance Program

Tajikistan's TSA program uses a proxy means test to identify eligible households. The program records beneficiary information in a centralized electronic database managed by the State Agency for Social Protection. To maintain consistent real benefits over time, the government introduced an automatic indexation mechanism linking the value of the TSA benefit to a standard "budget unit" and adjusting that value annually as part of the budget-approval process. The benefit was increased to TJS 460 in the fall of 2020. With transfers equal to just 9 percent of the minimum wage, the TSA benefit has little impact on the poverty rate, although beneficiaries see it as an important contribution to household income.

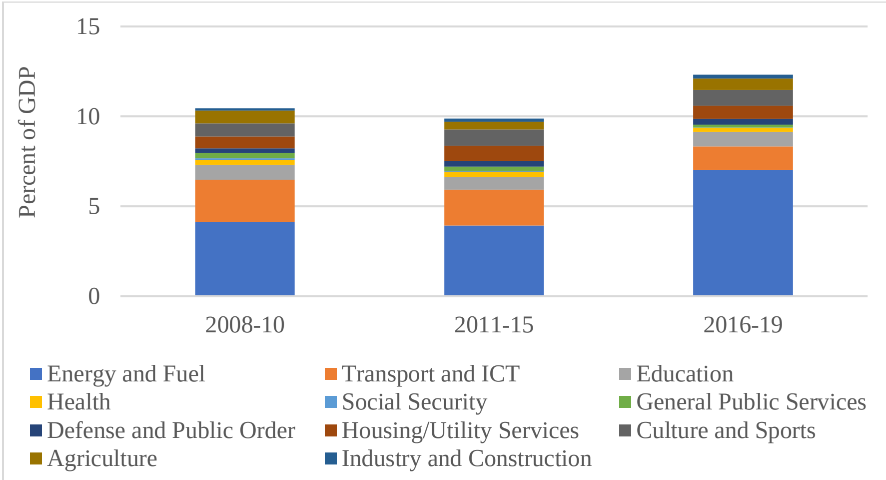
The TSA benefit infrastructure provided a foundation for emergency response during the COVID-19 pandemic, as emergency cash assistance was channeled to those already in the registry. Several categories of vulnerable households have been preliminarily identified, but the link between this initiative and the TSA has yet to be formally defined. The role of the TSA program in responding to natural disasters also requires further elaboration, as cash transfers are a vital but limited part of an emergency response-system, and support provided via the TSA mechanism must be coordinated with the activities of other government agencies. In addition, the TSA benefit could be adjusted on a seasonal basis to compensate for changing energy costs.

Further adjustments to the design of the TSA program will be required to address the specific risks and needs of the population. Benefit amounts will need to be differentiated to account for the consumption needs and living conditions of different households, and both the proxy means test formula and eligibility threshold must be updated. To enable the system to respond dynamically to emerging needs and unexpected shocks, a mechanism to allow for greater flexibility in the TSA threshold will be required. Finally, the TSA budget must be modified to properly reflect the cost of administering the transfer mechanism.

Source: Ministry of Finance and World Bank Staff

1.31 **Tajikistan has universal healthcare, but the share of public funding devoted to the health sector has increased only slightly in recent years.** State budget expenditures on healthcare increased from 1.6 percent of GDP in 2010 to 2.3 percent in 2019 and accounted for 17 percent of total social outlays during 2015-19. Healthcare spending in Tajikistan is above the average for low-income countries at 1.2 percent of GDP but remains well below the 3.1 percent average for the region (excluding high-income countries). Healthcare in Tajikistan is financed via tax revenues, and allocations are determined by inputs, such as the number of hospital beds and staff, in line with the Soviet-era *semashko* model. Salaries absorb more than 80 percent of health spending, and only 30 percent of the health budget goes to primary care, suggesting significant scope for further efficiency gains. The government is striving to improve the system by implementing performance-based financing and establishing a basic benefits package, but these initiatives are still in the pilot stage and have yet to yield significant results. During the pandemic, public health expenditures increased by 44 percent to 3.1 percent of GDP. Much of this increase was financed by the donor community, and domestic financing remains relatively low. The 2021 state budget earmarked TJS 2.4 billion for healthcare, 9 percent less than in 2020 and equivalent to just 2.5 percent of GDP.

Figure 1.20: Capital Expenditures by Sectors, 2008-19

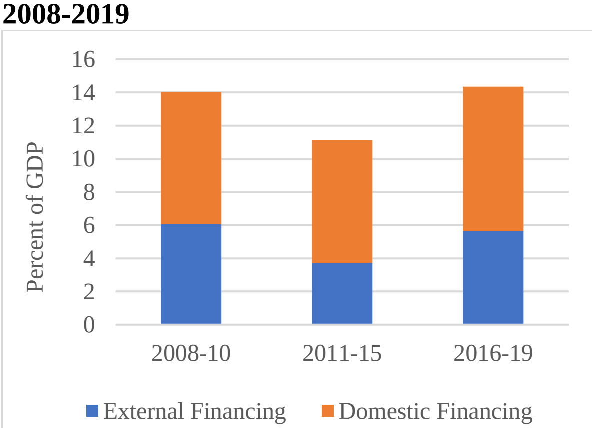


Source: Ministry of Finance and World Bank Staff Calculations.

1.32 **Tajikistan's capital budget is significantly larger than those of its regional peers, and capital spending is focused on the energy and transport sectors.** Between 2016 and 2020, the capital budget averaged 14.4 percent of GDP. Due to the ongoing construction of the Rogun HPP, capital spending in the energy sector has soared to 7 percent of GDP, followed by the transport sector at 1.3 percent of GDP (Figure 1.22). Along with the energy sector, the current National Development Strategy has prioritized the development of transportation and communications in an effort to tighten linkages with neighboring countries. Public investment in these two sectors accounted for 68 percent of total capital expenditures during 2016-20.

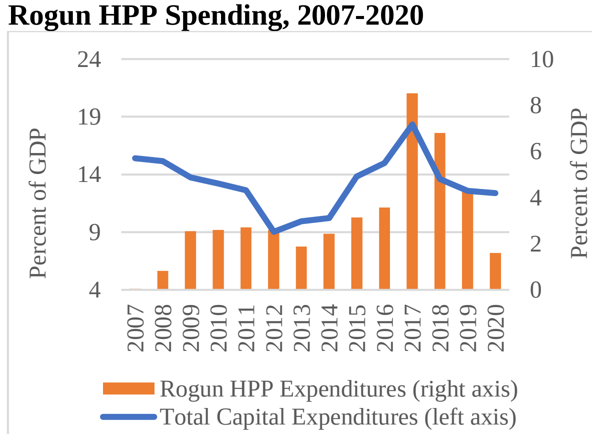
1.33 **Capital spending in the social sectors remains low and stable at about 1 percent of GDP.** However, the social sectors' share in total capital expenditures has declined due to rising investment levels in other sectors, dropping from 11.4 percent in 2008-10 to 10.4 percent in 2011-15 and reaching just 8.5 percent in 2016-19 (Figure 1.21). Most social-sector investments have been supported by development partners and have concentrated on education and healthcare.

Figure 1.21: Capital Expenditures by Source, 2008-2019



Source: Ministry of Finance and World Bank Staff Calculations

Figure 1.22: Total Capital Expenditures and Rogun HPP Spending, 2007-2020



Source: Ministry of Finance and World Bank Staff Calculations

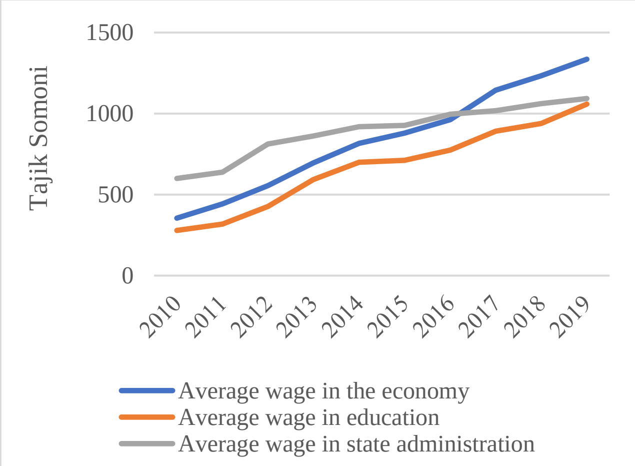
1.34 **Tajikistan finances capital expenditures both from domestic and external sources.** The republican budget, local budgets, and sometimes extra-budgetary funds constitute major sources of domestic financing for public investment programs. Other sources of financing that are almost exclusively directed to the energy sector included Eurobonds, energy-sector treasury bonds, and sales of gold from the government vaults. Key external financing sources for public investment include loans and grants from multilateral organizations, as well as loans from the Chinese government. The Tajik government often participates in public investment by co-financing development projects. Domestic financing sources accounted for over 60 percent of total capital expenditures in 2016-19, and Chinese loans represented 19 percent of total foreign financing during the period (Figure 1.22). Most Chinese loans have focused on the transportation, communications, and energy sectors.

1.35 **Fluctuations in capital spending primarily reflect the Rogun HPP's unstable financing arrangements.** Moderating spending on Rogun HPP from 8.5 percent of GDP in 2017 to 1.6 percent in 2020, reduced the level of total capital investments to 12.8 percent of GDP (Figure 1.23). The government projects that total capital spending in the energy sector will drop below 9 percent of GDP in the medium term. Nevertheless, the energy sector is forecast to consume almost 50 percent of all public investment during 2021-23, followed by the transportation sector at 17.5 percent. Meanwhile, the social sectors are projected to account for just 11 percent of total capital spending.

1.36 **The public-sector wage bill drives current expenditures.** Compensation for public employees rose from 3.7 percent of total budget expenditures in 2000 to 4.3 percent in 2010 and reached 6.7-7.0 percent in 2014-20. Until 2009, the wage bill continued to increase despite significant cuts to public employment, as the government boosted base pay to match the prevailing wage rates in the private sector (Figure 1.24). Public-sector employment declined by 22 percent between 2000-10, falling from 558,000 to 433,000 positions, then recovered modestly to 491,000 by 2019. However, wage growth was much faster, with a regular increase of 10-15 percent about every two years.[14] Over the past five years, the wage bill has accounted for 39 percent of total recurrent expenditures (Figure 1.25).

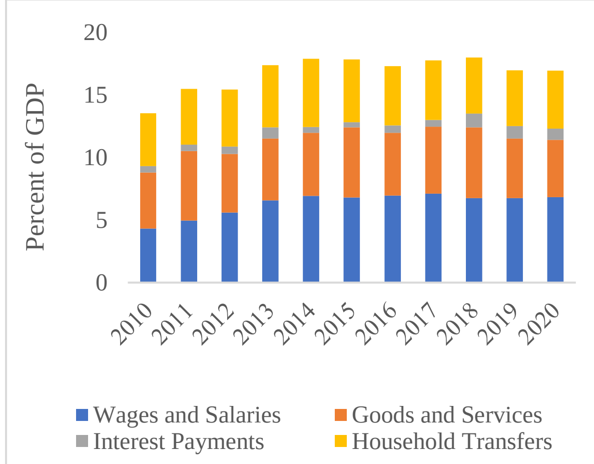
[14] The last three adjustments took place in 2016 (15-30 percent), 2018 (by 10-15 percent) and 2020 (by 10-15 percent). Higher adjustment in 2016 reflects postponed wage increase commitment from 2015.

Figure 1.23: Average Nominal Wages in the Public and Private Sectors, 2010-19



Source: TajStat and World Bank Staff Calculations.

Figure 1.24: Composition of Current Expenditures, 2010-20



Source: Ministry of Finance and World Bank Staff Calculations.

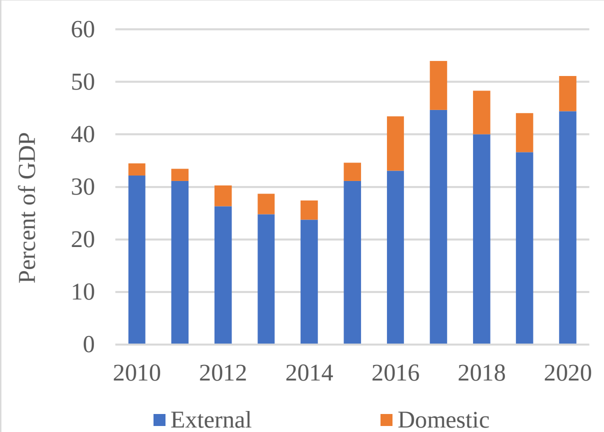
1.37 **Other current expenditures, including payments for goods and services and cash transfers to households, have also steadily increased.** Between 2016 and 2020, spending on goods and services equaled 5.1 percent of GDP and transfers equaled 4.6 percent. Increases in both expenditure types have been broadly consistent with trends in revenue collection. Although the amended budget for 2020 increased social spending by 10 percent, the impact of this change was limited as a share of GDP. The Eurobond considerably increased the burden of interest payments, which doubled between 2018 and 2020 to about 1 percent of GDP (Figure 1.25).

The Evolution of the Public Debt Profile and Debt Sustainability

1.38 **Tajikistan accumulated most of its public debt in the wake of economic shocks in 2014-15 and 2020, as the government borrowed to finance countercyclical fiscal policies.** As a result of the significant expansion in government expenditures, the level of public debt doubled from 27.4 percent of GDP in 2014 to 54 percent in 2017. A subsequent fiscal consolidation reduced the public debt stock to 44 percent of GDP by 2019, but the pandemic compelled the government to resume an expansionary fiscal policy supported by foreign borrowing. By the end of 2020, the public debt stock had reached US$3.7 billion or 51 percent of GDP (Figure 1.26). The two largest pandemic-related loan disbursements came from the IMF's Rapid Credit Facility (US$189.5 million) and the Eurasian Fund for Stabilization and Development (US$50 million).

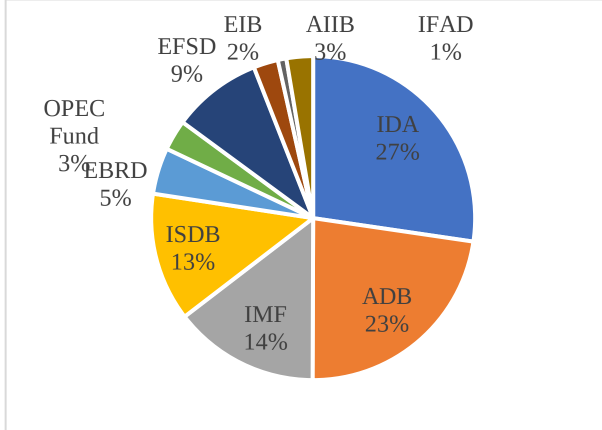
1.39 **As of end-2020, external loans accounted for about 87 percent of Tajikistan's total outstanding public debt.** Most of the country's external debt is owed to China's Export-Import Bank (35.6 percent), followed by the World Bank (11 percent), and the Asian Development Bank (9.1 percent). The shares of multilateral and bilateral loans are almost equal, with both representing about 41 percent of the total outstanding public debt stock. The current debt portfolio is predominantly concessional (Figure 1.27). Commercial loans account for 15.4 percent of the total public debt stock and consist primarily of the US$500 million Eurobond issued in 2017.

Figure 1.25: Evolution of Public Debt, 2010-2020



Source: Ministry of Finance and World Bank Staff Calculations.

Figure 1.26: Composition of Multilateral Debt, 2020



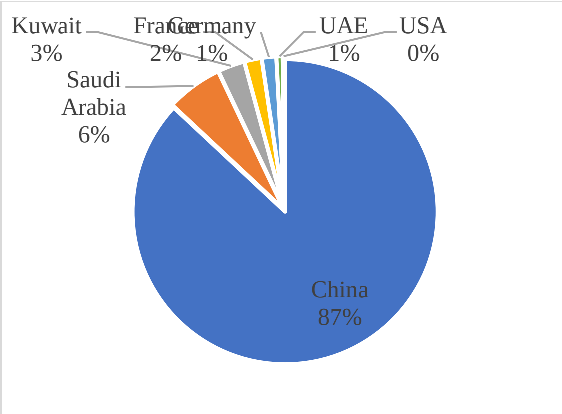
Source: Ministry of Finance and World Bank Staff Calculations.

1.40 **Except for the Eurobond, Tajikistan's external loans were contracted at low interest rates and on concessional terms.** Nominal interest rates on official external loans range from 0 percent to 3 percent per year. While most multilateral loans are offered at fixed rates, funds from the European Bank for Reconstruction and Development, Asian Infrastructure Investment Bank, and European Investment Bank have fixed interest spreads over the LIBOR. Among loans from official creditors, the IMF's Extended Credit Facility is the least expensive, with a 0 percent interest rate, while the bilateral loan from the United States is the most expensive, with an interest rate of 3 percent. Tajikistan's largest bilateral creditor, China's Export-Import Bank (Figure 1.28), charges 2 percent per year in line with many other bilateral creditors. The Eurobond is the costliest loan overall, with an interest rate of 7.125 percent.

1.41 **At 13 percent of GDP, domestic debt consists primarily of banking-sector bailout bonds, most of which are held by the NBT.** Although Tajikistan has been issuing domestic treasury bills for more than a decade, the domestic debt market remains shallow and is composed of 91-day treasury bills, limiting the long-term development of capital markets. Moreover, real interest rates on government borrowing are negative, and the Ministry of Finance cancels auctions when the price of borrowing rises above a certain level.[15] The largest buyers of treasuries are the Deposit Insurance Fund and the Agency for Social Insurance and Pensions—entities that are legally barred from investing in foreign securities (Figure 1.29). In 2020, the government conducted 10 auctions for T-bills worth a total of TJS 625 million. The average nominal yield for T-bills is 0.99 percent per year.

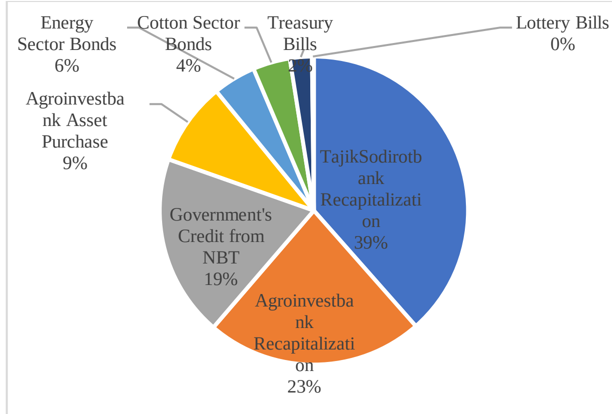
[15] The Ministry of Finance cancelled three auctions in 2020 because of higher-than-expected interest rates.

Figure 1.27: Composition of Bilateral Debt, 2020



Source: Ministry of Finance and World Bank Staff Calculations.

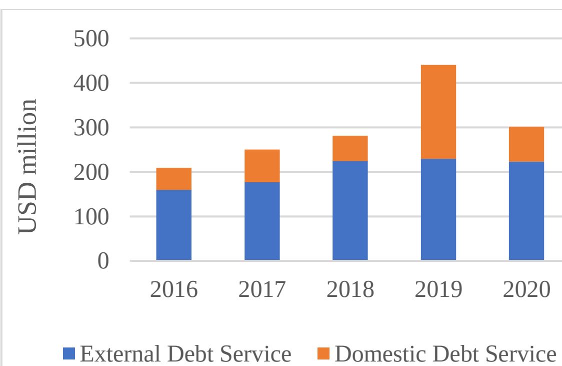
Figure 1.28: Composition of Domestic Debt, 2020



Source: Ministry of Finance and World Bank Staff Calculations.

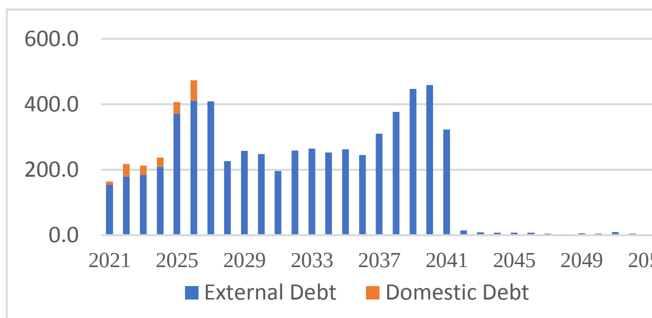
1.42 **Over the last five years, Tajikistan's debt-service burden has steadily increased.** Annual debt-service costs rose from US$209.2 million in 2016 to US$301.3 million in 2020, with a sudden increase in 2019, when TJS 880 million in NBT recapitalization bonds matured.[16] Tajikistan's participation in the Debt Service Suspension Initiative (DSSI) eased debt-service pressure in 2020, and the authorities managed to defer US$43.5 million of external debt service to the medium term (Box 1.2). In 2020, total debt-service costs amounted to US$223.2 million for external debt and TJS 570 million for domestic debt (Figure 1.30).

Figure 1.29: Debt Service Cost



Source: Ministry of Finance and World Bank Staff Calculations.

Figure 1.30: Public Debt Redemption Profile as of end-2020, USD Million



Source: Debt Sustainability Analysis 2021.

1.43 **The repayment profile for external loans will remain high through 2027 and then decline gradually thereafter.** The three-year repayment of the Eurobond will boost external repayment obligations during 2025-27. However, domestic debt has a shorter maturity structure, and its repayment profile ends in 2023. (Figure 1.31).

[16] In the same year, the Ministry of Finance borrowed a direct loan from the NBT for TJS 1.165 million.

1.44 **The refinancing risk to the current debt portfolio primarily stems from the short maturity of domestic debt.** The debt portfolio's average maturity is about 7.3-8.4 years for external debt but only 1.7 years for domestic debt. Exposure to interest-rate risk is moderate, as 95.8 percent of existing debt has fixed interest rates. However, external debt represents 86.9 percent of the total debt stock, leaving the debt portfolio highly exposed to foreign-currency risk.

Box 1.2: Tajikistan's Participation in Debt Service Suspension Initiative

Following the announcement of the DSSI by the G20 on April 15, 2020, Tajikistan signed a Memorandum of Understanding (MoU) with the Paris Club and reached similar agreements with China and other non-Paris-Club members to defer bilateral debt-service obligations. The country's external public debt stock amounted to US$2.9 billion at end-March 2020, of which US$1.3 billion was owed to bilateral creditors. The total debt service due to bilateral creditors in 2020 was US$88.5 million, of which suspended principal and interest payments from May 1st to December 31st, 2020, accounted for US$43.5 million.

On May 12, 2020, Tajikistan requested the suspension of principal and interest payments by all official creditors, including multilateral organizations such as the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the OPEC Fund for International Development. The authorities committed to using the newly created fiscal space to increase public spending on social protection, health, and economic measures to mitigate the impact of the COVID-19 pandemic. In its official request to creditors, the government committed to working closely with international financial institutions to: (i) establish a monitoring system to oversee the disclosure of all public-sector debt while respecting commercially sensitive information; and (ii) avoid contracting new non-concessional loans during the suspension period. After several rounds of negotiations, the government secured debt-service suspensions from China, Kuwait, and Germany, which together account for 95 percent of Tajikistan's bilateral debt.

Tajikistan's largest bilateral creditor, China, agreed to suspend payments in a net-present-value-neutral manner, charging a 2 percent interest rate on the suspended amount in line with the G-20 communique and term sheet. Kuwait and Germany agreed to suspend payments at a 0 percent interest rate. All three creditors provided a two-year grace period and designated a repayment period during 2022-24.

Source: Ministry of Finance and World Bank Staff

1.45 **Tajikistan's risk profile quickly deteriorated after the aggressive accumulation of debt in 2016-17, and the most recent Debt Sustainability Analysis (DSA) concluded that the country remains at high risk of debt distress.** Tajikistan moved from being at low risk of debt distress in 2014-15 to moderate risk in 2016 and high risk in 2017. Despite significant debt reduction in subsequent years, the fallout of COVID-19 shock led to the accumulation of new debt thus exacerbating debt sustainability indicators in 2020-21.

1.46 **The 2021 DSA found that Tajikistan's sovereign debt is most vulnerable to export shocks and contingent liabilities.** Under the baseline scenario, one indicator of the external debt burden—the debt-service-to-exports ratio is projected to breach the threshold during 2025-28. The three-year breach starting in 2025 is due to the Eurobond and the RCF principal repayments. The other flow indicator, debt service-to-revenue ratio, remains below the threshold under the baseline. Both solvency indicators are stable throughout the projection horizon. Under the stress scenarios, two external debt indicators breach their respective thresholds. Shocks to exports are the most extreme and impactful for debt-to-exports and debt-service-to exports indicators. The baseline scenario and standardized stress tests both underscore the importance of broadening the export base and containing the contingent liabilities.

1.47 **Debt dynamics have been assessed as sustainable based on the authorities' commitment to a medium-term fiscal discipline equal to about 2.7 percent of GDP while**

refraining from non-concessional borrowing until Rogun power purchase agreements are signed. If the fiscal discipline falls short of its target, or if the authorities resort to non-concessional borrowing, the debt path could rapidly deteriorate. A more severe or prolonged pandemic-related shock could also heighten debt vulnerabilities. On the other hand, greater-than-expected progress in economic diversification and/or a sharp increase in energy and non-energy exports could improve long-term debt sustainability.

1.48 **Tajikistan's public finances are likely to remain under pressure over the medium term.** High levels of public infrastructure investment will persist, especially in the energy sector as the construction of the Rogun HPP continues. The medium-term public investment program envisages TJS 28.8 billion (9.3 percent of GDP) in investment during 2021-23.

1.49 **Public debt service is another major source of expenditure pressure.** The debt-service burden has steadily increased, rising from 1.5 percent of GDP in 2014-15 to 2.5 percent in 2018-19. Debt service on direct loans will remain high until 2023 and increase rapidly starting in 2025 due to Eurobond and RCF repayments. Meanwhile, debt-service payments suspended under the DSSI will come due in 2022-24.

D. The Medium-Term Outlook

1.50 **Tajikistan's economic outlook hinges on the availability and efficacy of vaccines, the pace of the vaccination rollout, and the resiliency of the global economy to new waves of the pandemic, including those caused by the Delta variant.** The G7 recently announced the donation of one billion vaccine doses during the coming year, which is expected to bolster the availability of vaccines in Tajikistan within the next few months. However, the timeline for vaccine deliveries to Tajikistan has yet to be confirmed, and the government is unlikely to achieve its vaccination targets before the second quarter of 2022. Climate change also threatens Tajikistan's growth prospects, as the country remains highly exposed to droughts, floods, and extreme weather events. Moreover, structural challenges, including economic losses stemming from inefficient SOEs and weaknesses in the business environment, continue to weigh on Tajikistan's growth prospects. The financing structure of Rogun is a critical determinant of Tajikistan's outlook.

1.51 **The medium-term outlook is sensitive to geopolitical developments a swift global and regional economic recovery, and the implementation of comprehensive domestic structural reforms.** Tajikistan's economy continues to benefit from strong inflows of remittances, foreign investments, and resurgent regional trade. The development of the private sector plays a key role in the government's reform agenda, which also entails a renewed focus on promoting a business-friendly tax regime, strengthening the competition framework, and protecting private investments. Under this scenario, regulatory and bureaucratic challenges related to efficiently opening, running, and closing a business are removed at all levels of government, and pro-business reforms bolster confidence in the rule of law among investors and entrepreneurs. The government addresses management issues among inefficient SOEs and allows the private sector to play a bigger role in the economy. The CBT supports growth by maintaining a competitive exchange-rate regime, creating a credible price-stability framework, strengthening payment systems (including digital payment infrastructure), and ensuring the robust oversight necessary for financial stability. Restoring trust in the banking system and deepening the financial sector by developing government securities help attract domestic and foreign savings and improve credit access in the economy. Fiscal policy prioritizes education, healthcare, and support for vulnerable households by expanding and improving social programs. Finally, debt-management practices and financing models for the Rogun HPP and other large infrastructure projects are reformed in line with international best practices to safeguard fiscal and debt sustainability.

1.52 **Over the medium term, the Rogun HPP's financing needs will be the single greatest source of pressure on the public finances.** If the current financing model is maintained, medium-term annual budgetary spending on Rogun is projected to limit at US$200 million, plus an additional $175 million that would be subject to the availability of concessional financing, in line with the authorities' commitments under the 2020 Rapid Credit Facility by IMF.[17] Under the current financing model, the project relies wholly on the regular financing from the state budget, and spending on the Rogun HPP crowds out necessary social expenditures, jeopardizes macroeconomic stability, and exacerbates the risk of debt distress. The public sector has also accumulated expensive non-concessional external debt in the form of a Eurobond issued to finance the project. As the pandemic continues to intensify pressure on the health sector and increase demand for social assistance, the opportunity cost of financing the Rogun HPP solely through the budget is rapidly rising. Drawing heavily on the international experience, a new study by the World Bank is in the formulating options for the government of Tajikistan on financing options for the Rogun HPP.

1.53 **A substantial body of economic literature reveals the lasting scars inflicted by substantial economic shocks.** High levels of unemployment, falling incomes, and reduced economic activity negatively impact the human capital by undermining early childhood nutrition, disrupting education, and slowing the accumulation of workforce skills. Depressed investment during a crisis can reduce an economy's productive capacity for years thereafter, delaying the development of new technologies and innovations. Moreover, the urgent need to address the exigencies of the crisis can distract attention from the government's structural reform agenda.

E. CHALLENGES AND RISKS

1.54 **An exceptional degree of uncertainty clouds Tajikistan's economic outlook.** The country's development trajectory hinges on numerous exogenous factors related to the COVID-19 pandemic and its economic aftermath. Meanwhile, the risks associated with climate change continue to steadily mount. In both cases, the country's worsening debt profile constrains the scope for an effective policy response to future shocks.

1.55 **Tajikistan's heavy reliance on remittance inflows, dependence on imports, and narrow range of export commodities exacerbate its external risk exposure.** This long-term structural challenge is embedded in the country's remittance-oriented growth model and import-tax-based approach to revenue administration. Fiscal revenues and household welfare are extremely vulnerable to global food and fuel prices, while the concentration of exports in metals

[17] https://www.imf.org/en/Publications/CR/Issues/2020/05/07/Republic-of-Tajikistan-Request-for-Disbursement-under-the-Rapid-Credit-Facility-Press-49397

and minerals heightens the country's sensitivity to external commodity-price fluctuations and destabilizes the external trade balance.

1.56 **Tajikistan's large and inefficient SOEs are another significant source of fiscal vulnerabilities and economic distortions.** Most of the country's large SOEs are loss-making, and transfers of dividend income from SOEs to the state budget are trivial. Moreover, SOEs benefit from direct or indirect subsidies from the state, and taxpayers constantly repay SOE loans, clear arrears to their suppliers, and write-off their tax liabilities. Most SOEs operate in economic sectors where competition is demonstrably viable and where the preferential treatment of state entities distorts the allocation of economic resources.

1.57 **The government has made significant progress in improving the business environment, but deeper reforms will be necessary to achieve its objectives for private-sector-led growth.** The country was among the top ten reformers in the 2020 edition of *Doing Business*, though it still ranked relatively low at 106th out of 190 economies worldwide. The private sector lacks reliable access to essential public and private services, especially electricity and construction, and firms report serious difficulties in paying taxes, resolving insolvency, and trading across borders. Protecting property rights, strengthening the rule of law, and combatting corruption will be vital to foster private investment.

1.58 **In the context of Tajikistan, growth-oriented fiscal policies could be considered to have three dimensions**: (i) the creation of fiscal space through revenue policies; (ii) the steering of expenditures towards building capital – human and physical – to support resilience; and (iii) measures to restore fiscal sustainability. Considerations underlying these policies are efficiency and neutrality in raising revenues in a system that embeds strong incentives for private sector expansion; inclusion in spending; and greening the recovery.

1.59 **The reformed revenue policy should not aim at raising the tax burden, but rather at reducing the inefficiencies of the tax system**. Revenues equivalent to around 27 per cent of GDP would be adequate towards funding public expenditures. Elimination of inefficient tax exemptions and preferential treatments could create room for lowering and shifting the tax burden. International experience shows that the deadweight losses of such instruments are high and that their removal is generally associated with few adverse effects on investment and production. But they should be replaced by a set of well-designed and well-targeted tax incentives to encourage private investment. In particular, measures to reduce the cost of capital for investors via accelerated depreciation schemes, investment tax credits, and super deductions tied to investment have proven to be effective.[18] There is a strong case for replacing the system of preferences that are estimated to cost 4.8 per cent of GDP, possibly in a revenue-neutral fashion.

1.60 **It is well recognized that almost all categories of expenditure have implications for the growth potential of the economy.** A key priority of public expenditure policies in Tajikistan will be to counter the long-term scarring effects on the economy from the pandemic. The strategy for rebuilding human capital requires concerted efforts on policy and institutional reforms and adequacy in public expenditures in support as well as a re-direction of public expenditures to build back better. The World Bank work has identified the major areas for attention for building back

[18] Discussed in the IMF paper, *op. cit.*

more resilient and inclusive as health and nutrition; education; employment; and social protection.[19] Overarching considerations that cut across all these themes relate to the management of public finances for results and the use of digitalization to improve the quality of services.

1.61 **The potential for creating fiscal space and reaping efficiency gains, not least by incentivizing entry of private capital into a new range of activities, lies through reform of SOEs in Tajikistan.** It is particularly deleterious when SOE also play a regulatory role in their sector. Lack of competitive neutrality arises from favorable tax treatment, access to finance and land, other non-fiscal support, and regulation. Low productivity results from soft budget constraints and absence of market discipline. Except for Tajik Cement and some SOEs operating in the aviation sector, most SOEs operate at low profitability or are loss-making despite the fiscal benefits. Earlier this chapter presented detailed statistics on SOE operation in Tajikistan in the context of a discussion on immense fiscal risk emanating from SoEs.

1.62 **The efficiency of public investment has important implications for growth.** The impact of well-chosen, appraised and managed public investment on growth is well documented in the literature,[20] which shows that countries with more efficient public investment also see a stronger relationship between investment and economic growth, i.e., public capital—when adjusted for efficiency—is a significant contributor to growth. The IMF argues that the growth dividend from investment can be significant but is limited when the investment process is inefficient.[21]

F. Recommendations

1.63 **To advance its overarching development goals, the government must ensure fiscal and debt sustainability while creating the budgetary space necessary to finance investment in human capital.** The authorities must continue to pursue gradual fiscal consolidation, refrain from non-concessional borrowing, and ameliorate the risk of debt distress. Addressing these complex challenges will require the adoption of modern debt-management practices, the development of tools to conduct in-house DSAs, and the cultivation of a domestic securities market that deepens the financial sector while reducing the external exposure of the debt profile. Refocusing public investment from infrastructure to the social sectors would complement the government's fiscal consolidation efforts by mitigating the pandemic's impact on human capital and easing the long-term expenditure pressures caused by protracted unemployment, undernutrition, and lost education. Finally, alleviating the budgetary pressure imposed by the Rogun HPP and securing a financing mode for the HPP that would enable the state to create a space for investment in physical and human capital would also reduce the government's reliance on donor funding for its public investment program.

[19] The GRID paper, *op. cit.* Also, *Investing in Human Capital for a Resilient Recovery: The Role of Public Finance* (World Bank, 2021). This section draws on these two documents.
[20] Aghion, P., and P. Howitt, *Economics of Growth* (MIT Press, 2009); Buffie, E., et al, "*Public Investment, Growth, and Debt Sustainability: Putting Together the Pieces*," (IMF, 2012).
[21] IMF paper, *op cit.*

Chapter 2. Attaining Sustainable Public Financial Management

A. INTRODUCTION

2.1 **The Government of Tajikistan continues to build on its public finance management (PFM) system reform agenda.** The National Development Strategy (NDS) of Tajikistan for the period until 2030 provides overarching direction of the national PFM system and is complemented by the PFM Reform Strategy (PFMRS) until 2030, endorsed in 2020. The main objectives of PFM reform for the next ten years include: (i) improving fiscal discipline, (ii) enhancing allocative efficiency of public resources, (iii) strengthening control over the use of financial resources and targeted public expenditure, (iv) realistic and strategic planning of public expenditure for defined priorities, (v) increasing operational efficiency, and (vi) ensuring transparency and accountability of public financial resources.

2.2 **The latest 2017 PEFA assessment revealed modest progress in the PFM system in Tajikistan.** As PFM reform covers a vast range of areas, the chapter will focus on the main bottlenecks and binding constraints that impede effective functioning of PFM institutions, processes and systems. Progress on these fronts was mixed and non-uniform, as reflected in improvements observed in 16 out of 31 performance indicators.[22] Notably, progress was recorded in: (i) predictability and control in budget execution, (ii) accounting, recording and reporting, and (iii) external scrutiny and audit. On the other hand, policy-based budgeting reforms, such as the medium-term expenditure framework (MTEF), stalled, demonstrating only marginal change in performance during 2012-2017. Also concerning, credibility of the budget and comprehensiveness and transparency of public finances deteriorated in comparison with the 2012 PEFA assessment.

2.3 **Improvements in budget planning are needed to enhance credibility of public spending and increase overall fiscal discipline.** Budget planning suffers from both the poor quality of revenue forecasting and the significant level of deviation of expenditure outturns from approved plans. Progress in budget planning is also hindered by incomplete and slow implementation of policy-based budgeting reform. This stems from too many higher-level spending units, which leads to fragmentation in the system and divergence between policy planning and budgeting.

2.4 **Improvements are also needed in inter-governmental fiscal relations to ensure effective financing and delivery of public services.[23]** Sub-national governments play a key role in financing public programs in social sectors, particularly education and health, and thus should be provided with adequate and guaranteed financial resources. However, volatility of revenue performance of sub-national municipalities, as well as a weak link between policy formulation at the central level and policy execution at the sub-national level, call for implementation of fiscal decentralization reform.

2.5 **Treasury and accounting reform should continue, building on the progress achieved to date.** The Ministry of Finance (MoF) has made considerable progress in strengthening its

[22] According to the 2017 PEFA Framework, based on a self-assessment by an inter-governmental working group.
[23] Chapter VIII of this report is dedicated on Inter-Governmental Fiscal Relations.

treasury system and adopting national accounting standards based on the International Public Sector Accounting Standards (IPSAS). The MoF should continue on this front, prioritizing integration of additional treasury and accounting modules in the Tajikistan Financial Management Information System (TFMIS), ensuring periodic monitoring of cash flow projections across the government sector, and avoiding frequent adjustments to the budgeted funds during execution. These and other measures are in line with the Treasury System and Public Sector Accounting Reform Roadmap for 2020-2025, which should also continue to be implemented with periodic progress reporting to national and international stakeholders.

2.6 **Building on existing momentum, the government should continue to strengthen its public procurement system.** The government has strongly supported modernization of its public procurement system in recent years. Its efforts culminated in the roll-out of the e-procurement system and framework in 2019, its electronic procurement portal, IT-based business processes, and enhanced capacities of the Agency for State Procurement of Goods, Works and Services. However, the adoption of new public procurement legislation has been delayed and more effort is required to further integrate the e-procurement system with the TFMIS and tax administration. The government should continue to improve its electronic public procurement system, including establishing an effective e-complaints mechanism, developing capacity of various procuring entities, and streamlining primary and secondary legislation in the area of public procurement.

2.7 **Fiscal risks remain untenably high in Tajikistan.** The state-owned enterprise (SOE) sector is large and, through publicly guaranteed borrowing, subsidization and bailouts, and tax arrears, affects the quality of public resources and attendant fiscal risks. The Ministry of Finance has taken important steps towards better managing fiscal risks, including the adoption of a mid-term Fiscal Risk Management Strategy and the strengthening of oversight and monitoring functions of large SOEs. The government should continue building on these good practices by progressively expanding oversight and monitoring coverage, adopting International Financial Reporting Standards (IFRS) across all public interest entities, operationalizing the draft methodology for fiscal risk assessment of large SOEs and improving SOE legislation. Fiscal risks are also exacerbated by weak public investment management; thus, measures should also be taken to improve the overall PIM governance framework and regulatory impact analysis methodology with regards to new and existing investment incentives.

2.8 **The government continues to strengthen its audit framework and practices, but challenges remain.** Independent audit methodologies and capacities continue to be strengthened, but more effort is required to expand coverage to all government ministries and departments. Over the past ten years, the Chamber of Accounts has made improvements to its systems and processes as a supreme audit institution. Those efforts should be complemented by updated legislation, mandate and scope of operations in order to improve the Chamber's independence and effectiveness. In addition, the government should continue to address the needs of internal audit units, which have not yet operationalized a risk-based auditing approach and are faced with staffing and resource constraints.

2.9 **Past improvements in Parliament's role in budgetary oversight are at risk of being lost.** The Economy and Finance Committee (EFC) of the Lower Chamber of Parliament demonstrated strengthened oversight and analytical capacities in recent years, most notably through periodic public budget hearings and greater coordination amongst sectoral/thematic parliamentary committees on budget and financial matters. However, the externally funded analytical unit (or the Secretariat) was never institutionalized into the existing structure of the EFC, which resulted in the twin loss of trained experts and guidance on the direction of future reform efforts. The legislature should remain part of broader PFM reforms, which necessitates the continuation of past efforts that were intended to improve oversight and scrutiny of the budget process.

B. The Case For Effective Public Financial Management

2.10 **Reforms to improve public finance management are instrumental in achieving broader development objectives.** Improving the effectiveness of a PFM system generates widespread and long-lasting benefits, supporting inclusive and accountable institutions towards stronger governance, balanced growth, and sustainable economic development. Getting better value from public expenditures requires not only improved policies or increased spending in selected areas, but also improving capacity for expenditure management. A well-functioning PFM system contributes to: (i) more responsive and effective allocation of funding within and across programs and activities, (ii) better targeted budgetary interventions with improved impact on outcomes, (iii) more accurate and efficient budget reporting, including both financial and non-financial performance reporting, (iv) better quality information for supporting policy design and innovation, and (v) stronger feedback loops between performance reporting and policy design. Acknowledging that a strong PFM system is an essential aspect of macroeconomic stability, effective functioning of the state and delivery of public services, the Government of Tajikistan has pursued an ambitious PFM reform agenda since early 2000s.

2.11 **This chapter takes stock of developments and challenges of the Tajikistan's PFM system since the last policy note on Public Expenditures completed in 2013-14**. The next section presents a brief overview of recent progress and developments in key PFM areas and provides information about the government's policy and operational framework for implementing PFM reforms. Section D offers a more detailed account of the current challenges in the following areas: (i) planning and budgeting, (ii) budget execution, (iii) fiscal risk management, (iv) performance monitoring, evaluation and oversight, and (v) organizational structure and responsibilities. This information is complemented by data and trends in support of the presented arguments and enrich understanding of the existing challenges. The last section provides policy and institutional recommendations for the authorities' consideration to improve the main aspects of the national PFM system.

C. Legislative and Institutional Framework for PFM

2.12 **Tajikistan has a well-structured legislative framework in PFM.** It includes the Constitution of the Republic of Tajikistan, the Public Finance Law, annual budget laws, and other legal acts. The government budget revenue and expenditure plan for next year, as well as fiscal balance and various fiscal rules (e.g., with regards to reserve funds, special funds, regulating taxes, etc.) are defined in the annual budget law. The overall budget preparation process, the key players in PFM and interaction between them, the medium-term expenditure framework and program budgeting, and other norms are defined in the Law on Public Finance. Finally, the recently amended Treasury Law and the Public Procurement Law, which is currently being reviewed, define main principles of budget execution, recording and reporting.

2.13 **Implementation of PFM reforms is grounded in a constellation of approved policy roadmaps.** The new long-term Public Finance Management Reform Strategy (PFMRS) for the period until 2030, approved in 2020, together with the three-year action plan, approved in February 2021, serve as an operational framework for the PFMRS implementation.[24] The new PFMRS is aligned with the National Development Strategy (NDS) of the Republic of Tajikistan for the period until 2030 and the Mid-Term Development Program of the Republic of Tajikistan for the period 2021-25. The Ministry of Finance has also approved a Public Debt Management Strategy (PDMS) for 2021-23 and the Treasury System and Public Sector Accounting (TSPSA) Roadmap for 2020-25, which guides the process of reforming the treasury management system and adopting internationally aligned financial accounting standards.

2.14 **The PFMRS offers a long-term vision and operational framework for further advancement of PFM reforms**, with a particular emphasis on core budget management processes**.** These processes hinge heavily on the availability and operationalization of several key elements of a PFM system, including an effective treasury and accounting system, a financial management framework, relevant and adaptable ICT solutions, and a sound regulatory environment. In general, the PFMRS incorporates 18 clusters of PFM reform, broken down into activities and indicators to monitor progress across seven PFM reform areas (Table 2.1).

Table 2.1: Main PFM Reform Areas Listed in the PFMRS of the Republic of Tajikistan for the Period Until 2030

PFM Reform Areas	Key PFM Reform Elements
1. Sustainable macro-fiscal framework	1.1. Strategic planning 1.2. Macro-fiscal framework 1.3. Revenue forecasting
2. Planning and budgeting of public expenditures	2.1. Public debt management 2.2. Medium-term expenditure framework 2.3. Program budgeting 2.4. Fiscal decentralization
3. Budget execution and domestic revenue mobilization	3.1. Revenue administration 3.2. Treasury management 3.3. Public procurement system 3.4. Budget classifications
4. Financial control and internal audit	4.1. Financial Control and Internal Audit
5. Accounting, monitoring and reporting	5.1. Financial management information system 5.2. Public sector accounting (e.g. IPSAS) 5.3. State-owned enterprises (e.g. IFRS)
6. External scrutiny and oversight	6.1. External audit 6.2. Parliamentary oversight
7. Transparency and accountability	7.1. Public Access to Information

Source: Public Finance Management Reform Strategy of the Republic of Tajikistan for the period until 2030.

[24] PFMRS incorporates 18 clusters of PFM reform, broken down into activities and performance indicators to monitor progress.

D. OVERVIEW OF DEVELOPMENT EFFORTS AND PROGRESS IN PFM

2.15 **Past assessments have highlighted Tajikistan's progress in key PFM areas, but more needs to be done to ensure that technical improvements translate into tangible policy changes.** The Asian Development Bank's 2020 Governance Risk Assessment (GRA), the World Bank's 2020 Tax Administration Diagnostic Assessment (TADAT), the IMF's 2017 SOE Fiscal Risks Assessment and Disclosure, and the 2017 Public Expenditure and Financial Accountability (PEFA) assessment reinforce the need for eliminating adverse systems and practices that make Tajikistan's PFM system functionally weak, strengthening basic operating systems and processes to ensure effective budgetary institutions, and improving human and physical capacity in complementarity with the required regulatory improvements. Examples of PFM areas that improved significantly in Tajikistan from a technical and infrastructure point of view include public procurement, tax administration, external audit, treasury, and TFMIS. The assessments note that these technical PFM improvements should result in benefits to recipients of public resources and/or public services and that they should be complemented by tangible policy changes through stakeholder dialogue and coordination within the framework of PFMRS implementation. In the meantime, the link between PFM functions and macroeconomic stability, e.g., through fiscal discipline and overall debt management, or service delivery, is less clear.

Sustainable Macro-Fiscal Framework

2.16 **Macro-fiscal framework preparation and revenue forecasting processes have improved.** In particular, the government produced its first macro-fiscal framework in 2007, followed by the first set of instructions to key budget organizations on the launch of MTEF reform. The National Bank of Tajikistan (NBT), the MoF, and the Ministry of Economic Development and Trade (MoEDT) are in charge of projections for monetary, external, fiscal, and real sectors. The MoEDT uses an internal model to generate projections for 107 macroeconomic indicators,[25] with details on sectoral and sub-sectoral levels. The MoEDT shares GDP, inflation, and exchange rate projections with the MoF to produce the budget for the current year and projections for the next two years. Inflation and exchange rate projections are produced by the NBT and subsequently shared with the MoF.

2.17 **Revenue projections have only marginally improved and are largely based on sub-standard historical practices**. In parallel, the MoF collects tax projections from the regional tax offices through local governments. These tax projections are fed into the revenue forecasting process. In principle, adjustments to projections are made to take into account new businesses that are going to be opened and new tax exemptions, if any. In practice, however, these adjustments are not based on any comprehensive analysis.

Planning and Budgeting of Public Expenditures

2.18 **Tajikistan's budget preparation process is well established, but extra-budgetary funds are poorly regulated.** The budget structure is divided into sub-national budgets, republican budget and special funds, which refers to own revenues of public entities. The budget preparation process is regulated by the Law of the Republic of Tajikistan 'On Public Finances' and instructions

[25] Defined by the Decree of the Government of the Republic of Tajikistan No. 367.

issued by the MoF, which regulate interaction between and requirements of the Main Administrators of Budget Allocations (MABAs) across two phases. The MABA id a public authority and public administration body authorized to administer state budget funds and distribute them to subordinated institutions. In addition to the MoF, the MoEDT and the State Committee on Investment and State Property Management (SCISPM) play a crucial role in planning the development (capital) budgets. Fiscal rules are in place which regulate the replenishment conditions of various reserve funds, but their use is discretionary and not publicly available. Tajikistan's dual budgeting system, with separate development and recurrent budgets, calls for better integration. Likewise, extra-budgetary funds are weakly regulated.

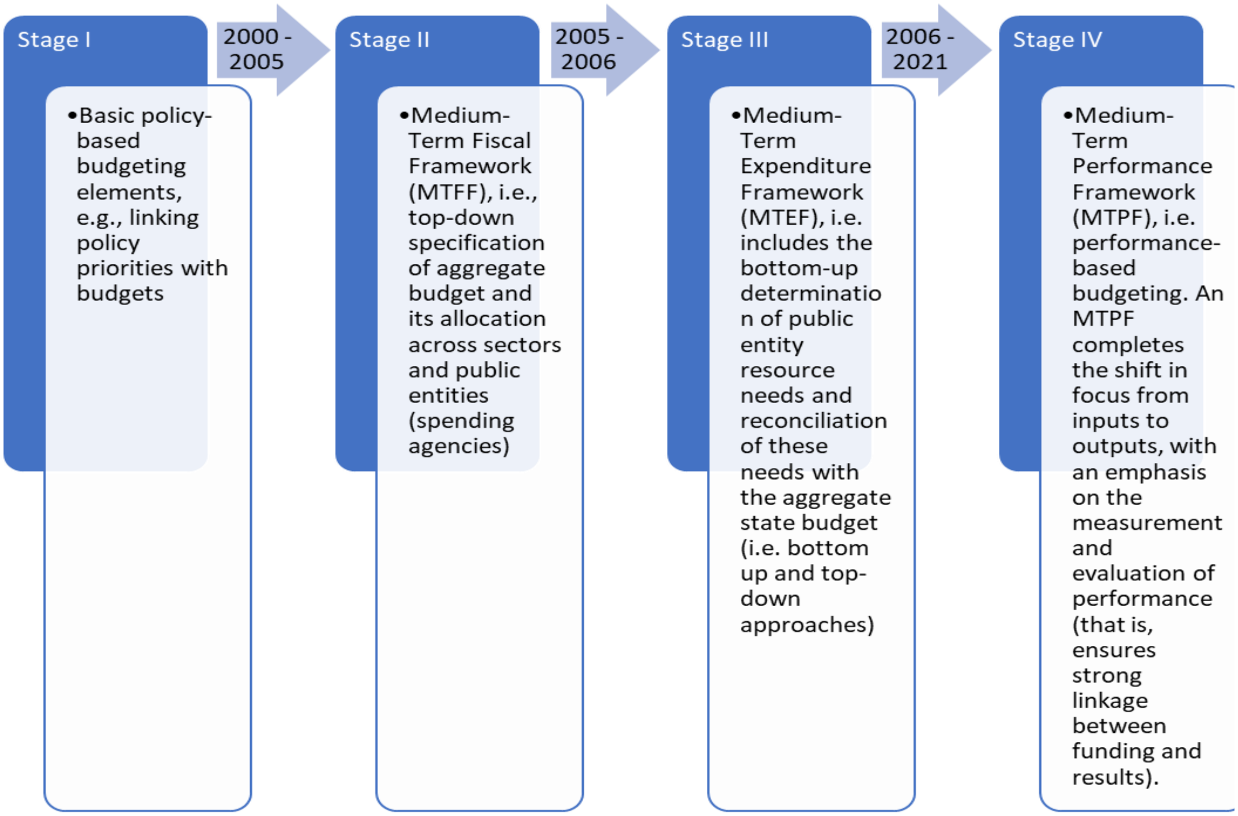
2.19 **The government has made progress in implementing policy-based budgeting reforms.** Tajikistan embarked on policy-based budgeting reforms in 2006 and has since rolled out its medium-term expenditure framework (MTEF) across the government. Among the progress made, the MTEF has extended the planning horizon from one to three years, enabled public sector entities to estimate the cost of existing policies or baseline budgets, established a fixed fiscal constraint on budget decisions (sectoral expenditure ceilings), and divided the budget planning cycle into two phases by marrying top-down and bottom-up approaches. In the 2010-2012 cycle, the MTEF expanded to all social sectors, energy, transport and communications, water management, land management, and culture. In February 2016, the MoF elaborated the medium-term fiscal framework (MTFF) with fiscal targets and debt sustainability analysis.

2.20 **The implementation and integration of policy-based budgeting reforms and their broader impact remains unclear.** In August 2017, the government approved a strategic plan for the integration of investment budgeting into the MTEF, but the integration has not yet been completed. Also, the MTEF is not linked to the macroeconomic framework, and sometimes, the approved budget expenditures are higher than ceiling defined in the MTEF. Program budgeting, rolled out in the social sectors in 2019, is another area that remains to be fully implemented. Program budgeting enables the use of program classification for planning and reporting public expenditures and contributes to strengthening the link between policy priorities and public resource allocations. While spending units, including line ministries, prepare their annual budgets by programs, the broader impact of program budgeting and its spillover effect are not yet clear.

2.21 **Alongside progress in policy-based budgeting reforms, the number of spending units has grown.** At the onset of MTEF implementation, the Government of Tajikistan committed to setting clear roles and responsibilities at the central level to increase accountability of line ministries, delegate responsibilities to line ministries and introduce a three-tiered budgeting system consisting of MABAs, ABAs and RBAs.[26] Initially, 30 MABAs at the republican level were envisaged, but this number rose to 67 by 2019, suggesting that future expansion in the number of spending units may not be ruled out. This could further complicate the planning process, which is already hampered by, among other factors, the existing large number of spending units as well as a lack of congruence between sectoral priorities and the spending executed by MABAs.

[26] Main administrator can be an important budget institution of science, education, culture and health sectors. *Administrator (ABA)* - public authority and public administration body or a budget institution, that receives budget funds from the main administrator and has a right to allocate budget funds to and control the use of budget funds by subordinated recipients of budgetary funds. *Recipient of budget funds (RBA)* - budget institution that is subordinated to a main administrator or administrator of budgetary funds and is eligible for funding from the relevant budget.

Figure 2.1: Staged Implementation of Policy-Based Budgeting Reforms in Tajikistan



Source: World Bank staff stocktaking

Budget Execution

2.22 **Tajikistan continues to make significant progress in modernizing its budget management systems and processes.** A Unified Chart of Accounts (UCoA) was developed in 2012 and was subsequently amended in line with public sector accounting reforms and the introduction of Tajikistan's Public Sector Accounting Standards (TPSAS).[27] The Ministry of Finance is currently implementing a migration path to the Government Finance Statistics Manual (GFSM) 2014 classification system, which will ensure greater alignment between public sector budgeting, financial reporting and statistics. Additional modules are being integrated into the Tajikistan Financial Management Information System (TFMIS) that has been operational since 2015, including functional modules for payroll management, MTEF, investment budgeting, e-procurement, and others that complement budget planning and budget execution. There are also ongoing efforts to introduce modules for cash management, commitment control and assets management.

2.23 **Treasury operations have improved, but progress is nuanced.** New treasury legislation was adopted in January 2020 to strengthen the Central Treasury of the Ministry of Finance.[28] This

[27] Developed and adapted on the basis of the International Public Sector Accounting Standards (IPSAS).
[28] The new Treasury Law was approved through the Decree of the President of the Republic of Tajikistan #1674 dated January 2, 2020.

builds upon the implementation of a Single Treasury Account (STA) in 2015, institutionalized at republican and sub-national levels. The Ministry of Finance has strengthened accounts reconciliation and the integrity of financial data, such as by ensuring online connectivity of the Central Treasury with all 73 treasury field offices, although coverage and timing of financial reports require further improvement. The government is also currently transitioning accounts of the Agency for Social Insurance and Pensions to an integrated STA, but this process has been slow.[29] More recently, the Treasury System and Public Sector Accounting Reform Roadmap for 2019-2024 was approved in October 2019 and once implemented, will enable the Ministry of Finance to fully trace the flow of public funds in the treasury system.

2.24 **The key elements of a public procurement system are in place and continue to be strengthened.** Tajikistan is making clear strides in improving its public procurement system, scoring around the reginal average in Central Asia (See Table 2.2). Key elements demonstrating progress include publication of notices, monitoring, competition, and other information in line with the PEFA framework. An electronic public procurement system was developed and operationalized in 2013 and has significantly contributed to improving the system's transparency and accountability. An electronic portal has been integrated with the TFMIS and the Tax Committee taxpayer database. Weaknesses remain in several areas, including the maintenance of a registry of approved suppliers and absence of a legal timeframe for payment of suppliers. However, efforts are ongoing to address these and other systemic issues in line with the government's PFM Reform Strategy.

Table 2.2: Benchmarking Public Procurement in Tajikistan, 2017

Indicator	Score (out of 100)			
	Tajikistan	Kyrgyzstan	Kazakhstan	Uzbekistan
Needs assessment, call for tender, bid preparation	69	70	70	42
Bid submission	48	84	90	65
Bid opening, evaluation, and award	71	71	86	14
Content and management of procurement contracts	68	55	91	59
Performance guarantee	62	58	90	30
Payment of suppliers	33	33	50	37
Average score:	59	62	80	41

Source: World Bank. 2016. *Benchmarking Public Procurement 2017 – Assessing Public Procurement Regulatory Systems in 180 Economies*. Washington DC, Economy Datasheets.

2.25 **Shortcomings in cash flow management and financial statement preparation are gradually being addressed.** Since 2015, the Central Treasury has implemented a basic cash forecasting and management system, requiring monthly updates of annual cash forecast taking into account revenue outturns. It also issued an instruction on cash forecasting and management. Attempts to prepare consolidated financial statements[30] continue to be impeded by incomplete information and inadequate capacity to reconcile and eliminate intergovernmental fund transfers

[29] The Agency for Social Insurance and Pensions (ASIP) did not support the letter from the Ministry of Finance from April 7, 2017 (#4-23/61), which was supposed to kick off the transition preparation process and create a working group.
[30] In 2016, the consolidated financial statements included a statement of financial position, a statement of financial performance, a statement of change in net assets, and a statement of cash flows.

and account balances. Ongoing efforts to include and operationalize TFMIS modules for cash management, commitment control and asset management will significantly improve financial reporting.

Financial Control and Internal Audit

2.26 **Internal audit and financial control functions have been gradually strengthened.** In Tajikistan, financial control is governed by the Law on Financial Management and Internal Control in Public Sector,[31] and internal audit is governed by the Law on Internal Audit in Public Sector.[32] Following legal amendments in July 2016, the role and purpose of internal audit was clarified, and the function was mainstreamed in the public sector. Since then, the Ministry of Finance has strengthened its Department for Internal Audit and Supervision, and capacities have been enhanced in ten public sector entities[33] that have their own internal audit units. The Ministry's internal audit department oversees internal audit activities in other ministries in accordance with its newly approved methodology. The Ministry has recently embarked on a modernization effort aimed at adopting a risk-based auditing approach that is compliant with international standards and practices.

Accounting, Monitoring and Reporting

2.27 **Public sector accounting standards are being implemented using a phased approach, but challenges remain.** The first ten national public sector accounting standards based on IPSAS were introduced in 2014, and four additional standards were introduced in 2017.[34] Two additional standards are currently being introduced and will be aligned with relevant accounting modules in TFMIS. Although some of the TPSAS standards were only partially implemented, the quality of annual financial statements and reports has improved and an IPSAS Department was established in the Central Treasury. At the same time, public sector entities will require extensive training and information sharing to achieve compliance with national public sector accounting standards. Nevertheless, the government is cautiously optimistic that all national accounting standards will be implemented by 2025.

2.28 **Implementation of international financial reporting standards (IFRS) in the SOE fiscal sector is at a nascent stage, with much more to be done.** Following the adoption of accounting and financial reporting legislation in 2011, the government committed to apply international financial reporting standards (IFRS) to all public interest entities.[35] The government subsequently issued a resolution[36] in 2012 requiring all large SOEs to prepare their financial statements on the basis of IFRS, audit those financial statements on the basis of ISA annually,[37] and publish their audited financial statements. Since then, the Ministry of Finance has: (i) created

[31] Law of the Republic of Tajikistan 'On Financial Management and Internal Control in Public Sector' (#56, dated July 8, 2010).
[32] Law of the Republic of Tajikistan 'On Internal Audit in Public Sector' (#61, dated July 8, 2010 and amended in July 2016).
[33] Including seven line-ministries, two committees, and one agency (the Agency for Social Insurance and Pensions).
[34] IPSAS #1-6, 12, 17, 22 and 24 were introduced in 2014, and IPSAS #23, 28-30 were introduced in 2017.
[35] Or state-owned enterprises (SOEs).
[36] Resolution of the Government of the Republic of Tajikistan "On additional measures of regulating accounting and financial reporting" (#154, dated 3 April 2012).
[37] In 2018, only seven large SOEs that are monitored by the Ministry of Finance completed audits.

an SOE Fiscal Risk Management Committee, (ii) established the Department for Supervision of Financial Activity in Large SOEs, or the SOE Monitoring Department, and (iii) adopted the SOE Fiscal Risk Management Strategy for 2017-2020. The greatest challenge hindering the implementation of these financial reporting standards is the sheer number of SOEs, most of which have very limited technical capacity. Currently, the SOE Monitoring Department oversees and scrutinizes financial statements from 27 large SOEs,[38] three of which the department is supporting to transition fully to IFRS at the operational level.

2.29 **The SOE law was amended in January 2020 to stipulate the introduction of corporate governance standards and practices in SOEs**.[39] In addition, the government adopted a resolution in May 2021 stipulating the introduction of Supervisory Boards in 31 SOEs. The chairmen and members of four of these Supervisory Boards will be appointed directly by the government. However, while these amendments to the SOE Law will help to integrate corporate governance standards and practices, the government has only partially incorporated recommendations provided by international financial institutions. This has represented a lost opportunity to clearly define quasi-fiscal activities, stipulate publication of audited financial statements, classify SOEs by economic categories, and other important recommendations.

External Scrutiny and Oversight

2.30 **The Chamber of Accounts (CoA) has made some progress on improving external audit and its capacity.**[40] Progress has been limited, but practices and systems are gradually improving. The CoA adopted a five-year development plan, developed audit methodologies and guidelines based on international standards, carried out performance audits for the first time on a pilot basis, and expanded audit coverage. The CoA has also undertaken a functional review and a review of regulatory framework, based upon which actions were defined to improve the efficiency and effectiveness of its operations. Currently, a comprehensive training program, ICT modernization plan, and audit manuals that were developed are in the process of being implemented. The CoA has recently piloted performance audits and strengthened international audit standards based on the International Standards for Supreme Audit Institutions (ISSAI). On September 30, 2020, the Minister of Finance issued an order[41] that stipulates the publication of audited financial statements by audited entities in coordination with the CoA. Audited financial statements for FY2019 have since been published on the CoA's website, along its own annual activity report.[42]

[38] The sectors that these 27 SOEs represent include industry (9 SOEs), aviation (5), utility services (4), energy (3), financial services (3), telecommunications (2), and transport (1). At least ten of these SOEs are regarded as monopolies in their respective sectors.
[39] Four Supervision Councils will be established in OJSC 'Housing and Communal Utilities', OJSC 'Tajikaeronavigation', OJSC 'Rohi Ohani Tojikiston', and OJSC 'Tojiksugurta.'
[40] The Chamber of Accounts has adopted a medium-term development plan, and amended legislation was initially expected to be in place by the end of 2020 (that is, before the COVID-19 outbreak had a disruptive effect on Tajikistan's governance system). The organizational set-up is being restructured, although agreement will need to be reached on an independent Supervisory Board so as to eliminate inherent conflicts of interest.
[41] Order of the Minister of Finance 'On Measures Undertaken by the Ministry of Finance to Ensure Transparency and Public Access to Information on the Budget Process' (#108 dated September 30, 2020). Annex I offers Guidelines for Ensuring Transparency and Public Access to Information on the Budget Process.
[42] These reports are available in Tajik at the following link: https://www.sai.tj/index.php/tj/isobot-o.

2.31 **Budget oversight functions of the legislature has improved since 2015.** The Economy and Finance Committee (EFC) of the Lower Chamber of Parliament was strengthened through the creation of a technical unit that carried out analytical work and liaised with other sector committees in the Parliament. With the aid of the technical unit, the EFC carried out pre-budget hearings on a regular basis, ensured close engagement of MPs in budgetary oversight, improved outreach with civil society, and facilitated access of Parliamentary committees to high-quality evidence-based fiscal and financial analysis across the board. The unit has facilitated inter-committee dialogue and scrutiny of fiscal information, which in turn has helped to increase evidence-based decision making by members of the Parliament. However, unless it is institutionized into the existing structure of the EFC, these capacity gains are at risk of being lost.

E. PERFORMANCE AND CHALLENGES IN KEY PFM AREAS

2.32 **Despite areas of notable improvement, shortcomings and performance gaps persist in Tajikistan's PFM system.** Identified gaps, discussed below, span several key areas: (i) planning and budgeting, (ii) budget implementation, (iii) fiscal risk management, (iv) performance monitoring, evaluation and oversight, and (v) organizational structure and responsibilities.

Sustainable Macro-Fiscal Framework

2.33 **Although macro-fiscal framework preparation has improved, macroeconomic and fiscal projections are fragmented and are not consolidated in a sound and consistent macroeconomic framework**. The MoEDT conducts an annual survey with economic entities to collect data on their development plans, including import and export, and consolidates these data to generate the GDP projection by the income approach. Some estimates are made to assess the size of the informal economy, which are also included in the projection, but they are rarely factored into projections. Moreover, while some estimates are made to incorporate assumptions on commodity prices, efforts to incorporate global trends, such as economic growth in Russia, into GDP projections remain inadequate. The MoEDT does not produce GDP projections by the expenditure approach and, in general, its macroeconomic model lacks links to fiscal and external sectors.

2.34 **Revenue projections in Tajikistan are delinked from its GDP projections, in part as a result of poor coordination across different agencies.** The MoF projects revenues using an internal model that is based on the previous years' actual tax revenues. It does not use the GDP projection produced by the MoEDT to make its tax projections. This is because tax revenue projections based on MoEDT's GDP forecast yields unrealistically high expectations for revenues collection.[43] This unrealistically high level of revenue projection could be partially explained by the current generous scope of tax expenditures and the informal economy, which doesn't contribute to tax collection.[44] Adjustments to revenue projections are then based on projected

[43] Even after making adjustments for the informal economy and tax incentives, tax revenues projections based on GDP forecast are still unrealistically high. The Ministry of Finance uses its own revenue forecast, which is not closely linked to GDP projection.

[44] In particular, projection of tax revenues based on MoEDT's GDP forecast envisages generation of unrealistically high revenues. Even after making adjustment on informal economy and tax incentives, projected tax revenues are unrealistically high.

additional taxes from new businesses. These and other drawbacks significantly weaken strategic planning of financial resources for defined priorities and limit the planning horizon for effective policy design. Thus, improving the quality of macro-fiscal projections will require improved methodological soundness and reliability of GDP projections, as well as better coordination between the MoEDT, the MoF, the NBT, and other relevant institutions. In addition, the MoF needs to improve its capacity to assess risks associated with different macroeconomic and fiscal scenarios. Strengthening the macroeconomic unit of the MoF would be a right step in this direction.

Planning and Budgeting

2.35 **Budgets are now better consolidated, but shortcomings in budget credibility remain.** Despite progress made in budget planning, investment budgets (the Public Investment Program)[45] are still not integrated into recurrent and capital expenditures. Besides, t**he** preparation of recurrent and capital budgets follows differing procedures and is not fully coordinated, which leads to inefficiencies with respect to enforcing expenditure limits and developing fiscal adjustment plans. Except for 2020, annual revenue and expenditure outturns deviated from approved allocations by an average of 8.4 percent during 2010-19. In 2020, the actual allocation of public expenditure was 5.6 percent off the approved expenditure plan. These pervasively large deviations are mainly caused by deferred budgeting practices and contingency expenditure earmarks that potentially undermine budget credibility, as well as contribute to unreliable budgets and unsustainable deficits.

Table 2.3: Composition of Total Government Spending by Main Expenditure Categories, 2015-20

	2015	2016	2017	2018	2019	2020
Total government spending (in million somoni)	16,277.4	18,294.3	22,264.2	24,187.4	23,806.6	24,925.5
of which: republican budget	7,188.3	7,555.1	11,573.3	11,698.9	10,753.1	11,529.1
of which: sub-national budgets	4,453.4	5,014.3	5,514.2	6,228.4	6,742.9	7,726.6
of which: special funds of public entities	1,382.8	2,132.1	2,677.1	2,038.5	2,411.5	2,017.5
of which: Public Investment Program	3,252.9	3,592.9	2,499.6	4,221.5	3,899.1	3,652.3

Source: Ministry of Finance of the Republic of Tajikistan.

2.36 **Extra-budgetary funds represent a significant share of total government budget and should be optimized to improve efficiency of public expenditures.** The share of extra-budgetary funds (i.e. special funds of public entities) has grown from 6.7 percent of total government spending in 2014 to 12 percent in 2017, before decreasing to 8.1 percent in 2020. The decrease in 2020 is mainly attributed to the impacts of the COVID-19 pandemic, which caused a mandated reduction in planned activities and redirection of resources to emergency response priorities. Many public entities operate with own extra-budgetary funds (EBF), and the number of EBFs is generally not regulated by the Ministry of Finance. Potential disadvantages of the growing share of EBFs include a loss of aggregate expenditure control, distorted resource allocation by circumventing the budget process and review of priorities, and transparency concerns (which often lead to misappropriation or inefficient use of public funds). Reducing the share of EBFs to the total government budget can help provide a more consistent source of funding for critical but

[45] Many investment projects listed under the PIP include a combination of recurrent and capital costs, which leads to inefficient use of funds and their improper accounting in the treasury system.

overlooked expenditure categories. Accounting and reporting of EBFs should therefore be strengthened, and the number of public entities operating with own EBFs should be optimized.

2.37 **Fiscal expansion continues to threaten fiscal discipline.**[46] As discussed in chapter 1, the government's expenditure envelope rose from $1.6 billion (or 28.4 percent of GDP) in 2010 to $2.4 billion (34.3 percent of GDP) in 2015 and further expanded to $2.5 billion (or 30.2 percent of GDP) in 2020.[47] In 2015-2019, the Ministry of Finance encouraged fiscal expansion in order to sustain domestic demand, an initiative that sharply increased the fiscal deficit. In nominal terms, the government expenditure budget increased by 53.1 percent, i.e., from 16,277.4 billion somoni in 2015 to 24,925.5 billion somoni in 2020 (including externally financed Public Investment Program and special funds of public sector entities), having a strong effect on fiscal discipline. For example, deficit targets were set at 1 percent of GDP for 2015-2019, in line with the annual budget legislation, but the actual fiscal deficit reached approximately 6 percent of GDP in 2017 and 2.8 percent of GDP in 2018.[48] Likewise, new borrowing and spending on infrastructure projects have inflated fiscal deficits beyond anticipated ceilings. By the same token, the consolidation of budgetary accounts[49] has led to the budget deficit reaching about 3.8 percent of GDP in 2019 and an estimated 6.3 percent of GDP in 2020.

Figure 2.2: Deviation of Total Government Expenditure Outturns from Spending Plans, 2015-20
(In million TJS)

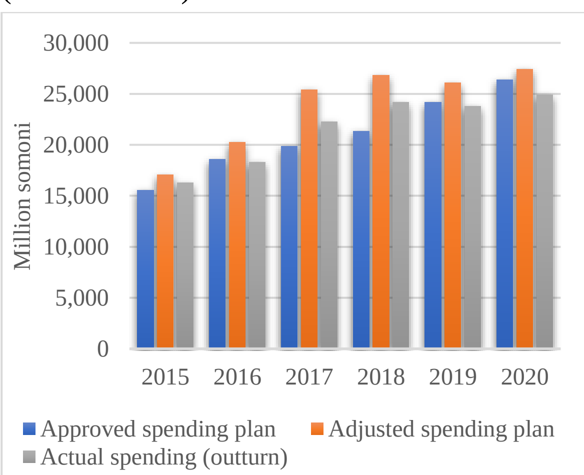
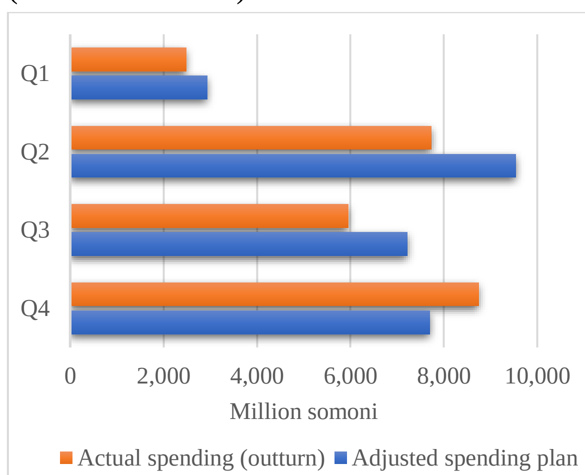


Figure 2.3: Performance of the General Government Expenditure Budget by Quarters, 2020
(In Million Somoni)



Source: Ministry of Finance of the Republic of Tajikistan.

2.38 **The government continues to rely on outdated forecasting practices that use revenue estimates as planning parameters.** Although the Ministry of Finance produces a medium-term fiscal framework (MTFF) with revenue parameters for the next three years, the government typically relies on annual planning horizon. This is explained by delayed adoption of modern

46 Asian Development Bank (ADB). 2020. *Asian Development Outlook 2020*. Manila, pp.161-162.
47 Ministry of Finance. Note that budget data for FY'2020 is preliminary and may be subject to slight changes.
48 International Monetary Fund (IMF). 2020. *IMF Executive Board Concludes 2019 Article IV Consultation with the Republic of Tajikistan*. Press Release No. 20/12, 17 January 2020. Washington, DC.
49 Republican and sub-national government expenditures plus an externally financed Public Investment Program (PIP).

revenue and debt forecasting models, lack of scrutiny of MTEF parameters, and technical capacity constraints at the sub-national level. At the central level, planning rather than forecasting is preferred, which undermines budget credibility. This then affects businesses because the tax and customs authorities are pressured to meet these planning targets. While MTEF reform was initiated as far back as 2006, the budget formulation process in Tajikistan is still largely regarded as an annual exercise.

Figure 2.4: Deviation of Total Government Expenditure Outturns from Spending Plans, 2015-20
(In million Somoni)

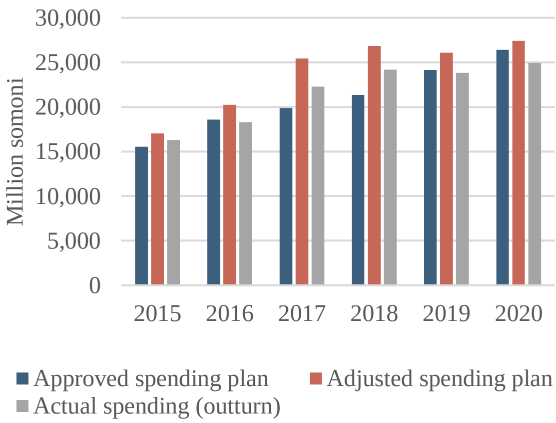
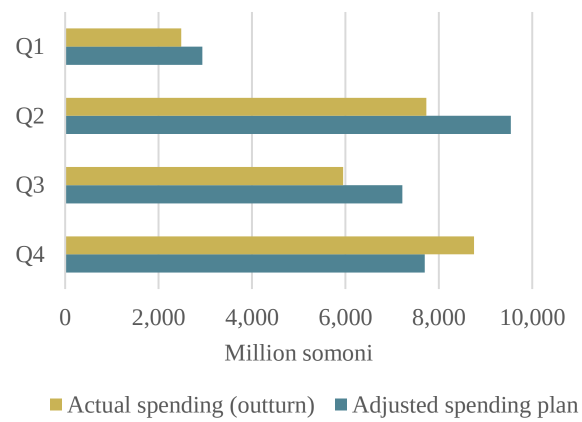


Figure 2.5: Performance of the General Government Expenditure Budget by Quarters, 2020
(In million Somoni)



Source: Ministry of Finance of the Republic of Tajikistan.

2.39 **Despite a long period of implementation, MTEF reform has only marginally advanced in recent years.** Implementation of a MTEF is hampered by limited authority of respective line ministries, particularly in the social sectors, where the role of sub-national governments is significant and there is a large number of high-level spending units.[50] Moreover, budget planning phases are insufficiently streamlined and MTEF documentation is not subject to adequate scrutiny by the executive or legislature. The quality of MTEF is also affected by the absence of well-planned and costed sector strategies, particularly in social sectors, which weakens the link between policies and resources. Line ministries continue to have limited oversight and coordination of the flow of public resources, due to a number of factors, such as a large number of spending units, their reliance on financing from sub-national governments, and a disconnect between policy formulation (at the line ministry level) and policy implementation (at the sub-national level). Furthermore, the links between phases of the budget planning cycle are weak,[51] as are mid-term planning capacities at a sub-national level. The next step for Tajikistan is to

[50] These highest-level spending units are defined in national legislation as the Main Administrators of Budget Allocations (MABAs). MABAs are responsible for: (i) the formation, development and implementation of state policy in its respective sector; (ii) preparing a baseline budget; (iii) ensuring effectiveness, efficiency and targeted use of budgetary funds; and (iv) undertaking internal financial control. For instance, there are 24 MABAs in the education sector where the Ministry of Education and Science is just one of the MABAs.

[51] This is because MTEF is predominantly sector-based, but expenditure budget is planned/estimated and implemented based on an administrative classification (i.e. MABAs). Hence, budget ceilings only exist at a sector level (and are issued in Phase I of the budget planning process), while Phase II seeks consolidation of MABA budgets into sector budgets.

implement a medium-term performance framework (MTPF), i.e. performance-based budgeting, that would align funding and results. However, core budget management processes, systems and capacities could be further strengthened before embarking on a more advanced stage of policy-based budgeting reform.

2.40 **Capital investment financing does not take account of recurrent operating and maintenance costs.** Owing to a disjointed budgeting process between line ministries' budget and technical departments, medium-term forecasting of capital expenditures funded from budget and external sources does not include the recurrent life cycle operating and maintenance costs.

2.41 **The large number of spending units significantly complicates medium-term planning at the sectoral level.** One of the problems with the current structure of spending units in the government sector is the lack of congruence between sectoral and MABA expenditures. This leads to a disconnect between sectoral priorities and the spending executed by MABAs, which in turn hinders allocative efficiency of spending. The second problem is the volume of work precipitated by the large number of spending units. The larger the number of strategic plans, which serve as the basis for determining sectoral expenditure ceilings, the more difficult it is for the government to comprehensively review them, including their performance indicators, and to decide the relative priorities and associated funding allocations.[52] As a result, the strategic planning process and hence program budgeting become less meaningful. In addition, not all MABAs represent sectors for the purposes of MTEF strategic plans and setting sectoral ceilings, further complicating the planning process. One possible approach to addressing this issue would be to incorporate spending units that have only one ABA into the administrative structure of another unit with three levels.

2.42 **There is significant space for MABAs and the MoF to coordinate and optimize the budget preparation process.** At the first stage of budget preparation, main administrators of budget allocations (MABAs) update preliminary baseline estimates and include requests for new spending. However, they are not provided with expenditure ceilings to guide their proposals. Moreover, after reviewing baseline scenarios, the MoF may propose ad hoc cuts with little consultation with ministries. Such practices provide no incentive for MABAs to identify efficiencies within their baseline estimates**.** Agreeing on baseline estimates, as a first step in the budget process, could help to focus discussions on setting policy priorities. Baseline estimates should include costs for future budget years (next three years) based on no policy changes (no new policies, no savings) and should be developed and agreed between the MoF and MABAs. Deriving baseline estimates is technical work by nature and includes all activities approved by government but excludes all unfunded activities or new policy proposals and political commitments. As a second stage in the process, the MoF should determine a fiscal space through reconciliation of MABAs' baseline estimates and provide expenditure ceiling to be targeted by MABA. Once the level of fiscal space has been determined, the MoF should allocate the available resources to MABAs based on government priorities.

2.43 **New policy proposals by MABAs should include cost estimates and should be reviewed and approved by the MoF.** Policy initiatives should be prioritized and submitted for approval for funding through the budget process within MABA's expenditure ceiling. The MoF

[52] It follows that the larger the number of strategic plans, the more likely that decisions on performance targets, strategies and resources will be based mechanistically on outdated historical norms.

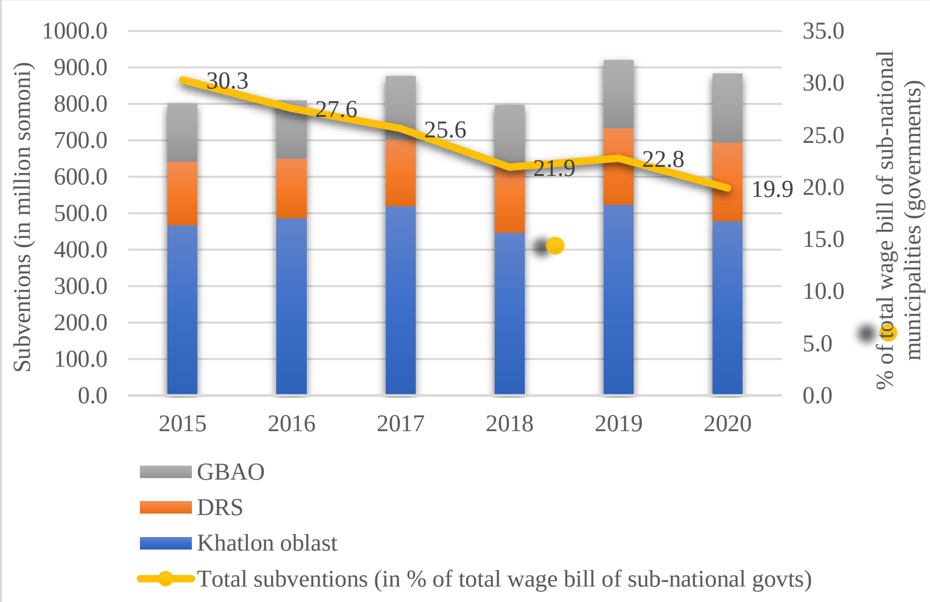
should strengthen its work with MABAs in developing realistic baseline expenditure scenarios. The budget preparation process should be based on key three principles: i) updating baseline scenarios based solely on technical parameters, ii) identifying the targeted amount of fiscal space, and iii) determining indicative expenditure ceilings through a top-down process guided by macro-fiscal objectives.

2.44 **Equity in domestic financing through intergovernmental fiscal transfers (IGFTs) could be achieved through the application of a rules-based approach.** Subventions, dotations, and loans[53] represent the most frequently utilized types of IGFTs, with subventions accounting for about 95 percent of all transfers across levels of government. Sub-national governments sometimes run into deficits as a result of revenue shortfalls or weak expenditure planning, in which case subventions are allocated to cover the gap. In 2020, 36 out of 68 sub-national municipalities received financial support from the central government in the form of subventions,[54] totaling approximately $78.3 million (or an average of $2.2 million per municipality). IGFTs represent the last resort in the balancing of sub-national budgets and are particularly important for financially disadvantaged municipalities, but subventions only cover the wage bill gap. This leaves other non-wage recurrent expenditures subject to volatility, including social spending. Critically, there is no methodology that determines cash transfer allocations, while regulatory taxes are sometimes insufficient to meet the spending needs of sub-national governments. The result is that public services are often left severely underfunded.

[53] *Subventions* are targeted (or earmarked) funds from central government that cover wage bill gaps in sub-national municipalities; *dotations* are general purpose grants from central government to sub-national municipalities; and *loans* are short-term credit from central government to sub-national municipalities. There are also subsidies and mutual settlements, as well as grants (received only by Dushanbe municipality).

[54] In 2020, subventions were received by 8 out of 9 municipalities in GBAO, 8 out of 13 municipalities in the Districts of Republican Subordination (DRS), and 20 out of 26 municipalities in Khatlon oblast. Municipalities in Soghd oblast and Dushanbe do not receive subventions and are regarded as financially independent. In 2020, Sangvor district was the only municipality that received dotations. (Source: Ministry of Finance and Law of the Republic of Tajikistan 'On State Budget for 2020').

Figure 2.6: Disbursement of Inter-Governmental Fiscal Transfers to Sub-National Municipalities by Regions, 2015-20
(in million somoni)



Source: Ministry of Finance of the Republic of Tajikistan.

Budget Implementation

2.45 **Multiple in-year revisions of spending plans undermine the predictability of public expenditures.** In 2015-2020, the total government budget was amended every year. Even after the total government budget was amended, expenditure outturns tended to differ from adjusted allocations and were often lower than adjusted figures. Sectoral ceilings are also not always observed by high-level spending units, i.e. MABAs. Such significant variations between budgeted and actual expenditure indicate existing weaknesses in budget approval and execution processes. These variations and the non-observance of sector ceilings during budget execution weakens oversight and controls of the flow of funds, which may affect fiscal and debt sustainability.

2.46 **Despite improvements reported in the 2017 PEFA assessment, shortcomings in the budget classification system distort budget presentation.** Misclassification of the development budget (i.e. the Public Investment Program) across recurrent and capital expenditure categories remains an unresolved concern. This can be remedied by submission of reports by Project Implementation Units (PIUs) in accordance with their economic budgetary classification. In addition, the proceeds of external loans received by the government are classified as revenues, instead of borrowings. Only grants should be classified as revenues. Similarly, receipts from the sale of gold and inter-budgetary settlement revenues should be excluded from revenues to avoid double accounting. These and other mis-categorizations or misclassifications of revenues and expenditures lead to inaccurate and distorted reporting of fiscal deficits.

2.47 **Shortcomings in treasury management negatively affect budget discipline and thus public service delivery.** Three TFMIS modules on cash management, commitment control, and asset management are not yet operational. Until then, the consolidation of accounts continues to be performed manually through the collation of manually prepared financial reports by the Central

Treasury. Implementation of these modules will improve budget discipline and support effective day-to-day treasury operations. Although coverage of the cash plan/forecast has improved, there are frequent and often significant adjustments to the budgeted funds during execution, as well as shortcomings in regular and periodic monitoring of cash flow projections.

2.48 **Ongoing reforms in the public procurement system need to be expedited.** The most notable constraints to an effective public procurement system include the absence of an independent complaints-management mechanism to address complaints by bidders and the need to amend certain provisions in the Law of the Republic of Tajikistan 'On Public Procurement of Goods, Works and Services.'[55] Although significant capacity building effort has gone into supporting the Public Procurement Agency (PPA), there does not appear to be a structured approach to capacity building of other designated procuring agencies. Nor has capacity support been extended to most SOEs. Moreover, suppliers' e-payment and contract management modules have yet to be introduced, and the PPA has insufficient IT staff capacity to maintain the e-procurement system. Besides, no third-party review of the e-procurement system has been conducted.

Fiscal Risk Management

2.49 **Tajikistan is exposed to sizable fiscal risks originating from macroeconomic shocks, SOEs, and financial sectors** (Table 2.4). However, the current budget process does not provide identification of fiscal risks, their quantification, and mitigation measures. International practice suggests publishing a comprehensive fiscal risk statement that discusses important fiscal risks, provides scenarios for alternative developments, and identifies risk mitigation measures. The rest of this chapter discusses fiscal risks mainly originating from SOEs, as other risks are discussed in other chapters of the report.

Table 2.4: Typology of Fiscal Risks in Tajikistan

Risk Areas	Potential Evidence
1. Macroeconomic Shocks	Slower than expected growth Lower than projected tax collection Unfunded expenditure commitments High risk of debt distress Debt service arrears Shortfall in remittances or exposure to other external shocks
2. Contingent Liabilities	Fiscal risks stemming from SOEs Obligations by sub-loan agreements Public/government guarantees
3. Risks from Financial Sector Insolvency	Banking sector crisis due to weaknesses in bank governance and risk management

Source: Summary by the PER team.

[55] The 2018 Transparent Public Procurement Rating scored Tajikistan's procurement legislation with 59 percent out of 100 percent. (Source: OSI and IDFI. 2018. *Tajikistan: Public Procurement Law Assessment*. Tbilisi, Georgia).

2.50 **Notwithstanding some limited progress in fiscal risk management,[56] risks continue to be high due to the high number of SOEs.** The number of SOEs is very high, which crowds out private businesses and distorts the playing field for new market entrants. Many SOEs also underperform financially, and financial losses are often covered through external grants, rather than subsidies from the general government budget. The financial performance of the 13 largest SOEs has worsened between 2014 and 2018, with total liabilities increasing from 18.24 percent of GDP in 2014 to 27.24 percent of GDP in 2018, while net profit worsened from negative 1.36 percent in 2014 to negative 3.71 percent in 2018. To that end, optimization and restructuring of large SOEs, with the exception of the national power company Barqi Tojik, has not been initiated yet but need the government's priority attention.

2.51 **The financial performance of SOEs continues to present significant fiscal risks.** Uncontrolled subsidization of SOEs potentially creates a moral hazard problem, particularly in the context of the high concentration of tax arrears[57] in SOEs and the lack of payment discipline. As of October 1, 2020, total estimated debt of all public interest entities comprised 87 billion somoni or approximately $8.2 billion. This is equivalent to 112 percent of the country's GDP. Furthermore, lack of independent verification, such as through annual external audits, as well as irregular reporting on contingent liabilities and inadequate inventorying of assets[58] further exacerbate the fiscal risks posed by SOEs. In response to the government's request,[59] the Ministry of Finance has developed a fiscal risks assessment methodology for large SOEs in October 2020 which is currently under review by the government and stakeholders. Once approved, it will provide a technical methodology for assessing fiscal risks of large SOEs or public interest entities.

Table 2.5: Financial Performance Indicators of 13 Largest State-Owned Enterprises in Tajikistan, 2012-18

Financial Performance (in percent of GDP)	2012	2013	2014	2015	2016	2017	2018
1. Current assets	13.86	13.37	10.09	9.11	9.87	9.31	11.35
2. Total assets	42.76	40.96	44.81	45.50	43.45	40.40	41.93
3. Current liabilities	14.22	17.27	16.98	18.24	22.62	23.61	27.24
4. Total liabilities	25.60	27.84	28.08	35.31	38.52	42.25	47.89
5. Revenues	11.78	9.79	8.18	9.44	8.25	7.70	8.04
6. Net profit	-0.90	-1.78	-1.36	-5.20	-3.93	-5.42	-3.71

Source: Department for Supervision of Financial Activity in Large SOEs, Ministry of Finance of the Republic of Tajikistan.

2.52 **The current liquidation process of Tojiksodirotbank (TSB) and Agroinvestbank (AIB) pose significant fiscal risks.** The National Bank revoked the licenses of these two former systemic banks in May 2021, after almost five years of attempting to rehabilitate them with budget

[56] Several important steps have been undertaken by the government, such as implementation of a SOE Fiscal Risk Management Strategy for 2017-2020, which included among other things strengthening SOE monitoring capacity of the Ministry of Finance and establishing a SOE Fiscal Risk Coordination Council.

[57] According to the Tax Committee, tax arrears were accumulated by the following five largest SOEs: OJSC 'Tajiktelecom' (86 million somoni), Rogun hydropower plant (67 million somoni), OJSC 'Tajik Aluminium Company' (38 million somoni), Sangtuda-1 (36 million somoni), and OJSC 'Dushanbe International Airport' (31 million somoni).

[58] Notably, there is no unified or single asset management registry for the whole general government sector.

[59] Based on the Request from the First Deputy Prime Minister issued to the Ministry of Finance (#3/23-1 dated August 19, 2019).

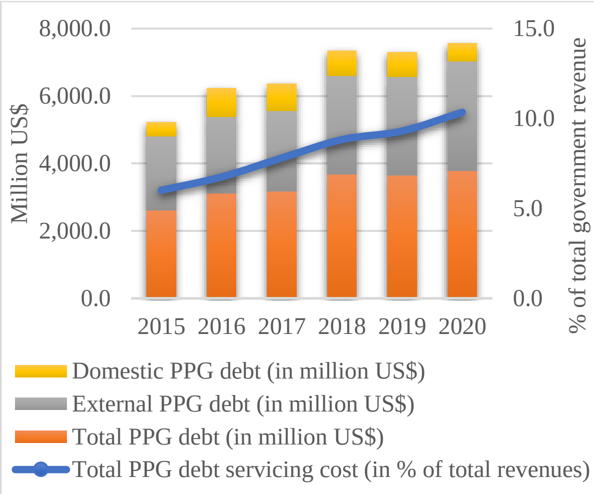
subsidies and other forms of bailouts.[60] Now, it is important to manage the liquidation process properly and transparently to: (i) ensure transfer of assets to the government with an adequate value to compensate for the loans provided in 2017 for bailing out these banks; (ii) adequately compensate and repay other creditors according to the legally established hierarchy of claims: (iii) ensure that the Individuals Deposit Insurance Fund (IDIF) provides payments to insured deposits of AIB and TSB based on the coverage limits;[61] (iv) ensure replenishment of the IDIF to support the country's credible deposit protection system going forward. The latter may pose unforeseen fiscal pressure, because the IDFI stands at a lower hierarchy in the liquidation process to expect redemption of its payouts to be made to depositors.

2.53 **Public investment management (PIM) remains weak.** Inefficiencies remain evident[62] in capital investment management in terms of poor selection of projects, unrealistic schedules in ex-ante appraisal and consequent delays in completion, cost overruns, and neglect to operate/maintain created assets.[63] These issues are presented and discussed in more details in chapter 5 of this report.

2.54 **Continued public spending on the Rogun hydropower plant will continue to put a strain on public service delivery spending.** As discussed in the first chapter, spending on Rogun Hydro Power Project from the state budget must be balanced with the need to finance essential public service delivery and social sector budgeting.[64] And while government budget allocations for Rogun HPP constitute energy sector expenditures (by functional classification) and capital expenditures (by economic classification), external borrowing for Rogun is usually not included in the total public resource envelope. Hence, external financing sources for Rogun should be incorporated as an integral part of total government spending. This will strengthen the government's debt transparency and enhance the discipline on future external borrowing.

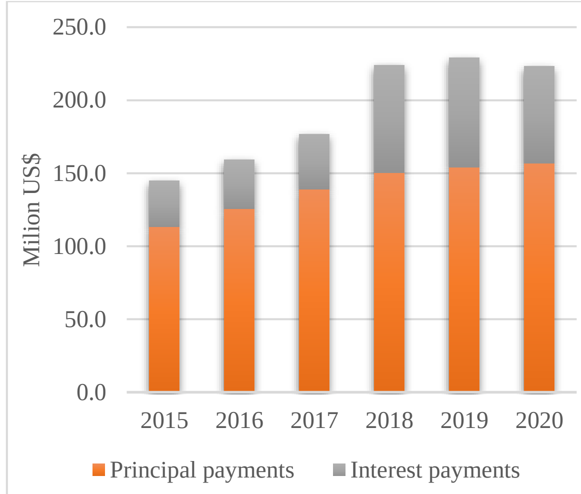
[60] E.g. OJSC 'Tajik Aluminium Company' (100 percent government ownership), OJSC 'Tojiktelecom' (95 percent), OSHC 'Barqi Tojik' (100%), OJSC 'Tojiktransgas' (100%), OJSC 'Dushanbe International Airport' (100%), 'OJSC 'Tajik Air' (100%), OJSC 'Tajik Cement' (100%), OJSC 'Rogun' (95%), and others.
[61] Based on the established limits in the national currency (up to 30,000 somoni) and in foreign currency (up to 21,000 somoni) the total amount of insurance compensation is estimated to cost about 220 million somoni.
[62] Capital spending in 2019 amounted to about 18% of GDP, which is very high in relation to the size of Tajikistan's economy.
[63] World Bank. 2020. *Tajikistan Public Expenditure Review: Strategic Issues for the Medium-Term Reform Agenda. A Concept Note*. Washington, DC, pp.8-10.
[64] World Bank. 2018. *Tajikistan Systematic Country Diagnostic*. Washington, DC, p.xii.

Figure 2.7: Trends in Total Public and Publicly Guaranteed Debt and Servicing Cost, 2015-20



Source: MoF

Figure 2.8: Public and Publicly Guaranteed Debt Servicing Cost by Principal and Interest Payments, 2015-20



Source: MoF

2.55 **Public debt management practices require continued improvements to lower the elevated risk of debt distress.** Since 2009, the Ministry of Finance develops and approves a three-year Public Debt Management Strategy (PDMS), with the latest one covering the period 2021-23. The Ministry of Finance uses a specialized debt tracking system (DTS), which is now outdated and is expected to be replaced. With the debt management strategy in place and being implemented, debt reporting and analysis by the Ministry of Finance has improved. In the meantime, the debt sustainability threshold was raised in 2019 from 40 percent to 60 percent of GDP to accommodate additional borrowing, whereas public and publicly guaranteed (PPG) debt expanded from $2,611.1 million in 2015 to $3,780.4 million in 2019. Alarmingly, debt servicing cost has risen significantly from 6 percent of total government revenues in 2015 to 10.3 percent in 2020 (or from 2 percent of GDP in 2015 to 3 percent of GDP in 2020), posing significant fiscal risks if not adequately managed or addressed.

Performance Monitoring, Evaluation and Oversight

2.56 **Financial performance monitoring is hampered by incomplete adoption of accounting and financial reporting standards, and institutional weaknesses.** Financial performance and reporting in the public sector are constrained by weak compliance with accounting and financial reporting standards based on IPSAS and IFRS. Ongoing efforts to introduce additional financial accounting modules, based on IPSAS standards for cash management, commitment control and asset management will go a long way in improving the overall quality of financial information and reporting by ministries. However, much more needs to be done to improve financial performance and reporting of SOEs, and these efforts should complement ongoing initiatives to strengthen the monitoring and oversight capacity of the Ministry of Finance's IPSAS Methodology, SOE Monitoring and Internal Audit departments.

2.57 **Coverage of SOE financial performance monitoring should be expanded and the IFRS adoption accelerated.** Currently, the Ministry of Finance monitors the financial performance of less than 5 percent of all SOEs, though Barqi Tochik alone accounts for most of the losses in the sector, and less than half of the 27 SOEs monitored by the Ministry have their annual financial statements regularly audited. Moreover, conflicting and outdated regulations[65] continue to impede SOEs' implementation of IFRS. The Ministry of Finance has limited technical capacity to both effectively oversee and monitor the performance of SOEs and facilitate an accelerated adoption of IFRSs, while also enforcing compliance with annual financial reporting and auditing requirements.

2.58 **Ongoing efforts to strengthen the capacity of the Chamber of Accounts in line with the International Standards for Supreme Audit Institutions (ISSAI) should be expedited and supported**. Important investments have been made towards reorganizing and strengthening the technical capacity of the Chamber of Accounts (CoA). The efforts are, however, presently constrained by legal limitations to the CoA's capacity to determine its annual audit program, independent of the work of the anti-financial control and anticorruption agency. Resolving this conflict of interest and enhancing the financial and operational autonomy of the CoA will significantly contribute to its capacity to effectively audit and report on the custody and use of public resources.

2.59 **With few exceptions, CoA's audit reports and audited financial statements are not published, though initial steps are being taken towards improved transparency and accountability.** The CoA issues audit reports following the completion of external audits, but these are currently not publicly accessible. A few public entities, mainly SOEs, commission external audits on an annual basis, but those that do often choose not to place their audited financial statements in the public domain. These long-standing practices contribute to weak transparency of public sector operations. The recently issued order by the the Minister of Finance[66] that stipulates the publication of audited financial statements by audited entities in coordination with the CoA is an important initial step towards improving transparency and accountability of public expenditures and should be encouraged and supported.

2.60 **Incipient Parliamentary capacity in the oversight of the budget process should be reinforced and mainstreamed.** An analytical unit was established to support the Economy and Finance Committee of the Lower Chamber of Parliament in scrutinizing fiscal and financial information and producing evidence-based opinion and recommendations, with the technical assistance of development partners. With the unit's support, a large number of staff and members of parliament (MPs) were trained. However, the unit was never integrated into the Parliament's organizational structure and was dissolved following the post-election reconstitution of MPs. This loss of capacities and skills must be reclaimed or re-established and mainstreamed into the parliament's organizational structure and functioning.

Organizational Structure and Responsibilities

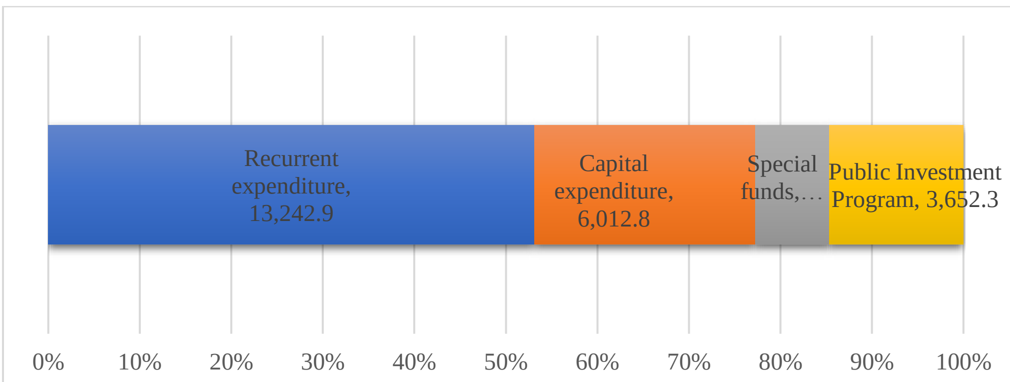
2.61 **The organizational structure of the Ministry of Finance could be recalibrated to improve efficiency.** The current organizational structure, which was adopted by the Ministry of Finance in February 2019 and embedded in the Provisions of the Ministry of Finance, reflects the

[65] For instance, valuation of assets is done in accordance with a specific accounting regulation. Thus, for proper application of IFRS this regulation needs to be abolished.

[66] Order of the Minister of Finance 'On Measures Undertaken by the Ministry of Finance to Ensure Transparency and Public Access to Information on the Budget Process' (#108 dated September 30, 2020).

high degree of fragmentation of the government's budget management process. This fragmented nature suggests possible pathways toward improved efficiency. For example, accountabilities and reporting lines could be streamlined by consolidating the sub-national budgets division and the main finance departments of each municipality. Also, the investment budgeting process is under the supervision of the First Deputy Minister, while budget policies in real sectors are supervised by a different Deputy Minister. Streamlining these processes could also contribute to improved efficiency. Some divisions could be expanded into departments, such as the Division of Intergovernmental Fiscal Relations or the Macroeconomy Planning and Forecasting Division. In general, processes should be less fragmented and more centralized, which would require amending the Ministry of Finance's organizational structure. This is already provisioned in the PFMRS, and a new organizational structure was proposed by development partners in 2018, but it was not accepted, further delaying revision of the organization structure.

Figure 2.9: Composition of Total Government Spending by Main Economic Categories, 2020
(In percent and in million somoni)



Source: Ministry of Finance of the Republic of Tajikistan.

2.62 **Public investment management functions are weakly streamlined between the MoF and MoEDT and are reflective of weak integration between recurrent and capital budgets.** Recurrent expenditure is planned by public entities in coordination with the finance units of the MoF, while investment budget planning involves the MoEDT, which is critically understaffed and under-resourced. In addition, interaction between these ministries is not ensured during the budget execution process, which sometimes leads to delays in the reconciliation of accounts and selection of investment projects. Both ministries have Public Investment Program (PIP) divisions, although supervision of PIP project execution is delegated to the State Committee on Investment and State Property Management (SCISPM). Clearly, all three entities have overlapping functions yet do not sufficiently coordinate together, which leads to variances in PIP and investment budgeting data between them.

2.63 **External audit and financial control are often conflated, leading to overlapping functions and inefficiencies.** The Law on the Chamber of Accounts was approved in 2011 and subsequently amended in 2017, but there remains a need to harmonize it with the Law on State Financial Control and the Law on the State Agency for Financial Control and Fight Against Corruption (AFCFAC). At present, there are limitations on the ability of the Chamber to independently plan and undertake audits of all MABAs. Since 2016, external audit coverage has increased from 10 percent of the general government sector to around 65 percent in 2020, which has had a positive impact on PFM accountability. However, the Chamber's planned audits are reportedly subject to priority selection by the AFCFAC, which significantly limits the mandate and independence of the Chamber. Financial control is often confused with external audit, which brings the Chamber and the AFCFAC in direct competition. Further awareness raising and training programs are needed to change the way that external audit is perceived and understood across the general government sector. These efforts should be coupled with regulatory changes to improve efficiency and value for money of external audit reform.

F. Recommendations

2.64 **Ensuring the long-term sustainability of the fiscal balances will require improvements in budget planning and implementation, fiscal risk management, and performance monitoring and oversight.** A technically sound revenue-forecasting model is needed to enhance the credibility of budget planning and introducing policy-costing methodologies and tightening links between policy planning and budgeting would help to build the expenditure-planning capacity of the MoF and MABAs. Closely integrating the recurrent and capital budgets—and properly budgeting for maintenance costs—would further strengthen the planning process. Fully implementing the MTEF with the engagement of all budget-holders and adequate monitoring arrangements would better align the allocation of public resources with policy priorities. Revising the current legislative and regulatory framework to optimize the number of MABAs and their accountability functions would help ensure congruence between MABA spending plans and total sectoral expenditures. Phasing out inefficient tax incentives would improve the impact of public spending, while introducing and institutionalizing a rules-based approach to intergovernmental fiscal transfers would improve the equity, accountability, and transparency of fiscal policy.

2.65 **Robust budget implementation requires an accurate accounting of revenues and expenditures, as well as a credible estimate of the fiscal balance.** The authorities should ensure comprehensive adherence to the updated GFSM standards for budget classification, sectorization, and recording practices and complete the ongoing integration of modules on cash management, commitment control, asset management, and revenue management into the TFMIS. Improving the electronic public procurement system, including the online mechanism for registering complaints, and building the capacity of the Public Procurement Agency and other procuring entities would increase value for money. Periodically monitoring cash-flow projections for the whole of government and minimizing budget adjustments during execution would further strengthen budgetary credibility and predictability. In parallel, modernizing the MoF's organizational structure and raising the institutional profile of the Main State Budget Department and the Main Public Debt Management Department would augment the government's budget-implementation capabilities.

2.66 **SOE reform is critical to fiscal risk management.** Operationalizing the new fiscal risk assessment methodology for monitoring large SOEs and accelerating the adoption of IFRS are necessary first steps toward addressing the threat posed by contingent liabilities. Revising the current classification of SOEs and expanding the MoF's monitoring and oversight coverage of SOEs would further strengthen risk monitoring, while publishing independent audit reports could improve SOE governance, operational efficiency, and public accountability. Expediting the completion of the new medium-term Fiscal Risk Management Strategy would enable the authorities to integrate these efforts into a broader policy agenda.

2.67 **The authorities can improve performance oversight by strengthening financial accounting and reporting capabilities.** Capacity-building efforts should encompass line ministries and other MABAs, as well as the MoF's fiduciary monitoring and evaluation units. The IPSAS methodology should be incorporated into all SOE monitoring and internal audit departments. Finally, strengthening the audit capacity and independence of the Chamber of Accounts, achieving comprehensive financial-audit coverage, and publishing audit reports and submitting them to the legislature could greatly improve the government's ability to track how public resources are utilized.

Chapter 3. Reforming Tax Policy and Administration for Sustainable and Inclusive Growth in Tajikistan

A. Introduction

3.1 **Tajikistan's revenue performance has gradually improved since the 2000s, supported by tax policy and tax administration reforms**. The tax revenue to GDP ratio grew from 13 percent of GDP in the early 2000s to above 21 percent of GDP in 2018-19. This boost in tax collection was supported by the enactment of the Tax Code in 2013 and by the Tax Administration Reform Project implemented by the World Bank during 2013-19.[67] Main reform efforts include the reduction of the number of taxes, investment in a comprehensive Integrated Tax Management Information System (ITMIS), the introduction of a Human Resources Management Information System (HRMIS), the setting of standards of work ethics at the Tax Committee (TC), the institution of mechanisms and methodologies to fight tax evasion, the introduction of 40 electronic services for taxpayer; and the establishment of communications centers.

Tajikistan is collecting a decent share of its GDP in revenues, but the challenge is to strike a balance between different taxes. But the challenge is to make revenue and expenditure policies more efficient, while ensuring an investment and business friendly environment and promoting economic growth and development. While domestic revenue mobilization is an important priority for ensuring adequate funding of national development plans, how much and in what fashion the authorities raise the needed revenues should not place an undue burden on enterprises, especially the small- and medium-sized ones.

3.2 **The Tajik government initiated fundamental revisions to the Tax Code that aim to streamline tax policy, simplify tax administration, and lower the compliance cost for taxpayers, while enhancing tax collection.** Among other changes, the envisaged amendments to the main tax legislation aim to eliminate contradictions and provisions for dual interpretation, reduce the number of taxes and streamline tax regimes, and increase transparency of the tax system. The draft Tax Code also stipulates new requirements for granting tax exemptions and eliminates some of the existing tax exemptions.

3.3 **Key challenges confronting the tax system in Tajikistan include:**

- Excessive tax incentives provided mostly as VAT exemptions, corporate income tax (CIT) relief and multiple rates for VAT and CIT, which erodes the tax base, exacerbates distortions and complicates tax administration.
- Inadequate taxation of excisable goods and public "bads" - an untapped revenue potential which could shift the burden of taxation from labor and capital income to consumption and production of sin goods and carbon emissions with potential positive implications on public health and the green growth agenda.
- Weak progressivity of income taxation, which leads to equity concerns and distributional effects of the fiscal policy in Tajikistan.
- Inefficient VAT refund system and restrictive provisions for loss carryforwards, which creates obstacles for export expansion and investment attraction.

[67] World Bank Tax Administration Reform project (TARP, P127807, $18 million).

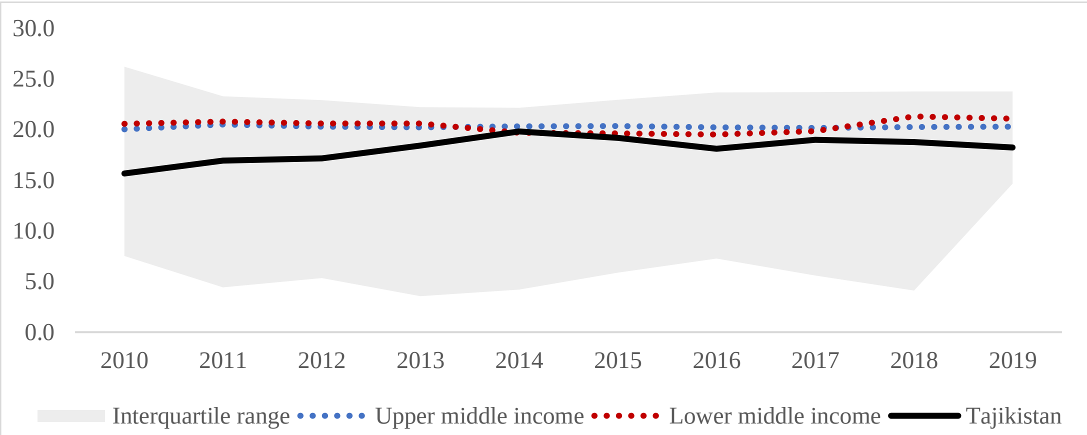
- Inadequate emphasis on encouraging taxpayers' voluntary compliance and excessive reliance on inspections and audits in ensuring tax collection.
- Insufficient geographic and sectoral coverage of e-services, including electronic processing of declarations and electronic invoicing, provided by the tax authorities.
- Unmet taxpayer demand for new modes of communication with the tax committee, more information on tax legislation, and mechanisms to provide feedback on tax legislation, which represent missed opportunities for government to engage with taxpayers.

3.4 **This chapter is structured as follows**: Section B presents an overview of the current tax policy in Tajikistan comprising legislative and institutional framework. Section C presents an assessment of tax revenue collection in Tajikistan, including regional and global comparisons, followed by Section D, which describes the main tax administration challenges in Tajikistan. The last section briefly lays down conclusions and recommendations.

B. Overview of the Tax Structure of Tajikistan

3.5 **Tajikistan's revenue performance has gradually improved since the 2000s.** At around 20 percent of GDP, the current level of tax collection in Tajikistan is in the ballpark range of lower middle-income countries (LMICs) and also compares well with the upper-middle income countries (UMICs) of the Europe and Central Asian (ECA) region (Figure 3.1). Tajikistan's tax collection level rests squarely within the interquartile range, that is, between the upper and lower quartiles, of the emerging and developing markets in ECA.

Figure 3.1: Tajikistan's Tax to GDP Ratio is on Par with Emerging and Developing Countries in ECA



Source: Tajikistan's MoF, IMF and World Bank Staff calculations.

3.6 **Despite efforts in the right direction, however, past reforms have yet to create the desired effect of promoting efficiency and broadening the taxpayer base.**[68] The pressing need to mobilize more domestic revenues often undermines the country's agenda for private sector development and improving the business environment. The private sector in Tajikistan contributed only 26 percent of total investment and produced less than 25 percent of the manufacturing industry's output in 2020.[69] Also, the growth in the number of legal entities has remained stagnant during the past 5 years, despite sustained high rates of economic growth.[70] A prudent tax policy should therefore support the dual

[68] Tajikistan Country Economic Memorandum 2019.
[69] Socio-Economic Situation in Tajikistan, TajStat, 2020.
[70] Between 2018 and 2020 the number of legal entities increased only by 92, from 35,673 in 2018 to 35,765 in 2020 (Socio-Economic Situation in Tajikistan. Annual Statistical Bulletin by TajStat, 2019 and 2020).

goals of fostering a business and investment-friendly environment and, at the same time, strengthening tax policy and tax administration to capture additional revenue.

3.7 **Domestic revenue mobilization in Tajikistan should aim to not only increase domestic revenues, but also achieve efficiency gains in revenue mobilization**. Its priorities should be to:

- Address the biases of the tax system that exacerbate inequality, particularly through the exploration of more progressive taxation.
- Address weaknesses in the taxation of transnational companies, including tax avoidance.
- Tap into new tax bases that simultaneously tackle broader objectives, including environmental taxes (e.g., carbon taxing) and sin or health-related taxes that reduce harmful consumption behaviors (e.g., taxes on alcohol or cigarettes)
- Continue to curtail illicit financial flows.
- Lower the tax burden on businesses, as tax collection from other sources increases.

3.8 **A stable, predictable, and sustainable fiscal environment can be achieved by an integrated tax policy and administration approach for better outcomes, including a more equitable tax system**.[71] This can be done by:

- Enhancing the quality of tax systems to generate more and "better" revenues.
- Strengthening the operational capacity of tax administrations to enforce and facilitate tax compliance.
- Building trust and boosting government accountability through public-private dialogue and fiscal transparency.
- Using cutting-edge research and tools for better informed policy decisions.

3.9 **The government initiated fundamental revisions to the Tax Code.** Main innovations in the draft law includes: (i) harmonization of the corporate income tax (CIT), personal income tax (PIT), and a simplified regime for individual entrepreneurs to ensure consistent income tax outcomes; (ii) modernisation of international tax rules to attract foreign investment, and at the same time, protect against international profit shifting (BEPS) activities; (iii) a provision for straight-line depreciation to reduce compliance costs; (iv) a provision for deductions to encourage research and development and innovation; (v) reform of taxation of extractive industries to align with international norms; (vi) replacement of CIT profit-based tax incentives (e.g., tax holidays and exemptions) by targeted cost-based tax incentives (e.g., investment tax credits, accelerated depreciation of assets that create positive externalities, such as privately financed public infrastructure); and (vii) establishment of an independent Dispute Resolution Council to advise on tax disputes.[72]

3.10 **While Tajikistan is making tangible progress in its tax policy and tax administration, further steps are needed to facilitate a higher level of labor employment, capital utilization, and private investment promotion for its development agenda.** Tax policy and tax administration influence the amount of capital and labor hired by firms, as well as the level of consumption, the share of private savings and capital formation.[73] Thus, the ultimate tax policy problem is choosing between the right levels of present and future consumption. The level of output on the other hand is

---

[71] The Green, Resilient, Inclusive Development (GRID) approach

[72] The PER team reviewed the list of all tax exemptions effective as of January 2020 and provided justification on the adequacy and appropriateness for the respective tax exemption.

[73] Musgrave, Richard A. and Peggy B. Musgrave (1989), "Public Finance in Theory and Practice" 5th edition, chapter 17 *Taxation Effects on Capacity Output: A Supply-Side Perspective*.

a function of employment of labor and utilization of capital stock in the economy. The tax regime as applied to incomes from labor and capital plays an important role in the allocation of resources and, thereby, in economic development. Tax policy also affects a government's level of revenues and its savings that it directs into capital formation. Again, tax policy has a role in promoting investment through its treatment of investment income. One component of the savings and investment is also foreign savings either through aid or foreign direct investment.

3.11 **The next section examines the tax system of Tajikistan in light of the key principles stated in the Tax Code: tax neutrality, efficiency, equity, certainty, and stability**. The analysis is complemented with references to international practices and comparisons with peer nations and with neighboring countries.

C. Assessment of Tajikistan's Current Tax Policy

3.12 **The National Development Plan of Tajikistan for 2021-25 identifies tax reform as the main catalytic element to improve Tajikistan's business climate**. It sets a target to increase the tax collection to 30 percent of GDP by the end of the medium-term period. Additional tax collection efforts need to include growth-friendly measures that allow for the private sector to invest, create jobs and, in general, contribute to economic growth. Tax reform measures, including both policy and administrative actions, also need to tackle equity issues, problems of narrow bases and informality, complexity of the tax legislation and procedures, and the resulting noncompliance and tax evasion.

3.13 **Surveys reveal that paying taxes remains difficult and burdensome in Tajikistan**. It ranked 106th of 190 economies on the ease of doing business in the World Bank's 2020 Doing Business survey. On the "paying taxes indicators", the country ranked 139th in 2020, a small improvement from 140th in 2017. Tajikistan ranked well below its neighbors. Even though the total tax and contribution rate as a percentage of profits on businesses has fallen from almost 75 percent to just above 67 percent during the last five years, it remains high. The rate is much higher than in the two neighboring countries of the Kyrgyz Republic at 29 percent, and Uzbekistan at 31.6 percent.[74] Tajikistan's exceptionally high tax burden does not originate from main taxes such as profit and labor, but rather from other miscellaneous taxes.

3.14 **Under the existing Tax Code endorsed in 2013, the main taxes applicable to individuals and businesses are as follows**:[75]

- Corporate Income Tax.
- Personal Income Tax.
- Payroll related tax (social tax).
- Value Added Tax.
- Excise taxes.
- Primary Aluminum Sales Tax.
- Road Users Tax.

[74] http://www.doingbusiness.org/reports/thematic-reports/~/media/WBG/DoingBusiness/Documents/Special-Reports/Paying-Taxes-2020.pdf

[75] The tax code also provides for taxation of natural resources; taxation of property and land and taxes withheld at the source of payment from incomes of non-residents, but the present study does not go into those taxes.

- The country also employs Special Tax regimes (simplified tax) for small and micro enterprises and for the agriculture sector (unified tax).

3.15 **Rates for these main taxes in Tajikistan are in the mid-range of the global comparison**. Comparison with countries in the ECA region as well as with lower middle, upper middle- and high-income countries show that its rates for corporate income tax (CIT), personal income tax (PIT) and value added tax (VAT) are neither too high nor too low.

3.16 **The proposed amendments to the 2013 Tax Code are expected to improve the tax system of Tajikistan.** The amendments address both tax policy and tax administration issues. The draft provides for lower business profit tax (CIT) rates, lower VAT rates, and a lower social tax rate. However, reductions in the rates should only be done to the extent that a significant broadening of the tax base occurs, specifically through the abolishment and phasing out of profit-based tax incentives, such as tax exemptions or holidays.

Taxation of Consumption

Assessment of VAT System

3.17 **VAT is the most significant tax, contributing to over 40 percent of tax revenues in Tajikistan.** Tajikistan incorporates a number of good practices into its VAT regime. The tax rate of 18 percent along with a zero rate conforms to the best practice of a single VAT rate and a zero rate. Its definition of supplies subject to VAT and the scope of taxable value are appropriate. In addition, the adoption of the credit method makes sure there is no cascading in the system, and the reverse charge method of taxing foreign companies follows the best practices. However, there remain aspects of the VAT policy need to be modified, including the high threshold of TJS 1 million, as well as not allowing taxpayers below that limit to register voluntarily as VAT payer and graduate from special tax regime.

3.18 **The zero-rated goods and services are limited to the export of goods, except for raw cotton, ginned cotton, cotton yarn, primary aluminum, jewel stones and jewelry, and goods manufactured in Free Economic Zones (FEZs)**. Normally all exports should be zero-rated, but the exclusion of the aforementioned goods in favor of exempting them instead seems to be motivated, at least partially, by the desire to tax the rents accruing to these sectors. This will, however, leave an element of tax in their export prices and make them less competitive. Some of these exemptions also seem to be motivated by fear of fraud in VAT refund, should they be zero-rated. What is needed, then, is a strengthening of the refund system and the tax administration. The rationale of not zero-rating goods manufactured in FEZs, however, is unclear, as those are similar to other goods produced and exported in the economy. Generally, the FEZ is a designated area in which companies are taxed very lightly or not at all to encourage economic activity in the country.

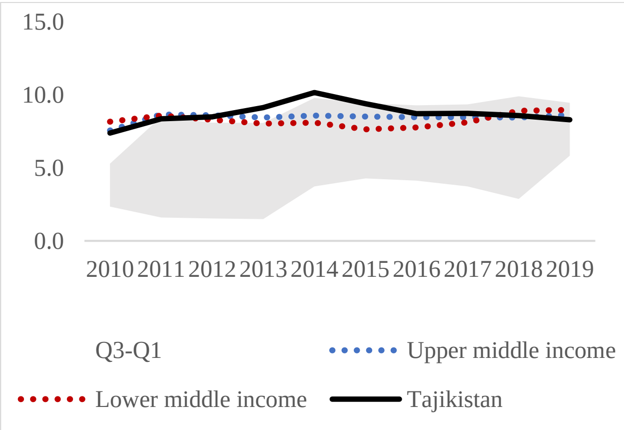
3.19 **The lack of a proper VAT refund system is a major shortcoming in Tajikistan, negatively affecting exports beyond the mineral sector**. In principle, a VAT refund is available for qualified exporters if input VAT exceeds assessed VAT. Other refunds are hard to get including VAT paid on capital goods. In the last few years VAT refunds ranged between 18- 24 million somoni, around half of which were made to embassies and tax-exempt international organizations. The VAT refund practices for regular traders needs to be straightened out to establish a sound VAT system. The solution lies in making refund the norm rather than an exception. At the same time, the audit system can be strengthened to prevent fraud by assigning VAT audits to a separate unit in the audit department.

3.20 **The proposed Tax Code introduces distinctions in the VAT design for cashless transactions and taxable cash transactions**. The draft code suggests lowering the VAT rate to 15 percent for cashless transactions and maintain the 18 percent tax rate for cash transactions. Some sectors would be granted a further reduced rate of 8 percent for cash transactions and 5 percent for cashless transactions. This approach may prove to be innovative in addressing informality. However, it further deviates from the optimum policy of a single VAT rate. The planned distinction, while incentivizing electronic transactions and elevating the possibility of formalizing the informal economy, increases the complexity of the VAT system for companies and the tax administration. Moreover, it may be better to only lower the VAT rate to the extent that revenues can be compensated by the abolishment of tax exemptions. A three percentage-point reduction of the VAT rate would reduce the VAT revenue by roughly 15 percent, a nontrivial sum, given VAT's total contribution to tax revenues.

VAT Productivity and C-Efficiency and Regional Comparisons

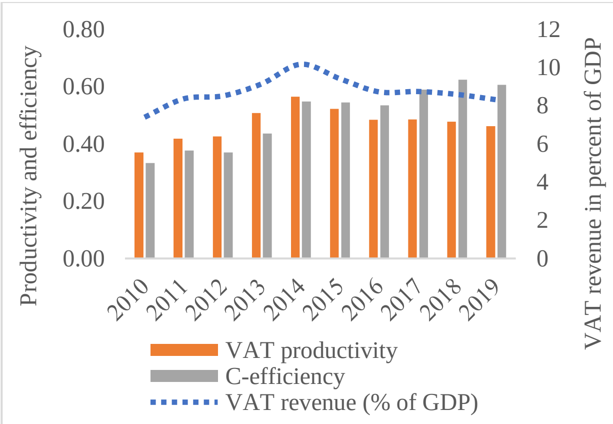
3.21 **VAT collection in Tajikistan has been impressive, particularly when compared with many of its neighboring countries and similar economies** (Figure 3.2). At 8.5 percent of GDP, VAT collections in Tajikistan have been better than the average for upper middle income and lower middle-income countries. VAT productivity has been consistently high, at above 40 percent, and in some years, even higher than 50 percent. The c-efficiency has been close to 60 percent since 2016. However, there remain gaps in the country's VAT collection efforts. In addition to the massive VAT exemptions it surrenders, the country's good collection record may have impacted by the malfunctioning VAT refund system and by legislative limitations on netting-outs.

Figure 3.2: VAT Collection in Global Comparison



Source:

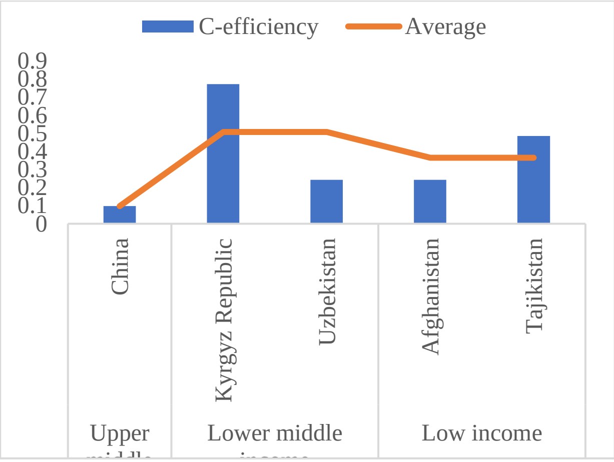
Figure 3.3: Tajikistan's VAT Productivity and C-Efficiency



Source:

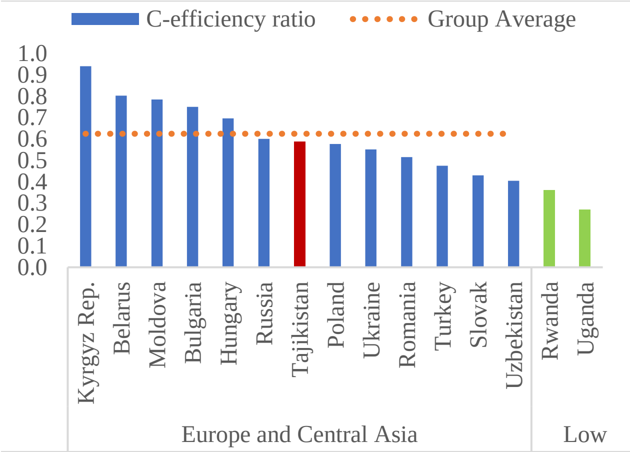
3.22 **A comparison with bordering countries and regional neighbors shows higher VAT c-efficiency in Tajikistan**. The VAT c-efficiency is measured as the ratio of actual VAT revenues to the product of the standard rate and final consumption. Tajikistan's VAT c-efficiency performs well when compared to low-income countries. Data and computation details of the VAT c-efficiency of select ECA countries and low-income countries are given in Figures 4.2 and 4.3.

Figure 3.4: VAT c-Efficiency Ratio Among Tajikistan Border Countries



Source:

Figure 3.5: VAT Collection and C-Efficiency Ratio in Regional Comparison



Source:

Assessment of Excises

3.23 **The excise tax base in Tajikistan is fairly broad, covering alcoholic drinks, tobacco products, transport-related vehicles and fuel, telecommunication services and some luxury goods**. The tax rates are both ad valorem and specific. The advantage of specific tax rates is that they can target injurious contents in products, such as nicotine in cigarettes, alcoholic beverages and pollutants in fuels, which create negative externalities in the economy.

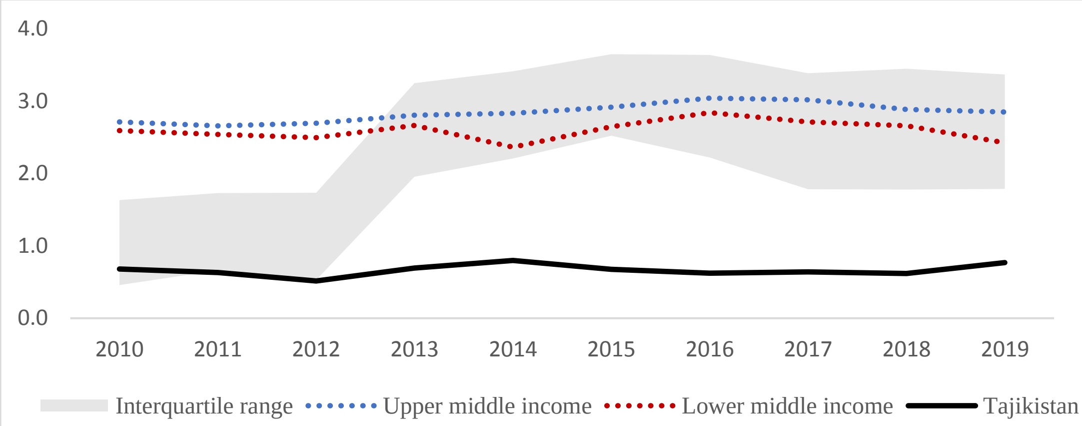
3.24 **However, over time, the specific tax rates lose value with inflation which dilutes their effectiveness and leads to revenue losses in real terms**. In Tajikistan, specific tax rates may be adjusted periodically, but there is presently no provision for the automatic indexation of rates. The latter may result in a decline of revenues over time.

3.25 **Usually, the combined VAT and excise tax rate should not exceed the revenue maximizing rate, unless the objective is to reduce overall consumption of a particular good, such as a sin good like tobacco or alcohol**. The more price-responsive the demand for a product is, the more reduction in tax base occurs, as the excise rate is raised. Revenues can start to fall if the rate is raised too high. Typically, highly price-elastic demand is observed in non-essential goods, as well as in situations in which consumers have untaxed or lower taxed substitutes available. The revenue maximizing rate for each product can be calculated in precise terms by optimizing the total tax revenue expression with respect to the ad valorem tax rate "t". It will require an estimation of the values of price elasticity of demand and price elasticity of supply.

3.26 **Excise taxes may be used effectively not only for raising more revenues, but also for improving health outcomes.** Globally, more than 10 million premature deaths, or about 16 percent of all deaths, could be prevented annually by reducing the consumption of tobacco, alcohol, or sugar-sweetened beverage through the imposition of higher excise tax rates. Excessive consumption of unhealthy products is persistent and increasing in many LMICs, including Tajikistan, where non-communicable diseases affect people at a younger age. Thus, excise taxes, in particular, a combination of specific and ad valorem taxes on tobacco and alcoholic products, may prove to be an important instrument in improving health outcomes, while at the same time generating more fiscal revenue

3.27 **A green tax reform can also generate revenues with large positive environmental effects to the society.** Negative externalities such as greenhouse gases (GHGs) are an unused tax base with revenue raising potential. Environmental taxes can also create incentives for the private sector to shift towards greater investment in solutions addressing climate change and sustainability. Thus, they can generate a ‘triple dividend’: cutting pollution, raising economic activity, and producing other public benefits, such as clean water and improvements in human health. For example, a carbon tax offers the most cost-effective lever to reduce carbon emissions. Furthermore, environmental fiscal reforms, which combine carbon taxes with a reduction of labor taxation, are effective in lowering unemployment in situations of high informality.[76]

Figure 3.6: Excise Collection in Regional Comparison



Source: Tajikistan’s MoF, IMF and World Bank Staff calculations.

3.28 **Tajikistan compares poorly with its regional peers and with both upper middle-income and lower middle-income countries in excise tax collection rates** (Figure 4.6). While Tajikistan’s excise tax base covers a fairly broad range of products and services, its excise collection compares poorly with other countries, ranking far below even the lower quartile (25th percentile) of countries. Thus, there is scope for raising the rates, including using more ad valorem rates and imposing new excise taxes, such as on carbon emissions.

Assessment of Special Tax Regimes

3.29 **Usually, special tax regimes are created with the dual purpose of bringing small and micro traders and agricultural farmers into the tax net and making it easy for them to comply**. Tajikistan’s Simplified Tax Regime provides for four categories of special tax regimes:

- Tax regime for individuals carrying out business activity on the basis of a patent or certificate, wherein the patent holder pays a fixed amount of taxes, regardless of income.
- Simplified tax regime for small entrepreneurs, wherein the taxpayer pays corporate profit tax as a legal entity or personal income tax as an individual entrepreneur under a simplified procedure.
- Simplified tax regime (unified tax) for producers of agricultural products, wherein a unified tax is applied to peasant farm households and other producers of agricultural production and the tax base is the area of the land plot.
- Special tax regime for gambling businesses; wherein the tax paid is based on the number of gambling tables, bookmaking office counters, gambling machines, play tracks, pool tables, and the issue of lottery tickets, etc.

3.30 **The problem with the country’s special tax regimes is that once taxpayers are shepherded into this category, there is a tendency to stay there and not to join the regular tax**

[76] https://www.imf.org/external/pubs/ft/fandd/2019/12/the-case-for-carbon-taxation-and-putting-a-price-on-pollution-parry.htm

regime. The current provisions do not provide for any sunset clause for remaining in the simplified tax system, nor any incentives to move to the regular tax regime. In fact, the lack of a sound VAT refund system creates a major disincentive against doing so. If large taxpayers decide to hide under the special tax regimes, they can stay there indefinitely and compete with entrepreneurs for whom these regimes are genuinely intended to serve. This has adverse implications for tax revenues as well as for the business environment for domestic and foreign investors alike. Regular taxpayers, whether domestic or foreign, will have to face unfair competition in their sector, creating an uneven playing field.

3.31 **Presently, it is also impossible to move voluntarily from simplified tax regimes to the regular tax regime**. However, the new Tax Code is likely to provide for a voluntary transition to the general regime and registration as VAT payers for companies whose income is less than 1 million somoni. This is a welcome move.

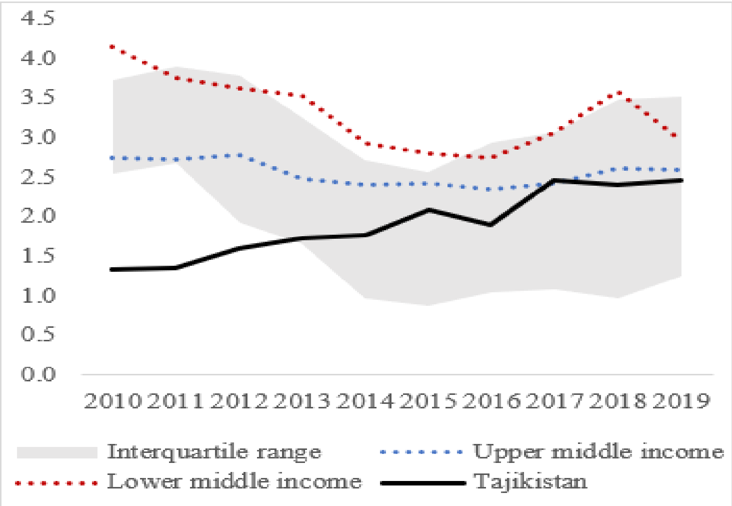
Taxation of Capital and Labor Incomes

Assessment of Corporate Income Tax Regime

3.32 **The Tajik corporate income tax (CIT) structure is sound and in line with the international practice, except the dual rate system**. As of January 2017, CIT is computed by applying the statutory rate of 13 percent for enterprises producing goods and 23 percent on other types of activities. It is advisable to set a single tax rate on all goods and services. Taking into account the tax regimes in neighboring countries, Tajikistan may set 20 percent rate for CIT. Corporate income tax is applied on market surplus that is over and above the normal profits and there is no justification for differentiating among the market surpluses across different sectors. Multiple rates also increase costs of administration and compliance. The multiple tax incentives discussed below may be rationalized because a 20 percent rate is already a major incentive.

3.33 **The loss carryforward rule envisaged for 3 years is restrictive and should be extended to a period of between 5 to 7 years**. The loss carryforward rules across countries vary widely and in some developing countries, it is permitted indefinitely into the future. That is clearly excessive and may send wrong signals. On the other hand, the 3-year period currently envisaged by Tajikistan is too restrictive and should be extended to 5 to 7 years, as most businesses may not be able to adjust their losses against profits in a 3-year period. Currently, there is no provision for loss carry backward.

Figure 3.7: CIT Collection in Regional Comparison (% of GDP)



Source: Tajikistan's MoF, IMF and World Bank Staff calculations.

3.34 **Tajikistan should strengthen its taxation of incomes earned by foreign entities.** A separate unit in the Tax Committee could monitor transfer pricing and BEPS practices. There are special provisions for taxation of income earned by foreign companies in the country. According to the Tax Code, in addition to CIT, a permanent establishment of a foreign legal entity in Tajikistan, shall be subject to a tax on the net profit at the rate of 15 percent. The amount of personal income tax or corporate profit tax paid outside of Tajikistan shall be applied as offset against the payment of these taxes.

Table 3.1: CITs of Emerging and Developing Economies in ECA

Selected Countries	(1) Standard CIT Rate	(2) CIT Revenue (% of GDP)	(3) = (2)/(1) Efficiency Ratio	Efficiency Ratio Ranking
Europe & Central Asia				
Upper middle income				
Belarus	18	3.01	0.17	7
Bulgaria	10	2.27	0.23	5
Romania	16	2.01	0.13	11
Russia	20	3.66	0.18	8
Turkey	20	1.7	0.09	13
Average	**16.8**	**2.53**	**0.16**	
Lower middle income				
Ukraine	18	2.46	0.14	10
Moldova	12	2.28	0.19	4
Uzbekistan	14	4.57	0.33	1
Kyrgyz Republic	10	2.50	0.25	2
Average	**13.50**	**2.95**	**0.23**	
Low income				
Tajikistan	23	2.5	0.11	6

Source: Tajikistan's MoF, IMF and World Bank Staff calculations.

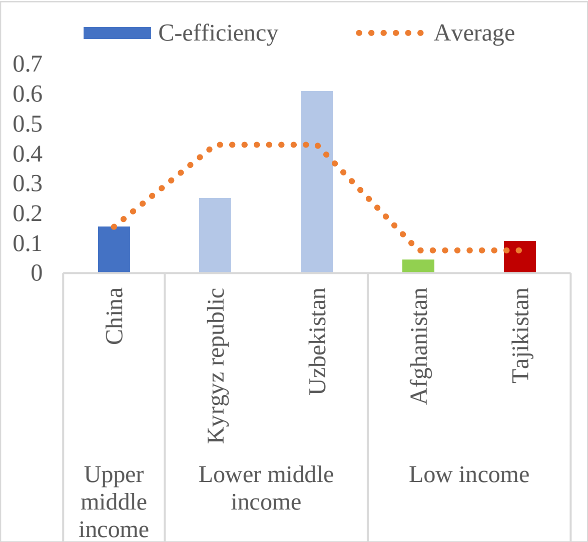
3.35 **The productivity and c-efficiency of a particular tax type is a very good indicator of its performance.** The productivity of CIT or VAT is defined as the actual CIT or VAT revenue collected as a percentage of GDP divided by the CIT or VAT rate. The higher the ratio is, the more productive the CIT or VAT system is. The lower the ratio is, the more widespread the extent of exemptions, tax evasion or weak tax administration may be. In the case of VAT, the higher the perception of corruption is, the lower the VAT efficiency ratio is. The c-efficiency is another indicator of the strength or weakness of the CIT or the VAT tax structure. Basically, it is the ratio of actual revenue collected to the theoretical revenue potential. Changes in VAT revenue as a share of GDP can be attributed to three factors: (i) changes in the VAT standard rate; (ii) changes in the share of consumption in GDP; and (iii) changes in the c-efficiency ratio. The last of these is the ratio of the actual VAT revenue to the theoretical revenue derived from the product of aggregate final consumption and the VAT standard rate, which is widely used as a broad indicator of the overall efficiency and effectiveness of the VAT system.[77] The CIT c-efficiency may be computed in a similar fashion by using the CIT rate instead of VAT rate.

3.36 **Collections of CITs have improved in Tajikistan and now are in the range of upper middle- and lower middle-income countries of the region** (Figure 3.7). As depicted in Table 2, the CIT efficiency in Tajikistan ranks 6th among the countries of the ECA region. However, both the c-efficiency and CIT revenue collections in Tajikistan are lower compared to its bordering countries. Tajikistan is doing better than its peers in the low-income country group (Figure 3.8) but the collection and c-efficiency ratio of CIT are higher among Tajikistan's neighboring countries (Figure 3.9).

Keen (2013) points out that changes in the C-efficiency ratio have been more influential than the changes in the standard rate and final consumption ratio to GDP for the evolution of overall VAT revenues in many countries but does not explore the drivers of C-efficiency movements.

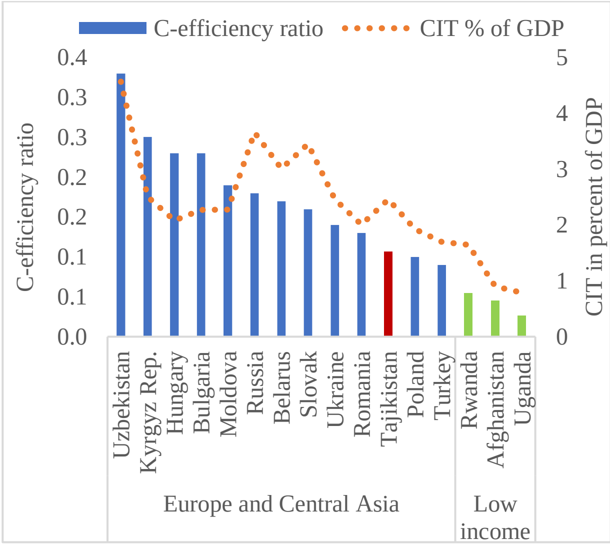
3.37 **Current amendments to the Tax Code suggest lowering the CIT rate to 18 percent for the extractive industries and 20 percent for banks and mobile companies, while maintaining the same 13 percent for the production of goods**. Differentiated tax rates for different industries lead to complexity and disputes, as well as possibility of misclassifications. All businesses should be treated equally under CIT. Sector-specific issues should be dealt with differently. For instance, for the mining sector, a royalty could be applied on natural resources; for communications businesses, an excise tax could be applied on communication services.

Figure 3.8: CIT C-Efficiency Ratio Among Tajikistan Border Countries



Source: Tajikistan's MoF, IMF and World Bank Staff calculations

Figure 3.9: CIT Collection and C-Efficiency Ratio in Regional Comparison



Source: Tajikistan's MoF, IMF and World Bank Staff calculations.

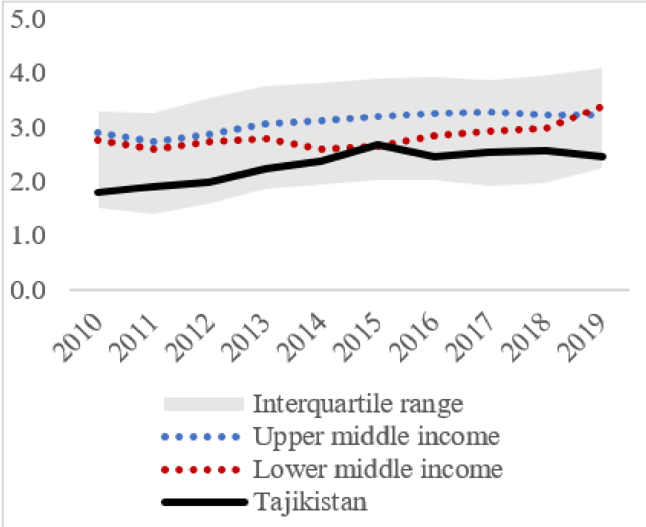
3.38 **Replacing profit-based incentives for specific business activities by cost-based incentives like accelerated depreciation and investment tax credits is a better practice.** The proposed draft Tax Code recommends cutting back profit-based incentives and replacing them with cost-based incentives, but only partially. Although investment-linked incentives are better than blanket exemptions, any profit-based incentive would only make already profitable investments more profitable. New investments would be more effectively attracted through the use of accelerated depreciation. Alternatively, a better approach would be to provide investment allowances of 10 to 15 percent. Using straight-line depreciation is an improvement but introducing a declining balance depreciation method should be considered, as it closely mimics economic depreciation. For the tourism industry, the draft tax code still contains a five-year tax exemption, specifically on "tourism activities," which may be hard to define and overly generous. This exemption should be revisited. Likewise, a new tax exemption for newly established small and medium enterprises is being proposed for income generated from the sale of manufactured goods in remote areas for a period of 3 years after registration. This is likely to create a complexity and uncertainty for businesses and should also be reconsidered.

Assessment of Personal Income Tax (PIT)

3.39 **The tax base for PIT is comprehensive and includes all kinds of incomes, including dividends, capital gains and in-kind income**. The exemptions and deductions seem reasonable. An important issue, however, is the rate structure. The basic exemption (non-taxable threshold) is at TJS 50 ($5.60) per month. The next bracket, between TJS 50 and TJS 140, ($6–15.8), is taxed at a rate of 8 percent; "excess income" above TJS 140 is taxed at 13 percent. All monthly income over TJS 140 is therefore taxed at the top marginal rate of 13 percent. The monthly minimum wage in Tajikistan is TJS 400 ($45) without any fringe benefits. Few workers fall into the 0 percent tax bracket or even the

8 percent bracket. These adjustments effectively represent lump sum reductions in tax payments for almost all taxpayers. The effective tax rate is, therefore, 13 percent for the majority of taxpayers and the personal income tax becomes practically a flat tax on income.

Figure 3.10: PIT Collection in Regional Comparison (% of GDP)



Source: Tajikistan MoF, IMF and World Bank Staff calculations

3.40 **There is a need to introduce realistic progressivity in the tax structure, by raising the basic exemption from the current TJS 50 and expanding the income range of the 8 percent tax bracket**. In addition, there is scope for increasing the top PIT rate of 13 percent to be in the same ballpark as the CIT rate of about 20 percent. Keeping the highest PIT at the same level as the CIT rate is a good practice, as this fosters parity between the taxation of labor and capital. Together with an increase in the basic exemption and the expansion of the 8 percent bracket, this would improve the fairness of the tax system and help generate more revenues.

Table 3.2: PITs of Emerging and Developing Economies in ECA

Selected Countries	(1) Standard PIT Rate	(2) PIT Revenue (% of GDP)	(3) = (2)/(1) Efficiency Ratio	Efficiency Ratio Ranking
Europe & Central Asia				
Upper Middle Income				
Belarus	13	4.1	0.32	4
Bulgaria	10	3.28	0.33	3
Romania	16	3.72	0.23	6
Russia	13	3.37	0.26	5
Turkey	35	3.62	0.1	13
Average	**17.4**	**3.62**	**0.25**	
Lower Middle Income				
Ukraine	18	6.23	0.35	2
Moldova	18	2.04	0.11	12
Uzbekistan	12	1.95	0.16	9
Kyrgyz Republic	10	2.09	0.21	7
Average	**14.5**	**3.1**	**0.2**	
Low Income				
Tajikistan	13	2.6	0.20	8

Source: Tajikistan MoF, IMF and World Bank Staff calculation.

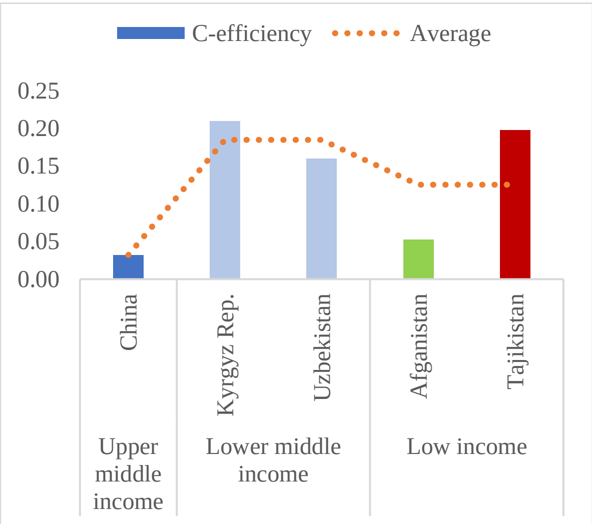
3.41 **However, any change to the PIT rate should be considered in the context of the overall tax burden on labor, which also includes the social tax.** The combined PIT and social tax rate seem burdensome in Tajikistan. As part of its labor tax reform, the authorities may consider optimizing

PIT, including a more progressive structure. Following the current international trend, Tajikistan may also consider aligning the tax rates for residents and nonresidents and bringing both rates to 20 percent.

3.42 **A comparison of PIT collections with regional peer and ECA economies suggests that PIT collections in Tajikistan are lower compared to both the upper and lower middle-income countries (Table 3.2 and figure 3.10)**. In a comparison with the emerging and developing economies in the ECA, the productivity or efficiency of PIT in Tajikistan ranks at number 8. The PIT c-efficiency of 20 percent stands above the average for bordering countries (Figure 3.11). Tajikistan's PIT collection and c-efficiency are also both higher than most countries in the ECA region, as well as than the low-income countries (Figure 3.12).

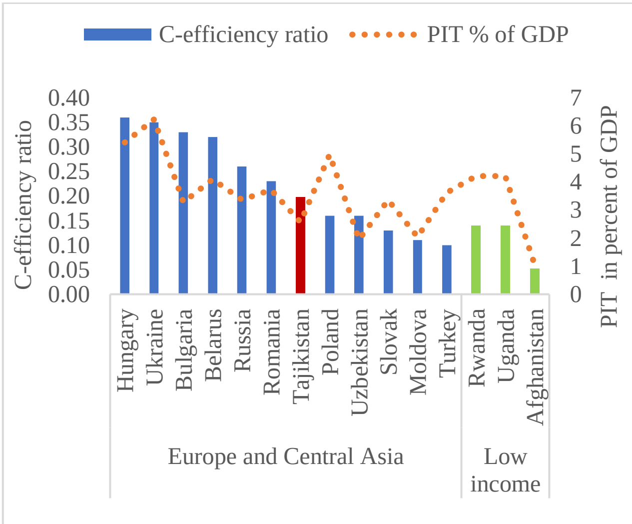
3.43 **The proposed amendments to the tax code make provisions for introducing progressivity in the rate structure**. While the proposal introduces progressivity in the PIT structure, it is only for salaries and income from employment. All other income would be taxed at 15 percent PIT rate. This may raise equity concerns if that income would, for instance, be earned by self-employed professionals and they are subject to personal income tax on the profits from their activities. In addition, employment income earned by non-resident individuals from sources in Tajikistan is subject to a higher rate, at 25 percent. The rationale for this significant difference is not clear. While it is appropriate to apply a flat rate to non-residents, the rate should not exceed the maximum marginal rate applicable to residents.

Figure 3.11: PIT C-Efficiency Ratio Among Tajikistan Border Countries



Source: Tajikistan's MoF, IMF and World Bank Staff calculations

Figure 3.12: PIT Collection and C-Efficiency Ratio in Regional Comparison



Source: Tajikistan's MoF, IMF and World Bank Staff calculations

3.44 **Progressivity of the PIT should be improved to make the tax system more equitable**. Low marginal tax rates at the top and inappropriate income exemption thresholds make the PIT rate structure less progressive and almost flat in many developing countries. Low and non-taxation of capital income (e.g., capital gains, interest & dividend income) in many developing and developed countries reduce progressivity and introduce distortions on economic decisions. Any PIT relief disproportionally benefit the better off. PIT relief can be better designed using measures such as capping of benefits, replacing deductions by tax credits, etc.

Assessment of Social Tax

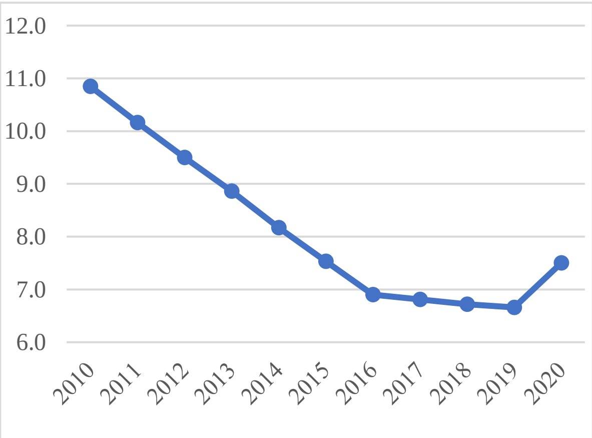
3.45 **Tajikistan's social security contributions (SSC) are integrated into the social tax, the rate of which is important both from the point of view of its impact on the business environment**

and on revenues, as well as due to the fact that it provides social security. At 25 percent for employers and 1 percent for employees and individual entrepreneurs, the social tax rate appears to be on the high side and could be a significant deterrent to job creation, particularly for low wage jobs. The unemployment rate in Tajikistan has fallen since 2010 and was down to about 7 percent through 2019, which is still on the higher side (Figure 3.13).[78] In 2020, the unemployment rate jumped up, but that is likely a result of the pandemic. In any case, unemployment remains an issue in Tajikistan, seen in that context, social taxes become more relevant.

3.46 **The regional comparison of SSC collections shows that Tajikistan is lagging behind both the upper middle and lower middle-income countries.** At the same time, this tax is the second largest source of tax revenues and is important as a social security safety net. A reduction in its rate is hard to justify without analyzing the link between the social contributions and social benefits. One suggestion would be to allow a basic deduction equal to minimum wage, particularly for low wage jobs. Another option could be to review the current rates in the context of the overall pension system.

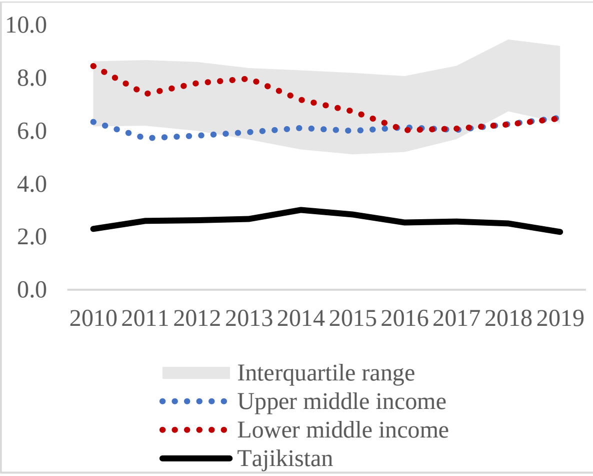
3.47 **Another cause for concern is that collections of SSC have been declining slightly since the introduction of the current Tax Code in 2013 (Figure 3.14)**. This may be due to some changes in the methodology for selecting the base for the social tax, introduced in line with the recommendations of international financial institutions (IFIs). Prior to 2013, the base for the social tax was equal to the regional average salary, which was determined by the statistics office. The IFIs' recommendations to change it were motivated by the judgment that using average salaries was an inappropriate concession, as it introduced serious inefficiencies and inequities into taxation of wages at the lower end of the salary distribution. Since 2013, the base for the social tax has become equal to the actual salary and thus has provided motivation for hiding the real salary and introducing the practice of 'salary in envelope'. Salaries have been often shown intentionally to be lowered.

Figure 3.13: Tajikistan Unemployment Rate 2010-20 (ILO model est.)



Source: World Data Indicators.

Figure 3.14: SSC Collection as Percent Of GDP, Regional Comparison[79]



Source: Tajikistan's MoF, IMF and World Bank Staff calculations.

3.48 **The amendments in the new tax code suggest a reduction of the social tax rate from 25 percent to 20 percent**. This may have several implications. On the one hand, it may reduce revenues and impact social security benefits. On the other hand, it may attract taxpayers from the informal economy into the formal economy, thus expanding the taxpayer base of the social tax. Therefore, it

[78] The unemployment rate is derived by ILO method.
[79] Figure 3.14 reflects social tax collection for Tajikistan from private sector only. For total social tax collection dynamics, including the budget sector, see Table 7.3 of the chapter 7.

is important to analyze any proposals for rate reduction in the context of their effects on revenues as well as their corresponding benefits to the pension system.

D. A Critical Review of Tax Incentives and Tax Expenditures in Tajikistan

The Scope of Tax Expenditures in Tajikistan

3.49 **Total tax exemptions, including exemptions from customs duties, and VAT and excise on imports, amounted to nearly 10 percent of GDP in 2018 (Table 3.3).** Almost 84 percent of this amount was due to VAT exemptions from both domestic tax base and on import. The second largest share of tax exemptions was customs duties at 16 percent. Note that customs duties are not considered to provide incentives in their classical definition and therefore do not strictly come under tax expenditures. A significant amount of tax incentives goes to the Oil/Gas/Mining sector, which is a location-specific or resource-based industry for which tax incentives may be redundant. That is, investors who seek those resources would be willing to pay to access the resource even without any tax incentives.

Table 3.3: Tax Exemptions by Types of Taxes (TJS million)

Indicator	**Year**		
	2016	**2017**	**2018**
Profit tax	82.6	162.5	0
Road user tax	1.5	2.5	9.3
Payroll/social tax	8.4	8.6	13.8
VAT	2,130	2,611	3,261
Simplified tax	18.1	16.3	9
VAT exemptions on import at customs	2,024	1,803	2,627
Excise tax exemption on import at customs	136.7	18.9	31.4
Exemptions from customs duties	856	860	1,104
Total tax exemptions	**5,257**	**5,483**	**7,056**
Total tax collection	11,280	13,168	14,653
Memo: Tax exemptions (percent of actual revenues collected)	**47**	**42**	**48**

Source: Tax Committee and Statistics Agency.

3.50 **Thus, most of the exempted amounts and their benefits go to commercial sectors**. Such sweeping exemptions in numerous sectors are undesirable, they cause cascading and lead to revenue losses or tax expenditures. A scrutiny of this category of exemptions reveals that most of these should be eliminated. Other than exemptions offered to the financial sector, only school uniforms and lifesaving medicines should remain exempt. The rest should be brought under VAT. Poultry and fish farming should be also brought under VAT, with a provision for the exemption of small poultry and fish farmers below the VAT threshold, in line with exemption policies for small traders in general. This is a typical example of exemption creep, where exemption given to one sector gradually leads to everyone asking for the same.

3.51 **Rather than through the provision of tax incentives, competition to attract investment should be driven by other factors, such as improvements in infrastructure, addressing bureaucratic impediments, lowering costs and improving skills of the workforce**. Low-income countries are particularly exposed to tax competition, causing a race to the bottom of CIT rates and tax incentives. There is a need for a global effort to address this problem that includes both governments, as well as multinational corporations, the latter being one of the main demanders for lower corporate tax rates. Streamlining ineffective tax expenditures may help simplify the tax system, raise more revenue or the same revenue at lower tax rates, and enhance progressivity and efficiency. In addition, improving transparency of tax exemptions is badly needed.

E. Tax Gap and Tax Administration Challenges in Tajikistan

4.1. This section analyzes the extent of the tax gap and the strengths and weaknesses of tax administration in Tajikistan, followed by conclusions and recommendations.

Tax Gap Assessment

3.52 **The tax gap—the difference between the total amount of taxes owed to the government and the amount it actually receives—has two components**. The first component is tax expenditures—the part of the tax base that is not included in the list of taxable entities and commodities, plus exemptions, concessions, and incentives granted by law. Tax expenditures are conducted through the Tax Code and constitute tax incentives for taxpayers, such as tax exemptions, tax credits, lower rates and tax breaks. The Organization for Economic Co-operation and Development (OECD) (2010) defines "tax spending" as "a reduction or delay in government revenue from a particular group of taxpayers, beyond the benchmark tax system".[80] The second component of the tax gap is revenue loss due to a lack of compliance by taxpayers and an inability of the tax administration to collect what is due from taxpayers. Generally, the tax gap is caused by taxpayers who overstate deductions and understate their income so they can pay less in taxes, but taxpayers who pay late also contribute to the tax gap. Three basic actions constitute failure to comply: (1) not filing a tax return on time for the legally required tax obligation; (2) underreporting—and therefore underpaying—taxes owed; and (3) underpaying tax liability while filing tax returns on time. It is typically underreporting which has the most significant impact on tax compliance. In the US, the tax gap in 2018 was 3.8 percent of GDP; in Great Britain, 3.2 percent; and in Japan, 4.3 percent.[81]

3.53 **The gross tax gap is defined as the difference between tax liability in a year and the amount of tax that is paid voluntarily and on time**. The net tax gap is the gross tax gap in a tax year less the payments of that year's tax liability that are made later, either through voluntary late payments or through enforcement by the tax administration. Payments of interest and penalties associated with late payments and underreported tax liability are not counted in either the gross or net tax gap measures.[82]

Tax Gap Due to Tax Evasion or Noncompliance

3.54 **According to a World Bank study, revenue losses due to noncompliance of VAT and CIT in Tajikistan were substantial in 2018.**[83] Their combined revenue loss amounted to TJS 6,639 million, or 9.34 percent of GDP. The highest revenue loss was found for VAT, estimated at TJS 5,040 million, or 7.09 percent of GDP. The main factor behind the VAT gap is the collection of VAT on domestic transactions, as the model shows that only a third of potential VAT revenue from domestic transactions is collected. The difference between the collection of VAT on imports and its estimated revenue potential is small. Collection performance is particularly poor in the services and agriculture sectors and among state enterprises, including the utility companies. The total revenue loss for the services sector is estimated at TJS 3,258 million, or 4.6 percent of GDP. While the relative gap of the CIT is larger—only 50 percent of its potential is collected, the corresponding revenue loss in absolute terms is lower than that for VAT, amounting only to TJS 1,599 million, or 2.25 percent of GDP.

---

[80] OECD, 2010. *Tax Expenditures in OECD Countries*.
[81] Toder, E., 2007. "What is Tax Gap?" *Tax Notes*, October.
[82] "Tax Gap in the Global Economy," *Journal of Money Laundering Control*, Vol. 21, Issue 4, 567-83, https://doi.org/10.1108/JMLC-12-2017-0072.
[83] World Bank, *Tax Gap Assessment*, 2020.

Estimation of Revenues Foregone Due to Tax Expenditures

3.55 **The State Committee on Investment and State Property Management (SCISPM) of the Republic of Tajikistan has conducted a detailed sector-wise study of the tax base and revenues lost due to various incentives and exemptions.**[84] It concludes that an amount equal to TJS 3.29 billion was forgone in 2018 due to tax incentives, excluding tax exemptions on import, and that main beneficiaries included the mining and banking sectors, industrial enterprises, dealers and ticket sales, services, and transport and construction sectors. The committee also found that, currently, a significant portion of tax expenditures is accounted for by the exemption from domestic VAT, while the other exemptions account for only nominal portion of tax expenditures.

3.56 **The total tax gap comes to more than 14 percent of GDP, and if reduced by even just half, would significantly help Tajikistan towards its tax collection target of 30 percent of GDP.** Revenues foregone due to tax expenditures in 2018 stood at 4.8 percent of GDP, while revenues lost due to non-compliance were estimated to amount to 9.37 percent of GDP. These two components combined reveal that Tajikistan's total tax gap comes to more than 14 percent of GDP. In other words, if the tax gap could be eliminated, the tax to GDP ratio would go up by approximately 14 percent of GDP. This is a large tax gap but not totally unexpected, given the tax exemptions and incentives in Tajikistan. However, this is more of a theoretical estimate of the tax gap. As international experience shows, it is not realistic to eliminate the entire tax gap in practice and enhance revenue collections by that amount. But even if the tax gap were reduced by half, it would be a commendable achievement.

Tax Administration Challenges, Strengths and Weaknesses

3.57 **Tax administration reforms implemented in Tajikistan during the last decade led to improved levels of tax collections, enhanced degree of voluntary compliance, and improved quality of taxpayer services**. Surveys conducted in 2016–2019 in the context of the World Bank-financed Tax Administration Reform Project (TARP), reveal an increased level of taxpayer satisfaction with several services provided by the Tax Committee. The introduction of the Integrated Tax Management Information System (ITMIS) by TARP has helped digitalize the registration process, tax declaration submission, electronic payment of taxes, electronic invoicing for VAT, generation of pre-filled returns and cross-matching of third-party information. Internal and external audit mechanisms are also well developed.

3.58 **However, the level of survey respondents' general awareness of the electronic application for taxpayers' services remains rather limited.** Only 31.9 percent respondents in 2019 used these electronic applications.[85] Thus, the use of electronic taxpayer services applications remains low, and taxpayers view both the tax policy and tax administration as posing major obstacles to business development in Tajikistan. Taxpayer satisfaction with the Call Centers' operation improved from 26 percent in 2016 to 83 percent in 2019. The share of taxpayers aware of the TC website also increased from 44 to 70 percent between in 2016 and 2019, and the level of taxpayer satisfaction with the questions and answers function on the website improved from 24 to 69 percent. The country ranked 106th of 190 economies on the Ease of Doing Business Survey in 2020. On paying taxes, Tajikistan ranked 139th, indicating considerable underperformance along with six other dimensions assessed in this survey. Getting electricity, resolving insolvency, trading across borders, and dealing with construction permits are other areas where the country significantly underperforms. Tajikistan's distance to frontier (DTF) score for paying taxes in 2020 ranks above Afghanistan and Bangladesh, but well below the sample's best performer, Bahrain. Major challenge in paying taxes emanates from excessively high effective tax burden rate and compliance costs. Tajikistan's total tax and contribution rate (percent of profit) scored 67.3, compared to 31.7 in the ECA region and 26.1 for best performers.

---

[84] "Analysis of the Effectiveness of Incentives Provided for Entrepreneurs and Investors," 2018, SCISPM.
[85] Report on the Taxpayer Survey 2016–2019, TARP.

In terms of compliance, an average Tajik spends 224 hours filing and paying taxes, compared to 213.1 hours in ECA and 49 hours in best performer countries.

3.59 **According to the private sector's feedback, the main challenges commonly faced by ordinary taxpayers included massive tax exemptions favoring some groups of taxpayers, lack of clarity in tax legislation, frequent and lengthy tax audits, requests for advance payments of taxes, and other shortcomings**. Excessive tax exemptions to certain taxpayer groups make the playing field uneven. This has an adverse impact on voluntary compliance and becomes a major challenge for tax administration. Another problem is frequent changes to tax policy provisions and tax administration rules, without conducting due assessments or consultations with businesses and taxpayers. The proposed draft tax code offers an opportunity to rectify these various issues.

3.60 **The Government of Tajikistan approved a Tax Administration Development Program for 2020–25 to address taxpayers' concerns and ensure continuity of the initiated tax administration reforms.**[86] The program is focused on improving the business environment, taxpayers' voluntary compliance, and the quality of taxpayer services. It addresses areas that remain relatively weak and constrain revenue collection, such as complex and nontransparent tax policy with numerous tax exemptions that introduce distortions into the tax system; mixed quality of taxpayer services; lack of capacity in detecting tax evasion; lack of risk-based approaches in audit selection; and overall ineffective use of ICT systems.

3.61 **The on-going revision of the tax code suggests significant improvements in the legal framework for tax administration**. It is expected that the new tax code will make the tax system less distortionary, simpler, and more transparent. By reducing ambiguities and eliminating provisions that may have dual interpretations, the new tax code is expected to enhance revenue performance and support private sector development. While the policy side of the tax system is easier to fix, changes to tax administration often prove to be more difficult, as, in addition to legislative and regulatory provisions, changes in the attitude and approach of tax administrators and taxpayers are also required. The latter is harder and time-consuming to achieve. Therefore, in addition to strengthening tax administration and increasing enforcement, it is crucial to take measures to improve taxpayer compliance.

3.62 **The government's mid-term tax administration reform program draws on outcomes of the tax administration assessment undertaken in December 2019 using the Tax Administration Diagnostic Assessment Tool (TADAT).**[87] The assessment found that the tax committee has made significant progress in modernizing its administration in the last five years. However, the TADAT assessment found that some weaknesses persist (Box 3.1). For example, the tax committee is yet to employ the full potential of the available data to identify and mitigate compliance risks. A well-structured compliance risk management program is not well developed, and the dispute resolution system is not in place. In addition, tax policy constraints still restrict the payment of VAT refunds to just a handful of large exporters.

[86] The World Bank's recently approved Tax Reform Program will help the implementation of the Tajik Government's mid-term Tax Administration Development program for 2020-25.
[87] TADAT report Tajikistan, January 2020; TADAT Secretariat.

Box 3.1: Results of a Tax Administration Diagnostic Assessment Tool (TADAT)

The TADAT report found that the TC has made significant progress in modernizing tax administration in the last five years. The TADAT assessment has identified the following main strengths and weaknesses of the Tajik tax administration system.

Strengths	Weaknesses
The taxpayer registration process and database meet the standards of international good practices, and accuracy is ensured.	The management of tax compliance and institutional risks do not meet international good practices.
A broad range of proactive taxpayer education programs are regularly conducted.	The methodology to estimate revenue losses from inaccurate reporting are not developed.
All telephone enquiries by taxpayers and intermediaries are handled promptly.	No systematic tax gap analysis is currently undertaken.
Feedback from taxpayers is obtained routinely using a variety of methods.	The VAT refund and credit system is inadequate, and there is no risk-based verification of VAT refund and fast track procedures. However, all refund claims of qualified exports are paid promptly.
Ad hoc follow-up actions are taken on non-filers.	The dispute resolution system is weak and rarely used by taxpayers.
The internal and third-party data collection and processing allows comprehensive statistical analysis.	The results of taxpayer perception surveys and external audit reports about operational and financial performance are not made public.
The TC provides adequate and up-to-date information for taxpayers to meet their obligations.	While the internal assurance mechanism makes sure that all internal controls and procedures are followed by the tax officials, the TC has a weak staff integrity assurance mechanism that does not meet the standards of good international practice.
All tax declarations and payments are made electronically and in a timely manner.	The TC does not have an orderly method for auditing key taxpayer segments and economic sectors.
The internal and external audit functions are regular and well-defined.	
The TC provides adequate support to the MoF in providing inputs for revenue forecasting, monitoring revenue collection, and tax expenditures.	
Taxpayer perception surveys are conducted regularly, and follow-up actions are undertaken.	

Source: TADAT Report for Tajikistan, January 2020, World Bank TADAT Secretariat

3.63 **A series of surveys conducted in the context of the Tax Administration Reform Project tracked the performance of tax administration based on assessments by taxpayers, mainly business representatives**. The objective of the survey was to conduct a quantitative and qualitative assessment of the taxpayer perception of services provided by the TC, including changes in tax administration, as well as factors contributing to tax compliance. Survey outcomes from all regions and representatives of all taxpayers of Tajikistan are presented in Box 3.2.

Box 3.2: Results of Taxpayer Surveys

A series of taxpayer surveys, conducted during 2017-19, revealed that taxpayers are well aware of and benefit from services provided by the Tax Committee.[88] Between 70 to 80 percent of taxpayers refer to the Tax Committee's Call Center or visit the website, use electronic communication, electronic declaration and e-invoicing opportunities and other services provided by the tax authorities. Despite generally positive feedback, there is still room to improve services provided to taxpayers. They include:

- Making calls free of charge and placing an adequate number of well-informed, knowledgeable professionals in the Call Centers.
- Frequently updating the Tax Committee's website.
- Further improving electronic communication by the Tax Committee to facilitate taxpayer feedback.
- Expanding electronic declaration among individual entrepreneurs and Dehkan farms, both of whom are less likely to file declarations electronically.
- Evaluating the quality of the electronic invoicing system and publicizing information on irresponsible taxpayers.
- Improving the efficiency of services provided by tax authorities.
- Improving the operational efficiency of the Single Window.
- Streamlining and downsizing the Tax Committee's inspections.
- Creating opportunities to provide feedback on tax legislation.
- Improving discipline and self-compliance among taxpayers by: (i) raising the level of taxpayer awareness of the tax legislation; (ii) reducing the tax burden; (iii) streamlining the tax system and tax calculation procedure; and (iv) reducing the number of inspections and the amount of fines.

Source: Taxpayer Surveys (2016-19) TARP project, World Bank

Organizational Structures of Revenue collecting Authorities

3.64 **Revenue collection authorities are more effective when they operate as autonomous revenue authorities (ARAs) with some degree of autonomy at an arms-length from the state and with a commercial focus**.[89] Revenue Authorities with varying degrees of autonomy are now common, especially in developing and emerging economies. There are mainly two models:[90]

- Unified semi-autonomous body with formal board or advisory group comprising external officials and non-officials, including representatives of businesses and taxpayers (e.g., Canada, Mexico, Argentina, Singapore, South Africa, Bulgaria); the authority may be ultimately answerable to the Cabinet or the President.
- Unified semi-autonomous body still accountable to the Minister of Finance but enjoying considerable independence (e.g., Chile, Australia, Korea, Romania, Hungary).

3.65 Recently, there has been a distinct move towards reorganization of domestic/inland revenues under a functional setup. Instead of having separate silos of directorates of income tax, VAT/GST, excises, social security and trade taxes, these various departments are integrated under one commissioner or director general, and departments are organized on the basis of functions, such as assessment, collections, audit, etc. Today, functional organization structures, with partial segmentation for large taxpayers, are the most common arrangement, but some countries have begun to establish Medium Taxpayer Offices (MTOs), segmenting those taxpayers who account for 10-15 percent of the tax revenues. The United States Internal Revenue Service's "Large and Mid-Size Business" Division, established in 1999, is an example of segmentation based on this model.

[88] Tajikistan "Tax Administration Reform Project" (TARP); 2015-2019 taxpayer survey, end line survey report 2019.
[89] Fjeldstad, Odd-Helge and Mick Moore; "Taxation and State-Building: Poor countries in Globalized World", CMI (CHR. Michelsen Institute) working paper WP 2007:11.
[90] Revenue authorities have been more successful when they received strong political support at the highest level.

3.66 **Adhering to a Taxpayer-Type or a client-based organizational structure calls for segmentation of taxpayers into large, medium-size and small taxpayers.** There are other taxpayer categories, as well, that would require special strategies for revenue collection, such as high wealth individuals, tax-exempt organizations/NGOs, micro businesses, and the informal sector, etc. Specialized packages of services for each major type of taxpayer are needed to reduce compliance costs and enhance compliance. This has led to a shift from integrated functional to client-based organization. The most prominent category of taxpayers is the "large taxpayers," giving rise to large taxpayer units (LTU) in many tax administrations. The TC may consider examining whether its current structure is adequate for Tajikistan or if it needs to adopt some of these models that have been tried in other countries.

Self-Assessment by Taxpayers

3.67 **The international trend today is for administering the tax regime in a way that encourages taxpayers to self-assess their tax liability and then pay the amount of tax to the government.** This is a sound approach, since the taxpayer has better information on his/her sources of income, and it is expensive for the government to assess every taxpayer's return. However, self-assessment only works when taxpayers know their obligations and are able to comply with them. The overall level of compliance is also improved when the costs borne by taxpayers in carrying out self-assessment are low. Thus, an essential element of tax compliance is helping taxpayers understand their tax obligations and promoting the voluntary and accurate reporting of tax liabilities.

3.68 **By providing taxpayers with the information and assistance they need to meet their tax obligations, taxpayer service thus plays a critical role in maximizing voluntary compliance**. Through clear and effective public information, forms, and services, and by showing taxpayers they can comply with relative ease, taxpayer services can encourage and help accomplish greater compliance, thereby mobilizing higher revenues. An effective taxpayer services strategy integrates three broad ideas[91]:

- **Tax simplification**: Simplified tax policies and administrative procedures.
- **Taxpayer assistance**: Providing taxpayers with information to prepare tax returns and resolve issues of filing and any subsequent questions that might arise.
- **Facilitation of tax collection and enforcement**: Providing taxpayers with a convenient mechanism for the payment of taxes, especially for business taxpayers who are required to remit multiple tax payments a year.

3.69 As noted earlier, taxpayers view both the tax policy and tax administration as posing major obstacles to business development in Tajikistan. Therefore, taxpayer education and taxpayer services become all the more relevant for the country. This calls for a concerted effort on the part of the TC to expand its reach and modify its approach to taxpayers.

F. Recommendations

3.70 **While the authorities have already initiated a major tax reform, several additional measures could further consolidate the government's revenue position while alleviating macroeconomic distortions.** A tax-gap analysis could estimate the magnitude of lost revenues due to poor taxpayer compliance and weak tax administration. Tax incentives and expenditures should be

[91] Hodges, Yassie; "Taxpayer Services" in USAID detailed *Guidelines for Improved Tax Administration in Latin America*, August 2013 provides an excellent analysis of taxpayer services.

subjected to a cost/benefit analysis, and the least efficient measures should be eliminated. Broadening the tax base by curbing inefficient exemptions could create room to lower tax rates. The government should avoid applying multiple CIT and VAT rates, which distort economic incentives and encourage tax avoidance, and all businesses should be treated equally for tax purposes regardless of the sector in which they operate. The authorities should also lower the VAT threshold and allow taxpayers below the threshold to voluntarily register and move from special tax regime to VAT. The current VAT-refund system must be operationalized, and VAT zero-rating should be applied to all exports. As part of its reforms to taxes on labor income, the government should consolidate the PIT and social contributions into a single progressive tax structure. Finally, the authorities should reform the excise tax to increase fiscal revenues while contributing to positive health and environmental outcomes by automatically indexing excise rates for inflation and by introducing excise taxes on carbon emissions.

3.71 **In addition to reforms targeting tax policy, measures to improve tax administration could boost revenues while lowering compliance costs.** The authorities could improve tax compliance by raising taxpayer awareness of tax legislation, increasing the operational efficiency of call centers, assisting taxpayers with electronic declaration and invoicing procedures, enhancing the content and functionality of the Tax Committee's website, and strengthening the committee's communications with taxpayers through e-mail, the single window, and other online platforms. Meanwhile, the government could bolster enforcement by creating a dedicated unit to monitor transfer pricing and BEPS practices and by implementing a compliance-risk management program that reduces the number of inspections and focuses audits on key taxpayer and economic sectors. Simplifying tax rules and procedures, limiting official discretion, and ensuring the consistent implementation of tax rules and regulations could improve administrative predictability and enhance the business climate.

Chapter 4. Improving Efficiency of Public Investment Management

A. Introduction

4.1. **Tajikistan has one of the highest shares of public investment relative to GDP in the Caucasus and Central Asia region**. In 2016, the country spent about 15 percent of GDP on public investment programs (PIP). While that share declined to 12.6 percent of GDP in 2017, it has increased to an estimated 13.5 percent in 2020, a level at which it is projected to stabilize over the medium term.92 However, PIP is not managed well throughout the entire project cycle, starting from planning, through to execution, monitoring, and reporting. The quality and efficiency of the public investment management (PIM) framework suffers as a result.

4.2. **The country's macro-fiscal framework with fiscal and debt sustainability constraints, suggests that the government will not be able to sustain the current high levels of public investment.** As the current COVID-19 pandemic-induced shock evolves down and donor assistance diminishes, the total fiscal envelope is likely to decline. A broader tradeoff between allocations on recurrent and capital spending is also likely to emerge. In addition to managing an appropriate level of PIP, the government may want to prioritize the recurrent cost required to maintain the created public assets.

4.3. **Therefore, a main challenge for achieving the country's growth objectives lies in improving public investments' operational quality and efficiency, in particular in the primary infrastructure sector and service provision.** The formulation and evaluation of the current PIM system, which includes both PIP and public-private partnership (PPP) operations, must be brought in line with international standards. It should also be controlled and monitored under uniform and transparent rules. In addition, adequate public participation of public institutions and civil society—including interest groups, nongovernmental organizations (NGOs), and private sponsors—ought to be ensured.

4.4. **The rest of this chapter is structured as follows:** Section B presents the current PIM governance framework in Tajikistan, including a description of the roles and functions of main public institutions and PIP/PPP process mapping. The next section describes features of an internationally compatible PIM system and presents a comparative analysis between international practices and the current system in Tajikistan. Section D takes stock of challenges identified in the PIM system, and Section E suggests a new design for the PIM governance framework. Section F concludes, with a list of specific recommendations. including the description of roles and functions of main public institutions and PIP/PPP process mapping. The next section, C, reveals features of an internationally compatible PIM system and the comparative analysis between international practices and the current system in Tajikistan. Section D takes stock of issues identified in the PIM system, which then leads to section E, suggesting a new design for the PIM governance framework, and section F, with a list of specific recommendations.

B. Current PIM Governance Framework

Legal and Regulatory PIM Framework

4.5. **The PIM governance framework is currently overregulated with 18 laws, decrees, and regulations.** Among them, three core texts have recently been adopted, but have still not been made fully operational:

[92] "Republic of Tajikistan: Staff Report for the 2019 Article IV Consultation," 2019. International Monetary Fund (IMF).

- Government Decree No. 161, dated March 27, 2018, regarding the "Procedure for Development of Public Investment Projects and Implementation of the Public Investment Program for the Republic of Tajikistan," is currently considered to be the main reference for the PIM process. With seven pages of details, it describes the procedure for public investment project preparation, the implementation of the PIP, as well as the required competencies of the commission to determine the selection of public investment projects for inclusion in the PIP.
- Government No. 83, dated March 1, 2020, regarding the "Procedure to Maintain an Investment Project Registry," has been developed in accordance with Article 16 of the Tax Code of Tajikistan for the State Committee on Investment and State Property Management (SCISPM) to: (1) maintain an Investment Project Registry; and (2) offer tax incentives provided by tax legislation with respect to externally financed public investment projects, as well as projects of social facilities under construction by individual legal entities and transferred to the relevant state authorities on a gratuitous basis.
- Draft "Law on Strategic Planning and State Development Forecasting" issued recently by the government to: (1) define the legal and organizational basis for activities related to the development, approval, and implementation of strategic planning documents; and (2) set basic requirements for state development forecasts. The draft law, which is still under discussion, is expected to provide uniform requirements for national development strategies (for a duration of five to 15 years) and all other strategies, programs, and action plans with implementation costs of the activities not to exceed internal budgetary resources. The law would also ally to resources to be mobilized from external sources.

Current PIM Institutions and Functions at the Central Level

4.6. **The PIM framework at the central government is performed by four main operational institutions across the PIM cycle.** These include: (1) the Ministry of Economic Development and Trade (MoEDT); (2) the State Committee on Investments and State Property Management (SCISPM); (3) the Ministry of Finance (MoF); and (4) the recently created Committee for Selection of Investment Projects (CSIP)[93].

4.7. **The integration of these four institutions is not well established, as evidenced by the lack of efficiency along the PIM cycle (pre-implementation and implementation).** Inefficiencies and weaknesses may be found along the length of the PIM process, including: (1) inefficient selection of projects, some of which have not been transformed into productive assets; (2) weak or uneven ex-ante appraisal of projects and consequent issues in the quality of the portfolio of investment projects; (3) under-execution of capital projects due to an overly large selection of unprioritized investment projects; (4) a lack of funding, creating longer implementation delays; (5) cost overruns; and (6) neglectfulness to operate and maintain created assets.

4.8. **Moving toward more integration between the four institutions will require clarifying their respective functions across the PIM cycle.** A gap analysis should be conducted between the functions of each PIM institution and the functions required at each stage of the PIM cycle, as defined by international best practices. Such an exercise should be customized to the national system, while taking into account the specificities of the planning and budgeting system, as well as the human capacities and IT infrastructure systems, that are currently in place. The rest of this section summarizes the present functions each of these institutions carry out in the PIM cycle.

[93] Decree No. 161, March 27, 2018.

The Ministry of Economic Development and Trade (MoEDT)

4.9. **The MoEDT is the primary agency responsible for the development of the PIP.** The State Investment Program and Centralized Capital Investment Department (SIPCCI) is the dedicated department[94] within the MoEDT responsible for the overall preparation of the PIP during the initial stages. The department's basic functions are: (1) collecting project proposals from sectoral ministries and subnational regions; (2) assessing cost estimates of the projects; (3) preparing a draft list of construction proposals for the PIP, to be submitted to the MoF; and (4) ensuring that the overall investment portfolio does not exceed the investment expenditure ceiling set by the MoF at the initial stage of budget preparation.

4.10. **In practice, the MoEDT faces a number of challenges in fulfilling its development mandate during both the budget preparation and execution phases.** The SIPCCI department faces difficulties in performing several actions:

- **It currently operates with insufficient means**. Composed of a cohort of six staff, the department is insufficiently equipped to handle the functions required of the PIP development process. Moreover, they are stretched thin, with the scope of their responsibilities extending beyond PIP to also include the analysis of government incentives, tax incentives for humanitarian aid[95], and agreements.
- **Standardized criteria in project selection are not evenly implemented**. The MoEDT interacts with line ministries and other public entities projects at the national and subnational level as part of the project selection process. However, in practice, priority is frequently given based on political grounds, especially for presidential programs, such as those announced during the President's Speech to Parliament. Some construction projects are also approved after the regular selection procedure has closed. Projects announced during or after the President's regional visits and projects marked for Tajikistan's 30th anniversary of independence in 2021 or other similar events are recent examples of this practice.
- **The process of project selection during the budget preparation phase is loosely defined**. During the first phase of the preparation procedure, the MoEDT submits a forecast of the projects' envelope as a lump sum fitting with the budget ceiling calibrated by the MoF, without disaggregation by project. During the second phase, it submits a draft list of projects proposed with little prioritization by line ministries and other entities (sub-national governments and other budget entities) that exceeds the initial ceiling defined in the first phase. This practice leaves room for the MoF to filter the projects itself, including through direct discussion with the line ministries and entities. At the end of the preparation process, once the budget is approved, the final list of projects presented by the MoEDT for budgeting may differ from the one approved during the second phase as far as the initial ceiling approved by the MoF is unchanged (increasing the risk of having new projects listed by redeploying resources from unfinished projects as far as the ceiling remains unchanged).
- **A disciplined budget execution in interacting with the MoF and line ministries and public entities is not ensured**. When the time arrives for budget execution, it is possible for the MoEDT to adjust the allocation originally envisaged, depending on resource availability. As a result, revisions are frequently made for: (1) new emergency investment

[94] State Investment Program and Centralized Capital Investment Department.
[95] However, now it is understood that humanitarian aid is tax exempt.

projects (for example, rehabilitation of fixed capital assets damaged by flooding, landslides, or earthquakes); (2) investment projects initially proposed by the MoEDT but rejected by the MoF due to revenue shortage; (3) new project proposals arising from the President's visit to local regions; and (4) capital expenditure cutting due to revenue shortages. In addition, the final list of projects is informally split into high priority and nonpriority projects. In case of revenue shortfall, the MoEDT can still revise the list, possibly leading to the under-financing of nonpriority projects. Such a practice risks the possibility of significant delays in the implementation of nonpriority projects.

The State Committee on Investment and State Property Management (SCISPM)

4.11. **The SCISPM has three main responsibilities**[96]. These include:

- Supervision of monitoring state investment projects (domestic and donor-funded projects).
- Supervision of implementing the PPP law and its related regulations through its PPP implementation center.
- Maintenance of the database called Investment Project Registry (IPR), according to Government Resolution No. 83, dated March 1, 2020, on the "Procedure to Maintain the IPR and Article 16 of the Tax Code of the Republic of Tajikistan[97]."

4.12. **In practice, the SCIMSP also faces challenges in performing its functions**. Two main problems emerge in (1) monitoring of donor-funded investment projects in partnership with the MoEDT; and (2) developing the IPR database created in 2020, which is still in its infancy. The latter should be preceded by a thorough assessment and cross-checking of the current different sources of information coming from the various operators in the PIM process.

The Ministry of Finance (MoF)

4.13. **As part of its wide variety of functions[98], the MoF plays the role of the fiscal gatekeeper, shouldering the responsibility of determining the final investment envelope at the budget preparation stage**. Even though the MoEDT submits to the MoF a list of proposed investment projects with its global budget projections, the final amount of the domestically financed investment projects is calibrated within the overall budget capacity by the MoF, while also considering overall expenditure constraints. Discussion on the draft investment budget is negotiated in unclear conditions between the MoEDT (and the line ministries) and the MoF to downsize the investment budget proposal of the MoEDT (its wish list) under the expenditure ceiling and overall budget capacity. This underscores the MoF's role as the traditional "fiscal gatekeeper" of the budget preparation process.

---

[96] Regulated by Government Regulation No. 590, dated December 28, 2006, regarding the State Committee on Investments and State Property Management of the Republic of Tajikistan (amended by Decree No. 13, dated March 3, 2011; Decree No. 296, dated May 31, 2012; Decree No. 488, dated September 13, 2012; and Decree No. 167, dated April 01, 2017).

[97] It offers tax incentives provided by tax legislation with respect to the public investment projects (externally financed PIP projects only), as well as projects of social facilities under construction by individuals and legal entities that are then transferred to the relevant state authorities on a gratuitous basis.

[98] These include: (1) determining fiscal policy; (2) ascertaining the sources of financing for both the state and republican budget deficits; (3) managing public external debt; (4) establishing and implementing the anti-monopoly policy; (5) auditing and controlling the targeted and efficient use of budgetary funds; (6) providing methodological guidance concerning accounting and financial reporting; and (7) printing and publishing securities as one source for deficit financing.

4.14. **The MoF, together with the line ministries, also supervise the execution of PIPs, despite that role being assigned to the SCISPM by legislation.** According to Government Resolution No. 95 of 2017, the SCISPM is the main agency responsible for the attraction, coordination, and monitoring of external aid. However, financial monitoring and supervision are also conducted by the MoF and line sectoral ministries, at the level of the overall PIP disbursement profile, through the monthly project implementation reports produced by the project implementation units (PIUs). In addition, the PIUs are required to submit their reports to the government (Khukumat), Tax Committee, State Statistical Agency, and donor organizations in different reporting formats. Although the MoF and the SCISPM have a role in collecting reports from the PIUs and databases for PIP monitoring purposes, variations in PIP data between these entities persist.

4.15. **In practice, the MoF should improve its project monitoring function along a number of dimensions.** First, the MoF should upgrade its current budget reporting system from a disbursement-profile toward a problem-identification-and-solution approach and configure the MoF database accordingly. By doing so, it may better identify problems with individual projects and develop timely responses. Second, the MoF should streamline and gradually reintegrate flows of projects disbursements financed by PIP loans from special accounts in banks. This will reduce barriers to the normal implementation of the investment to the national Treasury circuit. Finally, the MoF should remedy the misclassification of PIP projects (revenue and expenditures[99]), by bringing them in line with the Government Finance Statistics Manual (GFSM) 2001 guidance and budget classification, adopted by the country in 2014 with the support of the IMF.

4.16. **Misclassifications of PIP projects lead to inaccurate portrayals of capital expenditures and the budget deficit.** Three main misclassifications of PIP projects persist: (1) external loans given to the government are misclassified as a revenue source, despite the financial obligation to repay that money[100]; (2) reporting debt repayments are also misclassified, since only interests should be recorded in the budget account[101]; and (3) the breakdown of disbursement financial plans by current and capital expenditures is not always done. Moreover, PIP projects financed by loans and grants, including by national co-financing, are mistakenly shown, first, in the budget as a lump sum[102] of projects and, second, in the reporting as non-disaggregated capital and recurrent expenditures[103]. Such misclassifications lead to the overestimation of the size of capital expenditures and the budget deficit.

Committee for Selection of Investment Projects (CSIP)

4.17. **Established by Government Decree No. 161, dated March 27, 2018, the Committee for Selection of Investment Projects is charged with selecting the projects for the PIP.** According to this decree, the committee's tasks include: (1) the evaluation of the accuracy and quality of the competitive selection of projects; (2) the review of project proposals' relevance to the priority areas; (3) the evaluation of the relevance and viability of projects (outcomes, and sectoral, regional, and human impact); (4) the analysis of economic efficiency indicators of projects; (5) the evaluation of

[99] Main aggregates such as revenues, expenditures, net acquisition of nonfinancial and financial assets, and net incurrence of liabilities.
[100] Only the grant part should be reflected in the revenue account.
[101] Chinese loans are recorded as a net incurrence of liabilities, which is "below the budget line"; the amortization is mixed with interest payments in the same budget account.
[102] Projects classified under code 2.2.1.9—"Goods and services not classified elsewhere"—are treated as current expenditures, while domestic-financed centralized investment projects are reported as capital expenditures in lines 2.8.1.1—Buildings and Constructions (residential), 2.8.1.2—Buildings and Constructions (non-residential), 2.8.1.3—Buildings and Constructions (other constructions).
[103] Operations and maintenance expenses, such as salaries of consultants, training, payments for communication services, and purchases of goods and services, are classified as capital expenditures, instead of recurrent expenditures.

attracted funds and the assessment of its sources of funding; and (6) the review of jobs creation and project impact.

4.18. **In practice, however, it is difficult to assess the performance of the committee.** Its composition is not fixed by the decree, and the effectiveness of its role greatly depends on its own human capacities and the quality of its inputs, which it receives mainly from the MoEDT and MoF. Its intervention during the budget preparation procedure is bound by a short delay (one month) that makes its tasks especially challenging.

Current PIP Process Mapping

4.19. **The new five-year PIP is a unified framework for selecting and developing public investment by all kinds of financing.** Prior to 2016, the government issued three-year State Investment, Grants and Capital Construction Programs. The MoEDT developed five such programs on a rolling three-year planning basis, covering the 2011–17 period, incorporating both domestic-financed projects and donor-funded projects. In 2016, this three-year program was replaced by the five-year PIP framework, whose objective is to guide both the government and donors in identifying the most important points of intervention during that period. As such, it is a unified framework for the selection and development of public investment. The sources of financing are internal and external, including borrowed funds, grants, and state budget funds. These include projects with confirmed financing, projects with partial confirmation (projects under negotiation), and new proposals for grants and technical assistance, which are opened for donor/investor financing. The list of the projects is updated annually based on the Government Resolution "On Amendments to the 2016–20 State Investment Program".

4.20. **The PIP is recalibrated annually based on the annual budget preparation procedure, which itself is guided by a three-year** medium-term expenditure framework **(MTEF).** The annual budget circular sent to line ministries and other public entities requests three years of information for preparing budget submissions for both five-year PIPs (domestic-financed[104] and donor-funded project). The Committee for Selection of Investment Projects (CSIP), which is financed by central and local governments budgets, also has a recommendation aspect and is prepared to attract donor funding.

4.21. **The recently adopted elements of program budgeting[105] should continue to strengthen the strategic choices in allocating available funding.** The results-oriented approach of the program budgeting, with its associated set of outputs and outcomes to realize planned programs, should help improve the management of a sound balance between spending on operations for existing infrastructure and services and future infrastructure and service delivery demands.

4.22. **However, due to current capacity constraints, national stakeholders have limited involvement and participation in the preparation process of donor-financed projects.** Therefore, main appraisal tasks (problem identification, preparation of feasibility studies, cost-benefit analysis, and other relevant analysis) are often performed by donor technical teams. The MoF makes the final determination on annual budget allocations based on the information made available, and with the

[104] Domestic-financed projects can also be extra-budgetary funded (for example, fee-supported services earned by budget-financed institutions and agencies, such issuance of international passports by the Ministry of Foreign Affairs to the receipts from universities and institutes from students enrolled in paid courses).
[105] Refer to Order No. 120 of the Ministry of Finance, dated April 11, 2018, regarding the Action Plan for introducing Program Budgeting during 2018–20.

knowledge that the final amount of government co-financing usually depends on the size of the PIP projects.

4.23. **The newly adopted PIM procedure, based on the recommendation of the 2017 Public Expenditure and Financial Accountability (PEFA), is experiencing difficulties in being effectively implemented by government officials**. The main reason is a weak capacity in the area and the need for a Train-the-Trainers program to improve the capabilities of future PIM instructors at both central and regional levels[106].

Box 4.1. PIP Process and Calendar

The PIP process starts with the MoEDT's reviewing and screening of proposed projects by line ministries and other public entities (Figure 4.1). This is achieved in two main steps:

Step 1. The MoEDT first collects public investment projects proposals from both line ministries and subnational regions. It then checks for their comprehensiveness and assesses the quality of cost estimates. Finally, it prepares a draft list of investment projects and construction sites for the PIP to be submitted to the MoF. At this stage, project proposals are not justified by a prefeasibility study. Due to the low threshold currently in place for the submission of a project proposal for new grants and technical assistance, the MoEDT receives more than 500 proposals from different agencies, NGOs, and the private sector which it cannot fully review nor prioritize on the basis of clear criteria.

Step 2. as the project portfolio becomes more structured, three kinds of non-formalized criteria are used: political, technical, and financial. In line with Government Decree No. 161, dated March 27, 2018, the prioritization exercise is based on a combination of four main selection criteria: (1) strategic importance, that is, whether a project supports the strategic development priorities of the government; (2) economic justification, that is, whether all project costs and benefits are identified, and the project appears to be economically viable; (3) social impact, that is, whether the project will benefit employment; and (4) financing sources and sustainability. The MoEDT can also include other criteria, such as (5) the degree of readiness and/or completion of construction sites (within the fiscal year); and (6) the project costs as compared with other projects. However, as stated earlier, the final amount of budget allocations is decided by the MoF within a global capital expenditure ceiling. It is based on the overall expenditure constraints and the need to finance a protected list of expenditures. The total amount of the capital budget is then calculated by the MoF on a residual basis, after funds are first allocated for "protected categories" of expenditure.

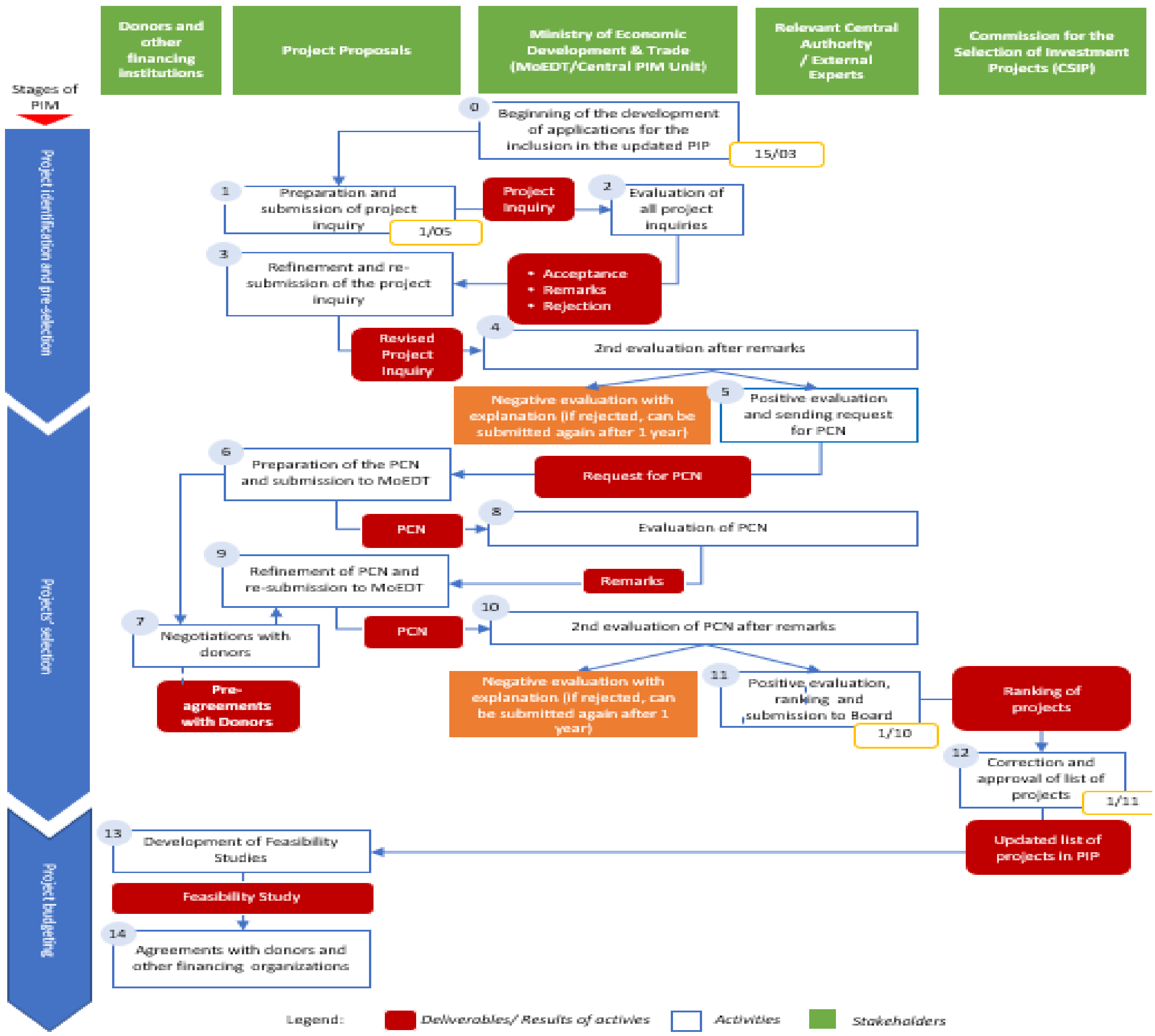
The PIP annual process begins on July 15 with the preparation of applications for investment to be added to the medium-term programs.

The applications should be officially submitted to the MoEDT no later than August 1. Subsequently, investment projects must be submitted to the Commission for the Selection of Investment Projects (CSIP) no later than October 1. After a review of the proposals, the draft investment program is prepared and submitted to the commission for annual approval no later than November.

Source: Authors' synthesis.

[106] The World Bank team has developed a Train-the-Trainers program to be delivered to the client in the context of a technical assistance project mobilized specifically to support the implementation of this PER report.

Figure 4.1: Current PIP Procedure in Tajikistan



Source: Adapted from the World Bank technical assistance report provided in 2019.
Note: MoEDT = Ministry of Economic Development & Trade; PCN = Project Concept Note; PIM = Public Investment Management; PIP = Public Investment Program.

Public-Private Partnership (PPP) Process Mapping

4.24. **The unfavorable investment climate in Tajikistan hinders the entry of foreign private sector investment in the economy.** Private sector participation in infrastructure and service delivery remains limited due to a number of legal, sectoral, and institutional challenges.

4.25. **There is currently a reasonable legislative foundation for PPPs.** Private sector participation in infrastructure is governed by the Concession Law of 1997 (as subsequently amended), and most recently by the PPP Law of 2012. Individual PPP projects also come under their respective sector laws and other business legislation[5]. The PPP Law is comprehensive and covers most of the relevant issues. However, it does not stipulate a specific PPP structure, although these may also be affected by the Concession Law, which remains in force.

4.26. **The main challenge remains that, to date, the PPP Law has not yet been tested based on the international competitive tender procedures**. Only two PPP contracts have been signed under the PPP Law: one as a result of an unsolicited proposal, and the other through direct negotiations. There have not yet been any competitive tenders within the framework set by the PPP law6. This could cause uncertainty among potential investors, as it creates a high risk of delays and unexpected obstacles.

4.27. **Given the conditions of implementation of the PPP Law, it appears that PPP should be considered a long-term objective and not the priority now**. The main characteristics of a PPP framework are presented in Box 4.2.

Box 4.2: What is a PPP Framework?

The components of a comprehensive PPP framework typically include the following:

- **Policy.** The policy is the articulation of the rationale behind the government's intent to use PPPs to deliver public services. It includes the objectives, scope, and implementing principles of the PPP program. It also incorporates the other components of a PPP framework (i.e., legal framework, processes and institutional responsibilities, public financial management approach, and other arrangements) to provide a cohesive overarching "ecosystem" for PPPs to be undertaken.
- **Legal framework.** The legal framework includes the laws and regulations that underpin the PPP program, enabling the government to enter into PPPs. As such, it sets the rules and boundaries for how PPPs are to be implemented. This can include PPP-specific legislation, other public financial management laws and regulations, and/or sector-specific laws and regulations.
- **Processes and institutional responsibilities.** This refers to the steps by which PPP projects are identified, developed, appraised, implemented, and managed, ideally within the PIM system. It also includes the roles of the different entities in this process. A sound PPP process is efficient, transparent, and requires consistent adherence to effectively control the quality of PPP projects.
- **Public financial management approach.** This concerns how fiscal commitments under PPPs are controlled, reported, and budgeted for, ensuring that PPPs provide value for money. This should be done without placing an undue burden on future generations, while also managing associated fiscal risks.
- **Other arrangements.** Attention should be paid to how other entities—such as auditing entities, the legislature, and the public—participate in the PPP program, holding those responsible for implementing PPPs accountable for their decisions and actions.

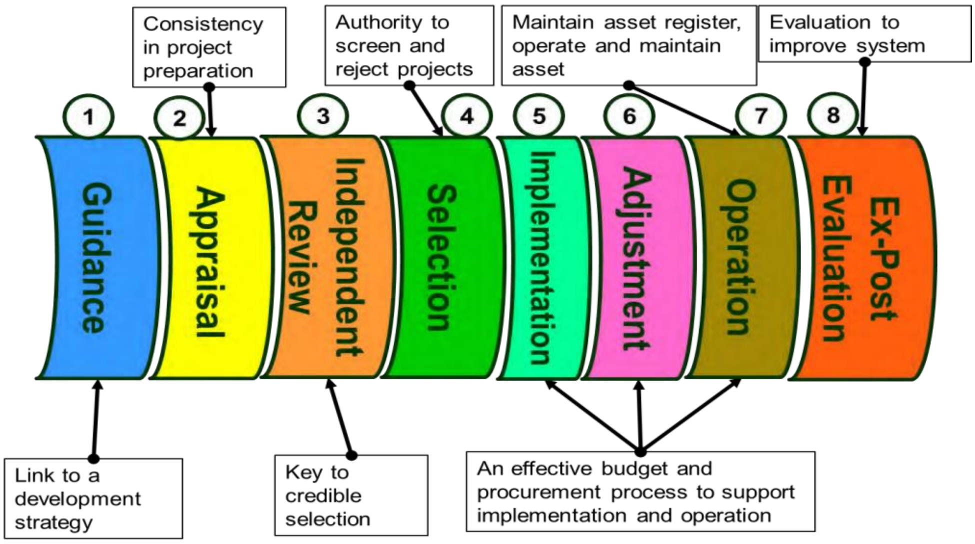
Source: "Establishing the PPP Framework," PPP Knowledge Lab, https://pppknowledgelab.org/guide/sections/5-establishing-the-ppp-framework

C. RATIONALIZING THE PIM PROCESS

4.28. **As a crucial component of infrastructure investment and economic development, PIM[107] improvement is generally expected to enhance the efficiency and effectiveness of infrastructure investment as well as contribute to achieving development goals**. PIM systems and procedures are usually distinct from, but very much linked to, the annual budget preparation process. This is because public investment projects typically require significant lead-in times between the initial specification of a proposed capital investment project and securing financing and its inclusion in the public investment program and the annual budget. Furthermore, the implementation of public investment projects usually extends beyond a single budget year. Therefore, procedures are required for managing implementation and financing over the entire lifetime of the project. Best international practices for a PIM system include eight "must-have" features, around which many customizations can be developed to fit with the specifics of a nation's systems (Figure 4.2).

[107] Kim, J.-H., J.A. Fallov, and S. Groom, March 2020. "Public Investment Management Reference Guide." World Bank Group.

Figure 4.2: Key Requirements of a PIM System



Source: Public Investment Management Handbook, World Bank,

4.29. **A comparative evaluation of Tajikistan's current PIM system and best international practices reveals key gaps to be filled in a sequenced manner.** Table 4.1 provides elements of this evaluation at each stage of the PIM cycle, disaggregated between the pre-implementation and implementation phases.

Table 4.1: Comparative Analysis of the PIM Cycle Between International Practices and the Current System in Tajikistan

	International practices	Tajikistan current system	Comments
Pre-implementation			
1. Guidance and strategic prioritization	Link to a broad development strategy to guide sector-level decision makers and preliminary screening to ensure that project concepts meet minimum criteria of consistency with the government's strategic objectives and with the economic classification.	The National Development Strategy (NDS-2030) successfully sets sector priorities and provides procedures for developing a project' concept as well as criteria for initial screening to eliminate poorly conceived projects.	-
2. Appraisal	A regulated set of project preparation steps: pre-feasibility and feasibility studies, including preliminary design; environmental and social impact assessments that must be completed before a project can be approved for funding; and methods appropriate to the technical capacities and scale and scope of the project	Decree No. 161 includes such provisions. However, implementation is currently hampered by the lack of capacity of ministries/entities to prepare project documents at the required level. In practice, proposals for domestic-financed projects include only cost estimates and incorporate neither technical-economic justifications nor feasibility studies. For donor-financed projects, appraisals are performed by donors.	Capacity building around the preparation of project concept notes (PCNs) and other pre-implementation methodologies for the appraisal of domestic projects are urgently needed.

3. Independent review	Review by the finance ministry, a planning ministry, or an independent agency to counter optimism bias, i.e., the overestimation of demand and underestimation of costs.	Decree No. 161 includes the obligation to submit appraisals for review by ministries, as well as independent review by the MoEDT, the SCIMSP, and the MoF. Reviews must be carried out by a specialist agency or consultancy expert. In practice, no independent reviews are currently being conducted on domestic projects.	Establishing a central PIM Unit at the MoEDT would be critical to: (1) assist ministries in developing domestic projects in line with PIM methodology, especially for financial and economic analysis, and establish PIM units in ministries; (2) manage shared resources across projects through implementation of NDS-2030 to undertake training and institutional capacity building; and (3) define a more systematic PIM (PIP+PPP) training program, building skills and competencies within the MoEDT PIM Unit.
4. Selection	Final decision on project selection and budgeting using a well-managed budget process: linking appraisal and selection of projects to the budget cycle, even if the project evaluation cycle is on a different timetable; verification of project eligibility and priority; close scrutiny of forward costs and funding during budgeting. Other than some specificities for the selection of projects, international practices do not recommend any other specifics and budget preparation procedure remains specific to each country.	Decree No. 161 states that prioritization of projects must include the list of: (1) unfinished projects to be completed within the next fiscal year; (2) construction projects unfinished due to lack of budget resources; (3) new construction envisaged in line with the national development programs; and (4) projected construction projects according to the Social-Economic Development Forecast for the next fiscal year. In practice, however, a lack of institutional capacity and insufficient project information prevent these measures from being enforced as required.	The main problems relate to: (1) the capacity of ministries and the MoEDT to present projects correctly appraised and prioritized given their insufficient reporting capacities (program budgeting of weak project databases); and (2) the specificities of the budget preparation procedure (tight delays, weak coordination between the main PIM stakeholders) that currently hampers the MoEDT to play a leading role in PIM entitled by the government regulations.
		Implementation	
5. Implementation	Efficient project implementation. Scrutiny for implementation realism, including organizational arrangements, procurement planning, and a timetable; adequate monitoring systems; and systems for managing total project costs	Resolution No. 83, of March 1, 2019, states that the SCIMSP is now operating an investment project register to provide information for monitoring externally financed PIP projects only. The MoF's PIP Unit is also planning to improve its database in order to monitor the disbursement profile of PIP projects and to track changes in procurement contracts' implementation and estimated completion dates compared with initial plans. These changes will help identify problems with individual projects and preparing timely responses. However, weak coordination is observed between both databases.	PIM database management supposes integration, interoperability of IT systems in order for all operators to get consolidated data. An assessment of the current IT systems linked to the databases is indispensable prior to moving forward.
6. Adjustment	Ability to make project adjustments. Flexibility to allow changes in the disbursement profile, including discontinuation of nonperforming projects, to take account of changes in project circumstances	As per Government Resolution No. 95 of 2017, the SCISPM takes the primary role in PIP monitoring and attracting, coordinating, and monitoring external aid. In practice, however, the MoF and line ministries also supervise PIP project implementation through the	

		overall PIP disbursement profile using the monthly projects reporting sent by the PIUs of externally financed projects. Noncompliance of reporting between the MoF and SCIPSM data is still observed. The weak reporting of project implementation hampers the capacity of PIM stakeholders to adopt the flexibility required to adjust in due time the parameters of the project to the circumstances.	
7. Operation	Provision for sustainable operation of facilities. Processes to ensure that a new facility is ready for operation and that the intended services can be delivered on a sustainable basis. Effective procedures in place to hand over management responsibility for operation and maintenance and upkeep of robust and up-to-date capital asset registers.	Little information is available to assess the compliance of the practice with PIM methodology, but it seems reasonable to believe that most externally financed PIP operations follow adequate procedures for such a process. However, implementation is probably uneven for domestic projects.	
8. Evaluation	Basic completion review and ex- post evaluation. A review of all projects upon completion to assess whether a project was delivered as specified, on time, and according to budget, and to introduce a more sophisticated ex-post evaluation to assess the project's outputs and outcomes against objectives established in the design.	Decree No. 161 introduces the principles of performance indicators to assessing the evaluation of the project, but modalities are not fully described.	

D. IDENTIFIED CHALLENGES WITH THE CURRENT PIM SYSTEM

4.30. **The main problems with the PIM system identified by the current PER and previous World Bank works are consistent and interrelated with the ones identified earlier in the report at the different stages of the PIM cycle.** These include:

- **The current institutional framework does not have a clear structure to ensure efficient cross-agency cooperation.** The institutional fragmentation of the process between the MoEDT, SCISPM, and MoF for the domestic, the externally financed PIP, and other capital expenditures persists. Moreover, responsibility for supervising the monitoring of all state investment projects (CISP and PIP) is held by the SCISPM and poorly defined. This results in practice in some overlap in responsibilities (for example, the draft list of proposed projects by the MoEDT frequently differs in number and priority from the one proposed by the MoF to fit budget capacity).
- **The implementation of the current procedure (defined by Decree No. 161), mixing two distinct procedures for domestic-/donor-financed projects, is facing difficulties.** No review of these problems has been conducted, and it is difficult to assess the soundness of the new procedure. Evidence suggests problems related to the lack of technical capacity and institutional coordination.

- **The domestic PIP is prepared by the MoEDT on a five-year basis and budgeted on a three-year basis, with no reference to the criteria it employs to select projects.** Criteria are not specified or standardized[108]. In addition, this information is only published for projects funded from external assistance. Also, recurrent costs for operations and maintenance for ongoing and new projects are not properly budgeted and accounted for in the budget preparation process.
- **Economic appraisals of projects**[109] **are unevenly performed and only for large projects[110].** The screening and appraisal phases focus on policy and strategy coordination analyses. It does not compare the different project proposals, nor does it proceed to project prioritization. Project appraisal reports are not published or made available on request. This is a major problem that hampers effective investment programming and project prioritization and raises the issue of a legal basis for the projects (sectoral or regional).
- **The costing of projects is based on a mid-term forecast of capital expenditures financed from the budget and external sources.** The mid-term forecasts do not include the life-cycle costs (capital and recurrent) of large investment projects. The recurrent and capital budgets are prepared separately in line ministries, in most cases by two different departments (budget and construction departments). There is little coordination in the budget preparation process. Moreover, recurrent costs (operations and maintenance) for ongoing and new investment projects are not properly budgeted and accounted for during the budget preparation process.
- **Projects' monitoring is a complex process during which performance measurement is not highlighted.** Regarding domestic projects, monitoring is conducted by line ministries' construction departments, with the MoF[111] receiving and compiling quarterly information[112] from the Treasury and from the accounting sections of the construction departments of the line ministries, which also submit completion forms together with the invoices to the Treasury. Regarding donor-funded projects, reports are made to the Investment Policy Department of the MoF[113] and to the SCISPM on a quarterly basis. In both cases, reporting is only based on disbursement profile and not coupled with performance indicators.
- **The PIP is composed of investment projects and soft operations**[114] **to attract donor funding, but the budget remains insufficient (25 percent of the total estimated costing**). The current project template corresponds more to a project idea rather than a project profile that could allow for a preliminary screening of the proposed investment. The challenge for the MoEDT is to identify the very few acceptable project proposals among the large pool of low-quality proposals. Creating a portfolio of high-quality projects remains the key challenge for the government during the NDS-2030 implementation period. Most of the PIP projects with an estimated cost of less than $5 million are still ill-prepared and remain underfinanced or not financed.
- **There is no consolidated information system or database for the overall public investment portfolio**. Project information is split among different institutions, depending

[108] World Bank technical assistance was briefly provided in 2019 for project selection criteria, but it does not seem that the suggested criteria are currently being used.
[109] Cost-benefit analysis and social return on investment.
[110] For example, the Rogun Hydropower Plant.
[111] Investment Policy Department.
[112] Budget Execution Reports on a quarterly, semi-annual, and annual basis.
[113] Division for Public Investment Program.
[114] Soft operations are activities not linked to infrastructure (fixed assets): for example, foreign promotion, training, and so on.

on responsibilities and sources of financing. The largest share of the public investment portfolio is covered by the domestically/externally financed PIP, both monitored by the MoF (and for the latter also by the CSIMSP through its new Investment Project Registry database[115]). However, projects agreed by state-owned enterprises and external lenders without public guarantees are monitored (and managed) separately from the PIP. Moreover, PPP information is supervised by the SCISPM. Even within the externally financed PIP, the arrangements for PIP monitoring purposes among the SCISPM and the MoF have resulted in two parallel data collection flows, which may differ at different stages (for example, current databases do not allow for tracking projects across various stages of their lifecycles). Moreover, locally financed investment projects are reported through local treasuries to the MoF, but not consolidated with PIP information.

- **The lack of PIM capacity remains a major concern not only at the central level (with the exception of some ministries), but also at the local level**. Government officials would need intensive training in project preparation, including in appraisal methods,[116] they would need to more effectively prioritize and implement projects. They also lack familiarity with the contract process for pre-feasibility studies on the local market.
- **PPP projects are not reported in the state budget reporting, because the current PPPs are fully financed by private companies**. The PPP Law and other relevant institutional frameworks introduced by the SCIMSP during 2012–14 have resulted in the launch of five PPP projects[117] (total $28.5 million), funded by private local and foreign companies. Of these five, only two projects are being effectively implemented, and even then, with many difficulties. Furthermore, the only funds reported in the public investment portfolio are related to the State Enterprise PPP Center, which was established at the SCISPM in 2013 to help develop and support the management of the PPP project preparation process. Therefore, PPP projects are not reported in the public investment portfolio. This is not in line with international practices, and these projects must be integrated into the five-year State Investment Program, even though they do not receive financing from the state budget. The projects are also open for donor financing and may represent important areas for capital investment.

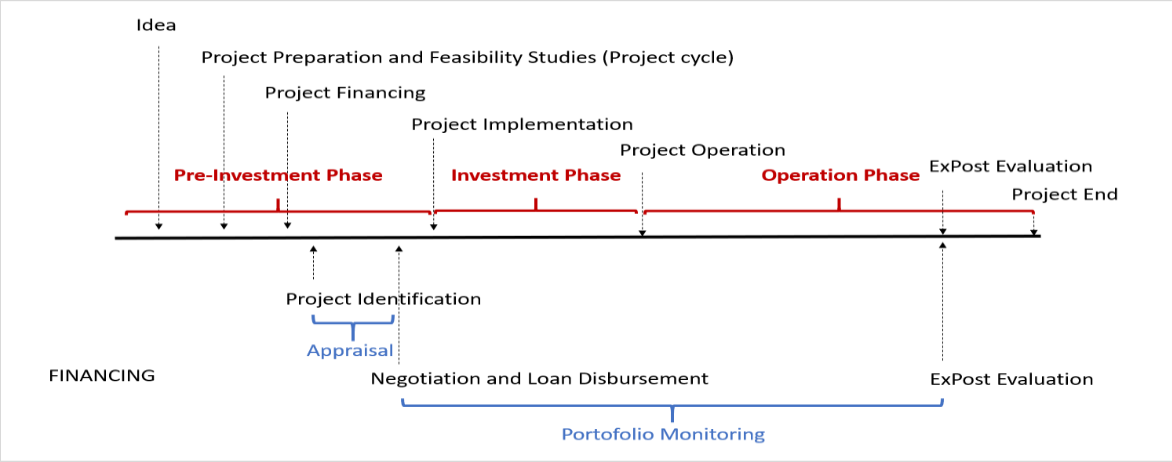
E. Developing a PIM Framework

4.31. **Unifying the PIM framework is the main priority[118].** The fragmented PIM system guided by the rules and regulations of each financing source (domestic and international) should be unified. The introduction of the recent robust PIM government orientations[119] should help link the PIP portfolio with the NDS-2030 strategic orientations and the Public Financial Management Reform Strategy (PFMRS) for 2019–30[120]. In particular, this should help develop the crucial role of appraisal and independent assessment of investment proposals in order to better inform the different further steps across the whole PIM cycle (screening, selection, and implementation of proposals, with potential adjustments, as needed, and evaluation). This could help mitigate the negative impact of the

[115] Refer to the existing "Investment Project Registry" developed in 2019 by the SCISPM based on Government Resolution No. 83, of March 1, 2019.
[116] Cost-benefit analysis and social return on investment.
[117] The construction of an energy transmission line, the reconstruction of a kindergarten and anti-hepatitis health center, an electronic payment system in the urban transport sector, and a project on water supply in rural areas.
[118] Country Economic Memorandum, World Bank, 2019.
[119] Decree No. 161, of March 2018.
[120] The 2019–30 PFM Reform Strategy emphasizes the necessity not only to improve the link between the budget process and strategic planning, but also to develop the system of strategic planning and improve policy coordination at the central and subnational levels. It also stipulates the necessity of making the Chart of Accounts consistent with the GFS (Government Finance Statistics [GFS] Manual, IMF, 2014).

expected reduction in public investment on the economy, knowing that the link of the MTEF with the investment budget planning is still quite weak and will require a lot of improvement[121].

Figure 4.3: Phases in the PIM Cycle



Source: Authors' synthesis.

4.32. **Developing a conductive PIM framework should take the form of an overarching and unified framework across the whole PIM cycle, focusing effort first on the pre-implementation phase**. This includes improving the eight steps in the PIM cycle in line with international practices (Figure 4.2 and Figure 4.3). At the first stage, efforts will be made on the pre-implementation steps and, more specifically, on how to appraise projects' value for money for optimal use of public resources, which is crucial for sound public investment. In a broader perspective, this approach will also be enriched with identifying opportunities to integrate climate change considerations, including cost-benefit analysis and social return on investment, across the new framework. Once this step is firmed up, the implementation phase would also be worked out.

4.33. **A unified PIM framework would also support the effective implementation of the rolling three-year MTEF.** Thus, it would seek to promote a unified approach at the upstream points of identification, selection, and registration for preparing and implementing investment projects. Such approach would highlight synergy and complementarity between domestic and donor-funded investment plans in line with main government strategic orientations.

4.34. **The integration of new PPP-oriented projects into the proposed unified PIM framework should be carefully envisaged once the latter has gained maturity and sufficient traction on public investment among core PIM stakeholders.** As stated earlier, the PPP reform will take time and specific attention should be given first to the PIM system unification. As recommended by international practices, PPP reform must be driven by evidencing the fit of private and public financing of a specific investment rather than by the need of bridging an overall financing gap. Identification of PPP projects versus public-financed projects must be done at the initial stage of project preparation (mostly project identification and appraisal) in order to assess how the resources generated by the use of the new facilities and services could be integrated into the long-term economic and financial cycle of financing the project. A unified PIM framework would greatly help streamline the selection of PPP projects among all other projects for both public and private PIM stakeholders.

---

[121] Public Expenditure and Financial Accountability (PEFA) Assessment, World Bank and Foreign and Commonwealth Office, 2017.

The Strengthened Role for a New Central PIM Unit at the MoEDT

4.35. **The currently understaffed PIM Department at the MoEDT faces many challenges to fulfill PIM functions defined by Decree No. 161.** These functions, broadly in line with international best practices, are being implemented gradually and are still far from being fully executed. One main challenge is the limited capacity of the current department in charge of PIM at the MoEDT[122] (it is notoriously understaffed) and in line ministries and other public entities. Training the staff in PIM to reach a sufficient level will take time. Another challenge is the weak coordination between the MoEDT and CSIMSP functions, as defined by Decree No. 161. To address these challenges, a PIM unit should be created at the MoEDT and properly staffed in order to, among other functions: (1) provide capacity building among line ministries; and (2) operationalize the National Registry of Investment Projects (NRIP) in partnership with the SCIMSP. Table 2.2 summarizes current functions of the new PIM unit and proposed functions to be developed.

Table 4.2: Main Functions of the MoEDT PIM Unit

Current Functions **Pre-implementation phase of the PIM cycle** • Examine the draft projects received from line ministries and other public entities according to project development requirement guidelines (technical, economic, financial, social, environmental, and so on). Establish a list of: (1) projects fitting with the government orientations (including an external borrowing program and MTEF); and (2) priorities with an opinion on each project. Submit the full package, with a total amount and number of projects, to the MoF. • Seek approval of this package by the MoF, SCISPM, and line ministries and present it to the government for decision.
Implementation phase of the PIM cycle • Establish a list of adopted projects for line ministries and other entities and solicit quarterly detailed information on implementation generated by them. • Solicit monthly projects implementation report by ministries (on CISP) and by project implementation units (on PIPs).
Functions to Develop Further **Pre-implementation phase of PIM cycle** • Assist line ministries in leading, reviewing, supervising, and providing oversight of public investment projects, and conducting—directly or indirectly—technical and economic analyses for public investment initiatives. The Central PIM Unit would help to manage shared resources across all projects through the implementation of the National Development Strategy (NDS-2030). • Analyze public investment projects of line ministries and send recommendations about project decisions to the Council of Ministers. This could be a definite rejection, a request to have them redesigned, or a granting of the final "seal of quality" to investment projects. Only projects that have this designation should be deemed fit to compete for funding (through the annual budget, funds, loans, grants and so on). • Develop and update standards for project preparation and appraisal by establishing common PIM terminology (glossary), procedures, guidelines, rules, instructions, and norms to guide the project preparation and appraisal process. The goals are: (1) to provide methodologies and templates; (2) to calculate and update the economic prices (also known as shadow prices); and (3) to provide any other necessary technical documentation for conducting financial and economic analysis of those projects that have a claim on public funds. • Enforce the use of these standards and provide guidance on how to comply with the PIP (and PPP) system, policies, procedures, and templates. • In association with the SCISPM for PIP monitoring (and PPP) operations, develop a National Registry of Investment Projects (NRIP) as a MoEDT website application (e-Government). The website would capture all basic information about capital investment projects. This would be done by assigning to each project a unique reference code (to be maintained throughout the project lifecycle; only referenced projects would be prioritized for budget allocations.

[122] Department of Elaboration of Public Programs and Centralized Financing.

• Require each project proposal to be registered with the NRIP, including a PCN consistent with the adopted strategic orientations (that is, consistent with NDS-2030). The screening process must be supervised by the MoEDT, and the SCISPM (and the PPP Center) would facilitate the approvals to be made by the Council of Ministers.
Implementation phase of the PIM cycle • Provide technical support to line ministries' PIM units for training and institutional capacity building and define a permanent and systematic PIM training program, building skills and competencies within the Central PIM Unit (and the PPP Center team). • Establish a mechanism of integration, coordination, and communication among projects, both within each sector and among sectors. The purposes are to find the interdependencies and synergies among investment projects and to promote inter-sectoral coordination among such projects. • Support public funds to maximize finance for development through the centralization of several coordination functions covering needs related to monitoring and evaluation, risk management and audit, and policy and research. • Technically support local PIM units at the regional and municipal levels. • Conduct analytical studies regarding the impact created by the implementation of projects and perform ex-post project evaluations and impact assessments.

Box 4.3: National Registry of Investment Projects (NRIP)

The proposed NRIP of Tajikistan should be a web-based information management system capable of collecting, storing, and producing reports of data related to the entire lifecycle of investment projects. The NRIP will have an online data entry interface, which will allow users to enter information from a web browser (Chrome, Safari, Internet Explorer, Firefox, and so on) directly into the system. It will feature advanced data validation and verification mechanisms to prevent human error in data collection and ensure the integrity of the entered data. The NRIP will also maintain a role-based user access model, which means that the system will support various types of users with customizable access permissions (potentially down to the level of each data field).

The NRIP will be powered by a sophisticated analytical engine, which will allow for the visualization of the investment data in various forms of outputs, such as comprehensive dashboards, charts, and reports. The geographical information subsystem of the NRIP will facilitate the creation of interactive maps directly in the online interface, which will report the project data and associated indicators on the map of Tajikistan (the national level, regions, and districts will be supported.

The system architecture will be modular. The NRIP will include two main modules: a Public Investment Project (PIP) Data Bank and a Public-Private Partnership (PPP) Project Bank. Additionally, the workflow engine of the software will support Project Concept Note / Project Proposal Submission, and Project Review and Approval in electronic mode.

NRIP[a] is expected to represent the exclusive information system. Specifically, it is designed to support the PIM system in five ways:

- Each investment initiative will be registered by assigning a single, unambiguous identification number, which will accompany the project throughout its entire lifecycle.
- A database will be provided for PIPs at the national, subnational, and municipal levels, as well as for each sector;
- The lifecycle of each project will be reflected and tracked using data and performance indicators designed and continuously updated by the Central PIM Unit for PIP operations and contracting authorities in consultation with the PPP Center for PPP operations.
- It will also facilitate aggregate or specific analyses of public investments.
- It will facilitate project evaluation.

Source: PER mission.
Note: [a] To become a module of the Government Financial Management Information System, the NRIP would be managed by the Central PIM Unit of the MoEDT with the technical support of PPP Unit of the SCIMSP, which is responsible for PPP-related arrangements.

Risks and Mitigation Strategies for PIM System Modernization

4.36. **Some political resistance to changing the current PIM processes and regulations may put the reform at risk.** Specifically, the current uncertainty in setting up the PIM procedures (Decree No. 161) provides for ample flexibility and discretion in initiating and pursuing new projects, including the reallocation of funds from ongoing projects to new ones in order to satisfy political requests—without proper appraisal and scrutiny of their affordability. While a PER by itself is not likely to meet a great deal of resistance, recommendations to improve the system and the subsequent action plan are likely to imply constraints on the current level of flexibility and discretion. The mitigation strategy for this risk is to ensure a tenacious and resilient championship of PIM reform, given that this reform is an integral part of the broader and more formalized Public Financial Management Reform Strategy and Action Plan.

4.37. **Tangible results from PIM modernization should not be expected in the short term while building the PIM system.** In the long run, though, PIM reform promises to produce a pool of good, ready-to-go investment projects. Still, this pool will take a substantial amount of time to collect a large number of relevant investment projects. However, successful implementation of the NDS-2030 will include increasingly more and better investment projects as the modernized PIM system is created and becomes operational. The mitigation strategy for this risk is to lower expectations through good stakeholder management and phased communication.

4.38. **The notoriously limited capacity of central agencies—mainly the MoEDT, SCISPM, and MoF—to plan for and oversee project preparation, selection, and budgeting is a likely constraint on achieving sustainable quick improvements to PIM**. A stronger and more sustainable role of the MoEDT to effectively oversee PIM, including challenging the proposals from line ministries, requires strengthening (staffing, capacity) the PIM Unit of the MoEDT as the main PIM developer. This may entail a cultural shift at the MoEDT and the SCIMSP. The mitigation strategy for this risk is the early transformation within the MoEDT of the current Department of Elaboration of Public Programs and Centralized Financing into a Central PIM Unit (and in due time, the creation of the PPP Unit at the SCIMSP). Other mitigation actions and recommendations for a roadmap will stem from further functional review of the MoEDT and the SCIMSP.

Box 4.4: How to Build an Integrated PIM System as A Complete Set of Concepts, Techniques, Standards, and Methodological Procedures

The system should help to answer questions such as:

- Are the benefits of the project, program, or policy greater than its costs?
- What is the technical quality of the investment decisions?
- Was the best alternative selected?
- Have all options and restrictions been analyzed?
- Once the decision was taken, was it actually a good one?
- Have the decisions maximized social welfare?
- Has the public investment contributed to improve some relevant country/society characteristics?
- Is the PIM system able to promote the most efficient use of resources?
- Is the PIM system able to help generate the resources necessary to ensure payment of obligations to foreign creditors?

Source: Authors' synthesis.

4.39. **Dividing the overall responsibility for the strategic fit, prioritization, selection, and financing of public investments at the central government level between the MoEDT, SCISPM, and MoF will face resistance on each side**. This division of labor and responsibility could likely complicate the recommendations for improvement and limit the institutional scope of such improvements. The mitigation strategy for this risk is to ensure high-level representation of all three central governmental bodies in the relevant committees overseeing the PIM policy framework and related action plan.

4.40. **Recent reports, including the World Bank Policy Note on PIM (2014) and the PEFA assessment (2018) issued a significant number of recommendations that are being implemented**

at a slow pace. Main challenges revealed by the past analytical reports referred to: (i) the unrealistic nature and poor quality of policy documents meant to inform strategic priorities for public investments; (ii) the lack of legal definitions of basic concepts pertaining to investment projects; (iii) the absence of measurements for results; (iv) project identification without prior evaluation, full appraisal, and proper selection of projects; and (v) diluted structure responsibilities, especially when PIP projects are funded by external sources. In addition, one of the main reasons for the above identified shortcomings is identified to be a lack of capacity in the PIM area, as well as the absence of technical assistance to effectively implement the PIM reforms. The following recommendations are partly based on past suggestions, as they remain relevant, and are more focused on strengthening the PIM governance framework and defining a PIM policy for effective reform implementation.

F. Recommendations

4.41. **The government's Medium-Term Action Plan for PIM should encompass process improvements and administrative capacity-building.** Drafting a PIM manual with general guidelines for the economic appraisal of investment projects and sectoral guidelines for key line ministries (e.g., Energy, Education, Health) will be an important first step toward developing an analytically sound process for project selection. To bolster the quality of the investment process, the authorities should launch a training-of-trainers program designed to build the technical capacity of central and regional governmental staff in areas such as project design, appraisal, and selection. Improved staff capacity will enable the government to further strengthen the PIM framework by introducing new methodologies and regulations to guide the screening, selection, appraisal, and financing of investment projects. Once the appropriate evaluative mechanisms are in place, new and existing investment incentives should be subject to a regulatory impact analysis.

4.42. **Enhancing project monitoring and oversight will also require improved staff capacity, as well as stronger information management and reforms to the policy framework.** The authorities should improve the project registration process by creating a national registry of investment projects and developing project profiles for both PIP and PPP operations. Clarifying the role of key performance indicators in the PIM process and upgrading project management skills in data collection and evaluation would help ensure project quality during and after implementation. Responsibility for these functions should be codified in a formal PIM policy that includes both PIP and PPP operations.

Chapter 5. Improving Healthcare

A. Introduction

5.1. **Effective health coverage for the Tajik population continues to be impeded by low levels and inefficient allocation of public healthcare expenditures.** An inadequately low, 2.2 percent of GDP, or 7 percent of government spending, is dedicated to the health sector, and public spending patterns are determined by a rigid input-based allocation mechanism that leads to stark regional funding discrepancies, overreliance on hospital and specialist care, and an inability to respond to local healthcare needs. The lack and inefficiency of public healthcare spending leads to high levels of forgone care, self-medication, and out-of-pocket medical expenditure risks—problems that will only be exacerbated by the growing non-communicable diseases in the country. To address these challenges, this report recommends (i) doubling the health sector share of government spending to 15 percent; (ii) harnessing the savings potential by consolidating redundant healthcare facilities and hospital beds; (iii) replacing the input-based financing mechanism with strategic purchasing; and (iv) extending the public benefit package.

5.2. **This chapter documents recent trends in health financing policy, health outcomes, healthcare access, and healthcare expenditures in Tajikistan, with a particular focus on the efficiency and effectiveness of government health spending**. It is the latest in a series of health sector public expenditure reviews for Tajikistan, which are either standalone or integrated into multi-sectoral reports.[123] I It summarizes, analyzes, and presents findings of a more detailed background paper.[124] The data and recommendations provided here aim to help the Tajikistan Government and the donor community to improve the access, equity, and quality of healthcare in the country so as to hasten progress toward universal health coverage (UHC).

5.3. **Most of the analysis in this chapter uses data from before the onset of the COVID-19 pandemic, with its profound economic, social, and health system disruptions.** Great uncertainty remains about the future trajectories of incomes and health expenditures, both on the national and global levels. As of the writing of this report, several vaccines have been approved, and rollout has begun in numerous countries, creating hope for a global recovery in 2021. But even in the most optimistic scenario of long-lasting immunity, sufficient availability, and highly subsidized prices, reaching a near-universal vaccination rate poses a great organizational and financial challenge for low-income countries like Tajikistan, and will add to the budget pressures inflicted by the global macroeconomic downturn. The general recommendations presented here, which chiefly aim at a more efficient use of Tajikistan's tightly constrained public health budget, are made timelier by the pandemic.

5.4. **The chapter is organized as follows**. Section B gives an overview of the health system, introducing its main stakeholders, modes of healthcare provision, public benefit packages, and the processes of public healthcare budgeting and provider payment. Section C outlines trends and future challenges for population health. Section D discusses healthcare spending, first its overall levels and then its private and external shares, the latter with a particular focus on indicators of financial protection and the issue of informal payments. Public health expenditures are analyzed subsequently by first exploring funding sources, then expenditure levels, and last, the distribution of expenditures across functional and economic categories, which includes detailed discussions of key spending

[123] World Bank 2005, 2008; Giuffrida, Msisha, and Barfieva 2013,
[124] Sven Neelsen, Farrukh Egamov, Husniya Dorgabekova and Kate Mandeville. Public Expenditure Review in Health for the Republic of Tajikistan. HNP Discussion Paper, forthcoming. World Bank, Washington, DC.

items, chief among them the public health workforce. Section E presents results on healthcare access and utilization, which reflect the inadequate levels and patterns of public healthcare spending. Section F concludes with a list of possible policy options to achieve higher levels and enhanced effectiveness and efficiency of public healthcare spending.

B. Health System Organization and Financing

5.5. **The Tajik healthcare system remains similar to the Soviet *Semashko* model it inherited**, with central planning, a decentralized administrative structure, input-based financing, and the public sector providing almost all healthcare, and a small number of private providers focusing on high-cost, specialized services in urban areas[125].

5.6. **Public health coverage is provided through two benefit packages**, the donor-supported Basic Benefit Package (BBP), which as of 2019 was active in 19 rayons, and the fully government-run Decree 600 in the rest of the country. The benefit packages include free access to most preventive and primary care, and subsidize user fees for specialist and inpatient care, which depend on whether patients present primary care provider referrals. Several groups of population are exempt from primary care provider referrals based on their age, social status, or health. Importantly, drugs are only covered for inpatient care. Little is known about the effectiveness of the packages, but the available evidence indicates limited success in reducing out-of-pocket medical expenditure, as informal payments continue to form a larger source of provider income than the formal copays. Poverty targeting of the fee exemptions is ineffective, and both packages are considered severely underfunded. Implementation varies regionally, and there is confusion among both providers and patients about benefits and their respective copay amounts.

5.7. **The public healthcare system is financed by general taxes, formal and informal user fees, and external aid**. The public budgeting process uses a three-year planning horizon and is guided by detailed budget instructions and sectoral spending ceilings issued by the Ministry of Finance (MoF). Within these boundaries, national and local budget administrators develop input-based, line-item budget requests using a bottom-up approach that begins at the facility level. If locally available funds are insufficient to finance the normed inputs, subsidies from the next higher administrative level are tapped. Budget execution is high, and strictly follows the centrally determined line items, chief among them the protected salaries that make up over 80 percent of all spending.

5.8. **To increase primary care funding, distribute it more equitably, and increase utilization of primary care services, Tajikistan's "per capita financing" (PCF) policy for primary care is now implemented nationwide.** However, this policy lacks key features of capitation policies elsewhere, as it merely establishes a per capita funding minimum per facility, instead of fully equalizing it.[126] It also does not grant primary care providers management autonomy, but instead continues to require spending to follow centrally determined line items. Over the policy's roll-out period, primary care funding did not increase at a faster pace than overall public healthcare spending. In line with its design, it increased funding for providers that formerly did not achieve the minimum per capita rate, but overall, funding inequities diminished only slightly. There is no indication that the policy led to an increase in primary care use or a decrease in higher level care utilization, for which primary care providers function as gatekeepers.

[125] Where not otherwise indicated, this section sources from Khodjamurodov and others (2016).
[126] Neelsen, Sven; Egamov, Farrukh; Dorgabekova, Husniya; Madeville, Kate. 2021. Review of Public Health Expenditure in the Republic of Tajikistan: Discussion Paper. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/36125 License: CC BY 3.0 IGO.

5.9. **Despite a high degree of formal administrative and financial decentralization in the Tajik healthcare system, the actual decision-making power of local health and finance authorities over the health budget is very limited**. Instead, centrally set staff salaries and input norms that vary by facility size and type "mechanically" determine most of the funding that a facility receives, and what it can be used for. As such, the public budget allocations for health in Tajikistan closely follow—and perpetuate—the historic regional distribution of facilities and the hospital-centered spending patterns of the Semashko model, rather than responding to healthcare demand or need.

5.10. **Several pilots that aim to change the provider payment mechanism from input-based to strategic purchasing are underway or are being initiated.** Among them is the establishment of a "single" payer with case-based inpatient financing and full capitation for primary care in five rayons in Sughd oblast, and performance-based financing of primary care providers in selected facilities in Khatlon and Sughd. An impact evaluation of the latter found mixed results, and cost-benefit analysis is needed to assess whether the modest improvements in healthcare quality and utilization warrant the almost 70 percent increase in staff salaries through performance bonuses.[127] The introduction of a mandatory health insurance, which has been planned since the mid-2000s, was once more postponed to 2022.

C. Health Outcomes

5.11. **Tajikistan has seen rapid improvements in overall life expectancy and maternal and child health (MCH) over the past two decades but continues to lag other countries in Central Asia** (Table 5.1:). Improvements have also been made in under-5 stunting, a key indicator of childhood malnutrition and children's overall development,[128] which dropped from one third of children in 2005 to 18 percent in 2017 according to data from Demographic and Health Surveys (DHS). Despite this rapid progress, Tajikistan's MCH outcomes still lag those of other countries in the region. For instance, infant and under-5 mortality rates are almost twice as high and the rate of stunting almost 50 percent higher in Tajikistan than in the Kyrgyz Republic, the most similar country in Central Asia in terms of economic development. Moreover, the MCH improvements are occurring at a slower pace for the poor and those living in rural areas, worsening already existent inequalities (Figure 5.1).

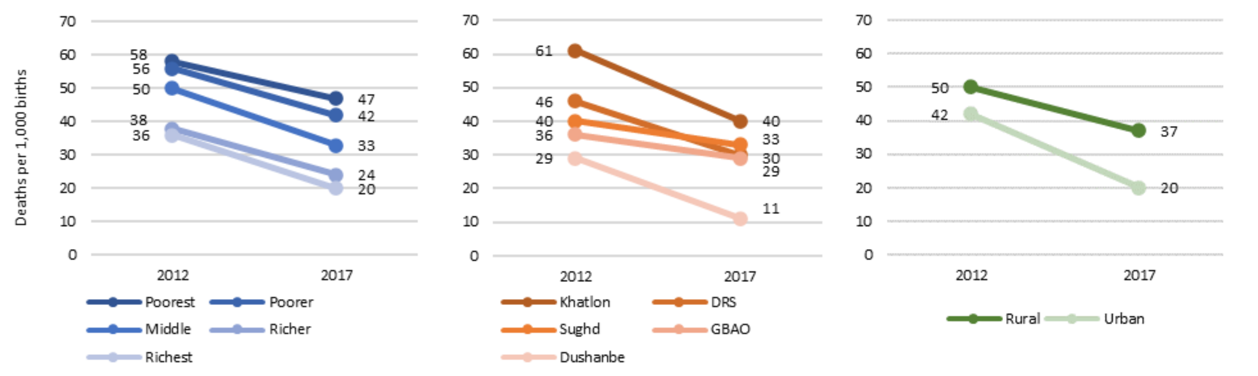
Table 5.1: Trends in life expectancy and childhood and maternal mortality in Central Asia since 1990

	GDP Per Capita, PPP (Constant 2017 International $)		Life Expectancy at Birth in Years		Mortality Rate Per 1,000 births							
					Neonatal		Infant		Under-5		Maternal	
	2018	Percent Change From 1990	2017	Percent Change From 1990	2018	Percent Change From 1990	2018	Percent Change From 1990	2018	Percent Change From 1990	2017	Percent Change From 2000
Tajikistan	3,235	-16	71	20	15	-50	30	-62	35	-66	0.17	-68
Kazakhstan	25,544	90	73	7	5	-79	9	-79	10	-80	0.10	-84
Kyrgyz Republic	5,133	0	71	5	13	-47	17	-68	19	-70	0.60	-24
Turkmenistan	14,845	106	68	8	24	-12	37	-44	42	-47	0.07	-76
Uzbekistan	6,755	98	72	8	11	-66	17	-72	18	-75	0.29	-29
Low-income	2,421	48	63	25	27	-44	49	-55	70	-62	4.55	-46
Lower-middle income	6,368	122	68	16	24	-51	38	-56	51	-59	2.65	-40

Source: Authors' calculations based on data from World Development Indicators (WDI), World Bank.

[127] Arur and others 2017, Ahmed and others 2019
[128] Grantham-McGregor and others 2007

Figure 5.1: Trends in socioeconomic and regional inequality in under-5 mortality in Tajikistan, 2012–17



Sources: DHS 2012 and 2017.

5.12. **The fertility rate in Tajikistan is the highest in the region.** Together with the reductions in mortality, high fertility, with an estimated 3.6 births per woman, drives Tajikistan's rapid population growth, which, at around 2.5 percent per year, is substantively higher than anywhere else in Central Asia (Figure 5.2 and Figure 5.3).

Figure 5.2: Trends in Population Growth in Central Asia, 2012–2019

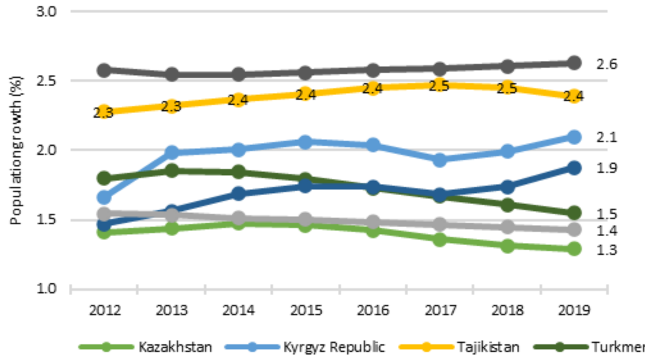
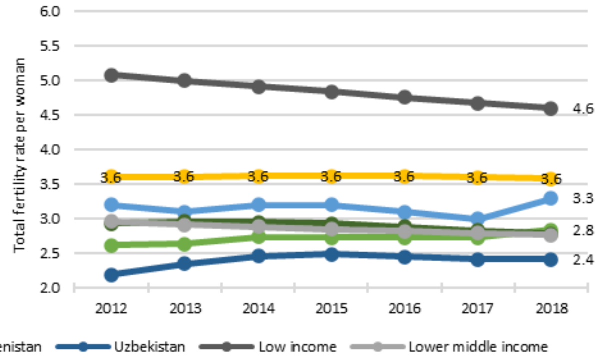


Figure 5.3: Trends in Total Fertility Rates in Central Asia, 2008–2018



Source: World Development Indicators.

Notes: Total fertility rate defined as the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with age-specific fertility rates of the specified year.

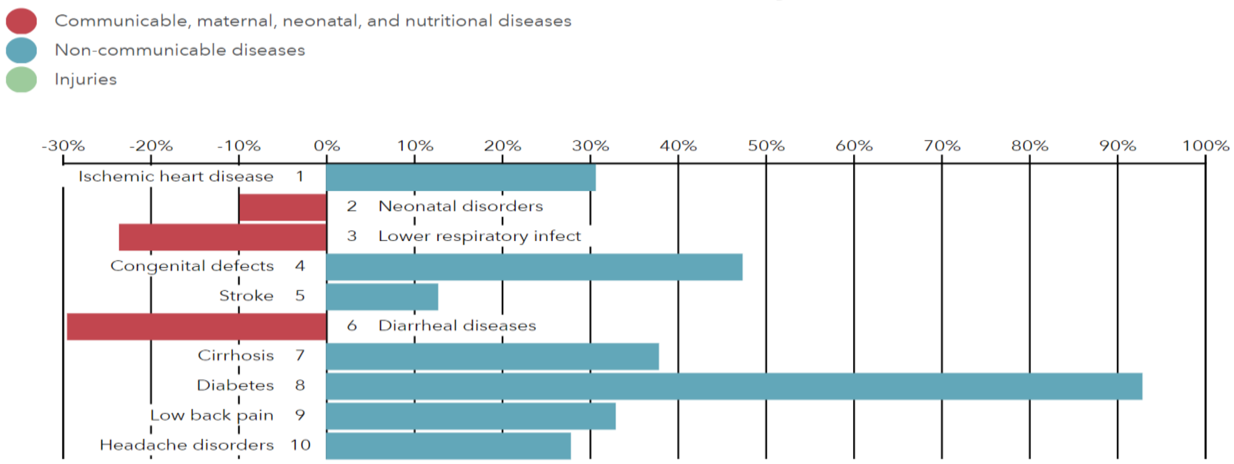
5.13. **Non-communicable diseases (NCDs) are steeply on the rise.** Tajikistan is in the middle of an epidemiological transition, where it faces the twin challenges of a still large burden from infectious diseases and MCH conditions and a simultaneous rise in the prevalence of non-communicable, often chronic conditions typical for richer and aging societies. Modeling by the Institute of Health Metrics and Evaluation suggests that, as of 2019, the main causes of death and disability were cardiovascular conditions (Figure 1.4)[129]. Overall, seven of the 10 leading causes of death and disability are NCDs, and the disease burden of six of the seven increased by over 30 percent over the past decade.

5.14. **At the levels of health and education that a Tajik child born today can expect over his or her lifecycle, the child will realize only half of his or her full productive potential–a severe impediment to the country's future prosperity.** The World Bank's Human Capital Index (HCI)

[129] Vos and others 2020.

quantifies the long-term economic costs of lacking health and education for 174 countries.[130] Grounded in the empirical literature on the impacts of health and education on individuals' lifetime earnings, the index is formed based on under-5 mortality and stunting rates, quality-adjusted years of schooling, and adult mortality. In the 2020 version of the HCI, Tajikistan achieves a score of 0.5–a drop of four points compared with the 2018 version brought about by the economic and health crises induced by COVID-19.[131] The 50 percent loss of productive potential among Tajik newborns due to shortfalls in health and education puts Tajikistan 13 points below Kazakhstan, 10 points below the Kyrgyz Republic, and 12 points below Uzbekistan.

Figure 5.4: Top 10 causes of death and disability in 2019 and percent change 2009–19, all ages combined



Source: Institute for Health Metrics and Evaluation (2020).

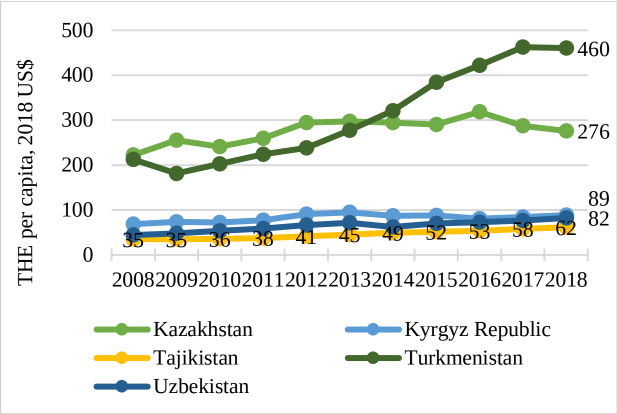
D. Healthcare Expenditures

Total Healthcare Expenditures

5.15. **At 7 percent, Tajikistan's GDP share of total spending on healthcare is high, especially for its income level.** But given the country's small economy, total health expenditures (THEs), despite annual growth rate of almost 6 percent over the past decade, amounted to a mere $62 ($257 based on purchasing power parity) per capita in 2018 (Figure 5.5). This makes Tajikistan's per capita the lowest in Central Asia. There are large regional inequities, with up to 70 percent higher THE in Dushanbe than in Khatlon province and the RRS, the two poorest regions in the country.

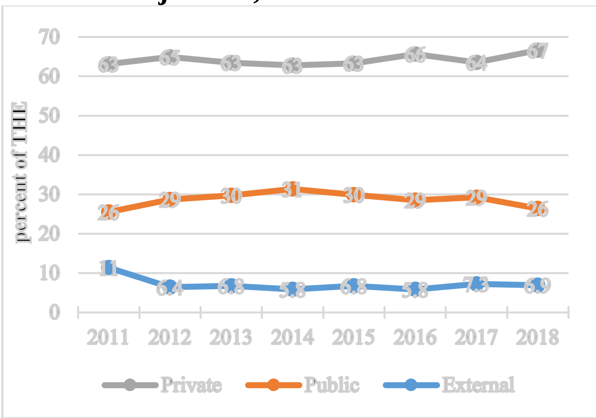
[130] Kraay 2018
[131] World Bank 2020a

Figure 5.5: Trends in total health expenditure per capita in Central Asia in constant $, 2008–18



Source: Authors' calculation based on Global Health Expenditure Database (GHED), World Health Organization (WHO).

Figure 5.6: Distribution of total health expenditure across public, private, and external sources in Tajikistan, 2011–18



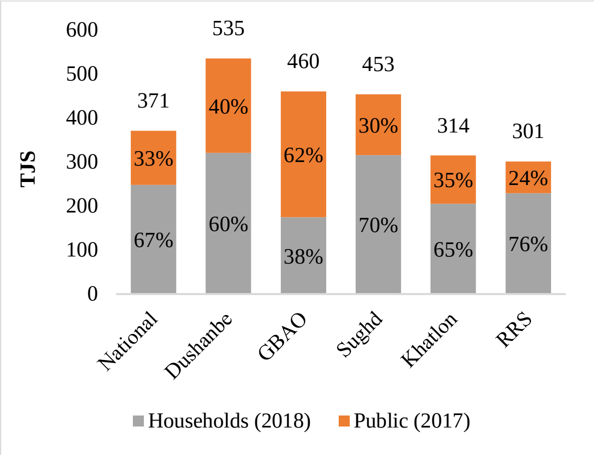
Source: Joint Annual Review 2019[132].

5.16. **Disaggregation by funding source shows that private households are responsible for two thirds, the public sector for a quarter, and donor funding for the remaining 6–7 percent of total health spending** (Figure 5.6). Subnational breakdowns of non-republican per capita current health expenditures (CHE) [133] reveal large regional discrepancies in both expenditure levels and composition. CHE is highest in the capital, Dushanbe, with its large number of public and private healthcare providers and relatively affluent population (Figure 5.7). GBAO has the second highest spending per capita, the result of receiving by far the largest public per capita transfers due to its low population density and the correspondingly high healthcare worker and health facility rates per population. Sughd's per capita spending is just below that of GBAO, but it is mainly financed from private sources—a consequence of being the richest of the five regions and having the most developed private healthcare sector. Per capita spending is lowest in Khatlon and the RRS, which are also the poorest regions of the country. With one third of the population living below the poverty line, households there are unable to compensate for having the lowest per capita public spending with additional private spending.

5.17. **International comparison reveals stark differences in healthcare funding profiles across Central Asia, with much higher public spending shares in Kazakhstan and the Kyrgyz Republic than in Tajikistan.** International comparison shows that the distribution of funding sources in Tajikistan is similar to that in Uzbekistan and the lower-middle income country average, whereas public spending shares are much higher in neighboring Kyrgyz Republic and Kazakhstan (Figure 5.8). Moreover, Tajikistan's relatively modest external expenditure share mirrors its status as a "cusper" between low- and lower middle-income levels.

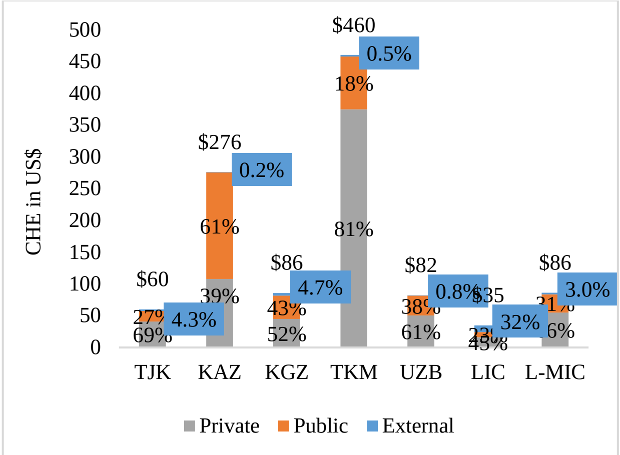
[132] Report on the Joint Annual Review of the Implementation of the National Health Strategy for 2010-20. 2019, Ministry of Health and Social Protection of the Population of the Republic of Tajikistan, Dushanbe.
[133] CHE is defined as THE minus capital investments, with the latter accounting for just 3 percent of THE in 2018.

Figure 5.7: Regional distribution of current non-republican public and private health expenditures in Tajikistan, 2017–18



Source: Authors' calculations based on data from Tajikistan's Household Budget Survey (HBS) for household spending and from the District Health Information System (DHIS) for public spending.

Figure 5.8: Distribution of current health expenditure across public, private, and external sources in Central Asia, 2018

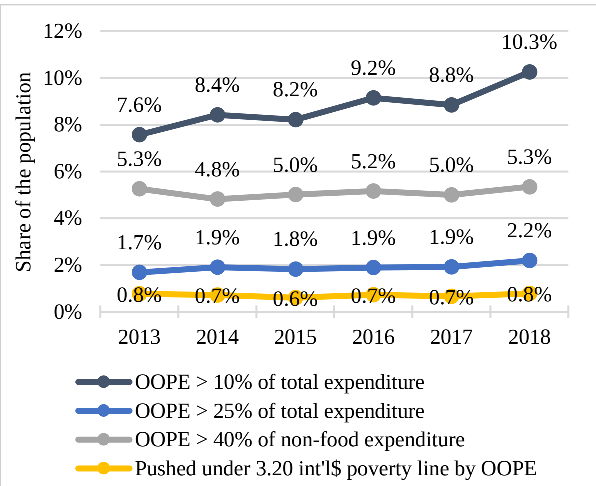


Source: Global Health Expenditure Database (GHED).
Note: Country income group values are from authors' calculations of population weighted averages.

Private Healthcare Expenditures

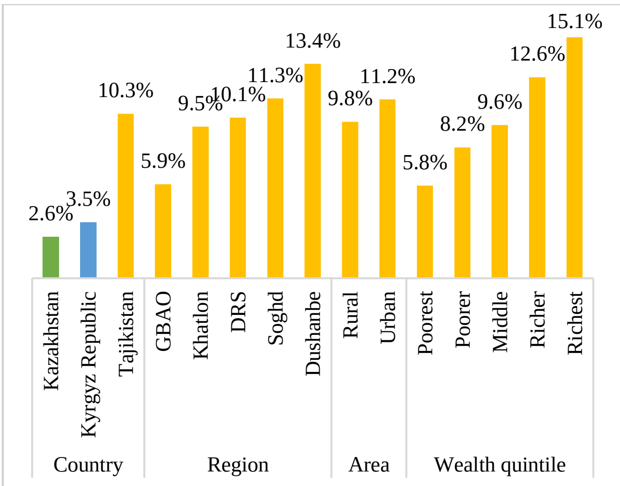
5.18. **Almost all private health spending, which amounted to $41 ($171 based on purchasing power parity) per capita in 2018, is in the form of out-of-pocket expenditures** (OOPEs). Almost 80 percent of OOPEs are accounted for by medicines, and among the user fee payments that make up the rest, formal copayments to public providers under the BBP and Decree 600 benefit package represent only 11 percent, as informal payments continue to dominate. In fact, 47 percent of Tajik households report making informal payments when using public healthcare, according to data from the 2016 Living in Transition Survey.

Figure 5.9: Trends in catastrophic and impoverishing out-of-pocket expenditures in Tajikistan, 2013–18



Source: Authors' calculations based on data from Tajikistan's Household Budget Survey.

Figure 5.10: Regional inequalities in catastrophic spending at the 10 percent threshold in Central Asia and within Tajikistan, 2018



Source: Household Budget Surveys from Kazakhstan (2015), Kyrgyz Republic (2016), and Tajikistan (2018).

5.19. **The share of households with medical spending at catastrophic levels–OOPEs exceeding 10 percent of household consumption–strongly increased between 2013 and 2018**, when it reached 10.3 percent, a much higher rate than elsewhere in Central Asia (Figures 5.9 and 5.10). Over the same period, rates of medical impoverishment, measured as the share of Tajiks pushed below an intl$3.20 poverty line by OOPEs, remained stable due to the concurrent general drop in poverty. Catastrophic medical spending in Tajikistan is more common among richer households, which, instead of indicating worse financial protection among the wealthy, reflects that poor households forgo healthcare at higher rates for lack of affordability. The impacts of the COVID-19 pandemic on catastrophic and impoverishing out-of-pocket payments remain uncertain, as they depend on the interplay of falling household incomes, a possible increase in healthcare needs, and potentially higher rates of forgone care due to fears of contracting the virus in healthcare settings and reduced affordability. For a useful interpretation of financial protection trends during the pandemic, it is therefore imperative that rates of catastrophic and impoverishing OOPEs are monitored jointly with indicators of healthcare access.

External Healthcare Expenditures

5.20. **Aid-flows for health to Tajikistan have been comparatively stable over the past years and, at about $3 per capita, are low for a low-income country** (Figure 5.11 and Figure 5.12). At 4–7 percent, they also make up a small share of current health spending compared with the low-income country average of about 30 percent. Encouragingly, however, the on-budget share of donor support for health has increased strongly in recent years, to about 60 percent currently. As of 2017, more than half of foreign aid for health came from multilateral sources. Strikingly, about 60 percent of all capital spending in health was funded by donors in 2018. Preliminary data suggest that the COVID-19 pandemic has led to a steep increase in donor funding for health.

Figure 5.11: Trends in external healthcare funding as a share of CHEs in Central Asia, 2008–18

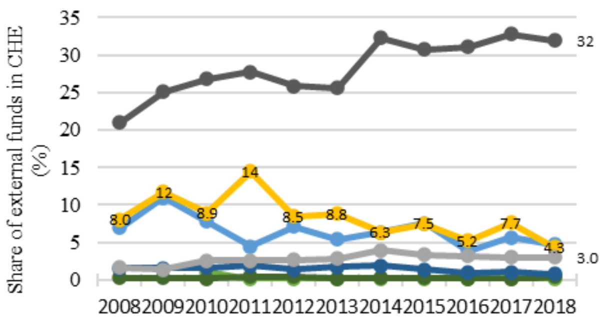
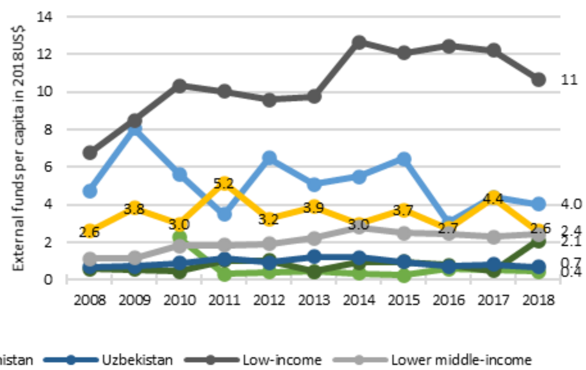


Figure 5.12: Trends in external healthcare funding in per capita constant $ in Central Asia, 2008–18



Source: Global Health Expenditure Database (GHED); country income group trends are from the authors' calculations of population weighted averages.

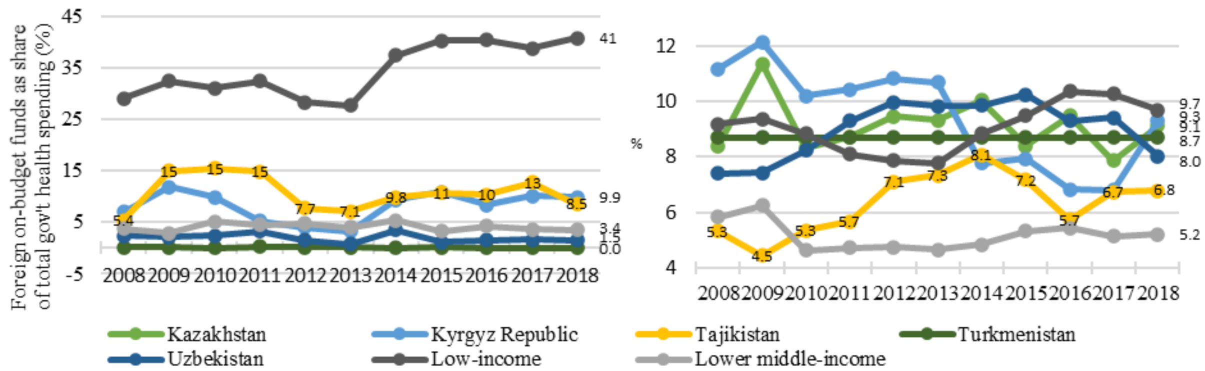
Public Healthcare Expenditures

Funding and Expenditure Levels

5.21. **Public healthcare services in Tajikistan are financed through both public transfers and direct payments from patients**, with the two sources accounting for approximately equal shares of total health facility incomes. Formal copayments under the BBP and Decree 600 make up a minor share of patient payments to facilities, which are primarily informal. About 8.5 percent of total public healthcare spending comes from external sources (Figure 5.13:).

Figure 5.13: Trends in Donor On-Budget Funding as a Share of Total Government Health Spending in Central Asia, 2008–18

Figure 5.14: Public Funding for Health as A Share of Total Government Expenditures in Central Asia, 2013–18

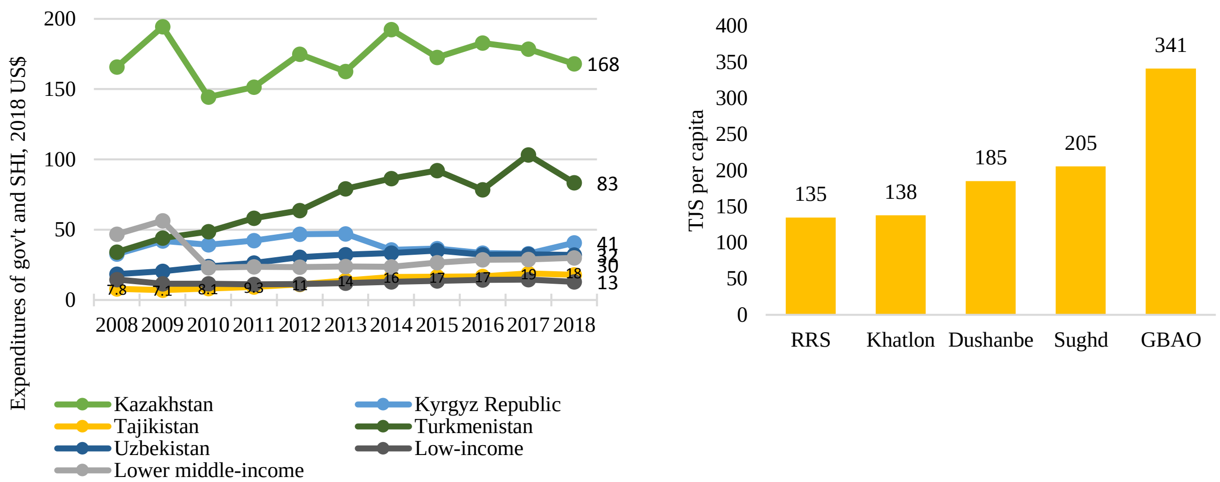


Source: Global Health Expenditure Database (GHED); country income group trends are from authors' calculations of population weighted averages.

5.22. **Compared with other government sectors, health has only limited priority in Tajikistan**, as the country has the smallest share of funding for healthcare in total government spending in the Central Asia region, at 7 percent (Figure 5.14); funding falls far short of the 15 percent stipulated in the Abuja Declaration.[134] Because funding is scarce and primarily absorbed by healthcare worker salaries, which form a protected line item, health budget execution in Tajikistan is high, at rates of 95 percent and above.

Figure 5.15: Trends in Per Capita Government and Social Health Insurance Expenditures in Central Asia in US$, 2008–18

Figure 5.16: Subnational government per capita health expenditures by region in 2019 TJS, 2019



Source: Global Health Expenditure Database (GHED); country income group trends are from authors' calculations of population weighted averages.

Source: Authors' calculations based on data from Tajikistan MoF.

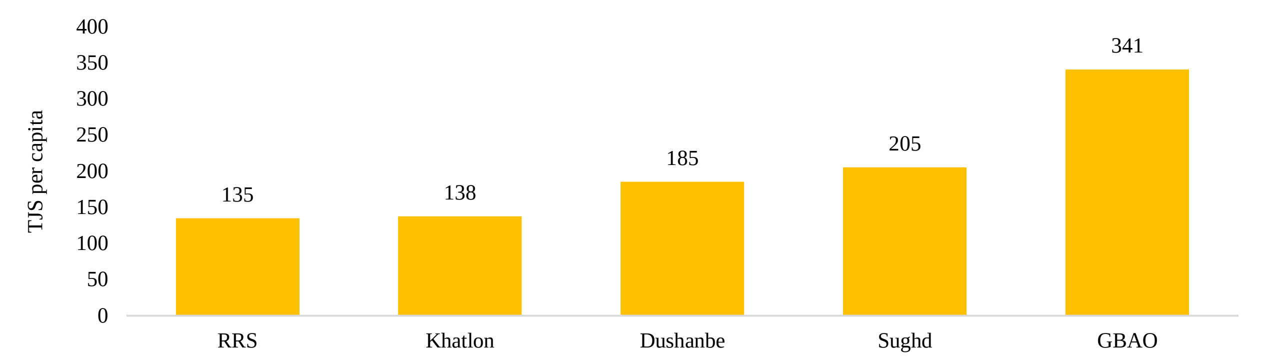
5.23. **Government health expenditures have grown rapidly over the past decade, but at $18 per capita, still fall far short of levels needed to provide the population basic health coverage (Figure 5.15).** The latter is costed at an annual $40–$80 per capita.[135] The gross domestic product share of government health spending, at 2 percent, is roughly on par with that of Kazakhstan, Uzbekistan, and Turkmenistan, but in the Kyrgyz Republic which has a similar per capita GDP, the

[134] McIntyre and others 2016.
[135] Watkins and others 2020.

share amounts to almost 3 percent (Figure 5.16). A 5 percent spending share is estimated to be the required to achieve substantive progress towards UHC.[136]

5.24. **There are substantial regional inequities in public healthcare spending.** About 80 percent of Tajikistan's public healthcare budget is executed by subnational/local administrations, and there are substantial regional inequalities in per capita government healthcare spending, which, in line with the input-based allocation mechanism, are reflective of differences in health facility, hospital bed, and health worker per population densities (Figure 5.16:).

Figure 5.17: Subnational government per capita health expenditures by region in 2019 TJS, 2019

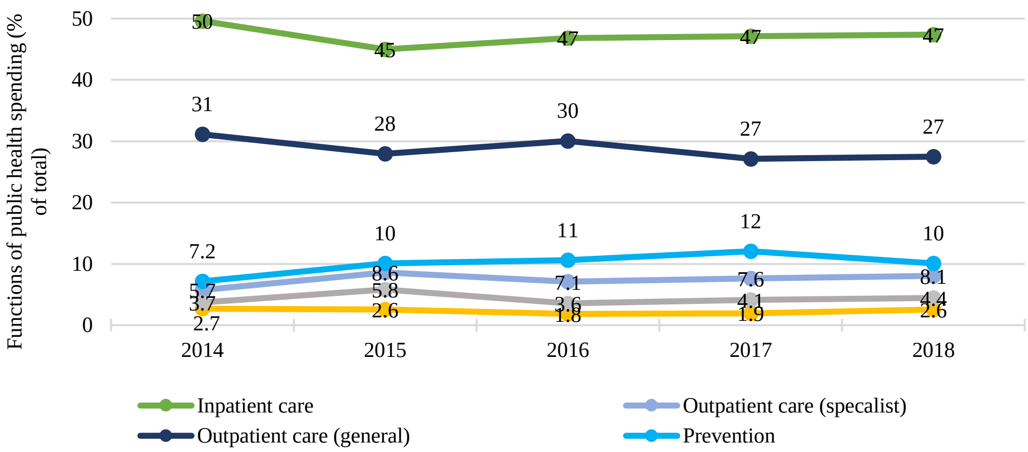


Source:

5.25. **There is a large degree of uncertainty about the impacts of the COVID-19 pandemic on public health expenditures in the medium term, while preliminary data for 2020 indicate a stark increase.** If public healthcare spending responded to macroeconomic changes as it did in the past, there would be a sizable reduction of up to 15 percent in 2020. However, because the health sector is crucial for coping with the COVID-19 crisis, an increase in public healthcare funding is very likely. In fact, recently published data for the first 10 months of 2020 suggest a steep increase that is, however, primarily driven by increased foreign aid.

Functional Allocation

Figure 5.18: Trend in Functional Classification of Public Health Spending in Tajikistan, 2014–18



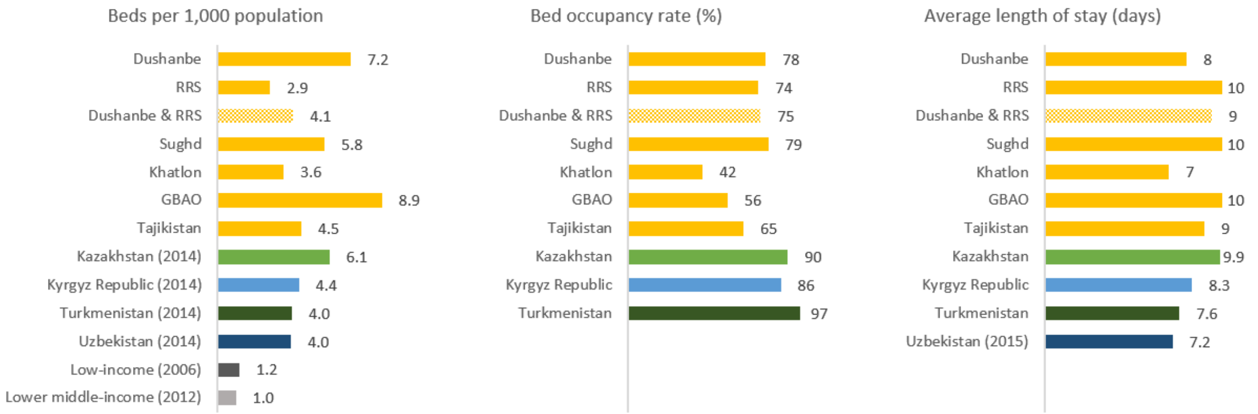
Source: Authors' calculations based on Tajikistan National Health Accounts (NHA).

5.26. **Half of Tajikistan's government healthcare spending is on inpatient services and 36 percent on primary healthcare** (PHC), defined as the combination of general outpatient services

[136] McIntyre and others 2017.

and prevention (Figure 5.18:). The latter is close to the 40 percent goal set by the government, but at less than $7 per capita, PHC spending falls far short of levels needed to achieve meaningful population coverage.

Figure 5.19: Indicators of Hospital Efficiency in Central Asia and the European Union, 2017



Sources: Data for Tajikistan and its regions for 2017 from District Health Information System (DHIS). Data for other Central Asian countries from WHO HfA database, and data for low- and lower-middle income country averages from World Development Indicators (WDI), World Bank.
Note: Because the RRS do not have oblast level health facilities, RRS residents can access oblast hospitals in Dushanbe. Figure 1.16 therefore also includes combined Dushanbe and RRS numbers.

5.27. **By several measures, the country has the least efficient hospital sector in the Central Asia region.** As in other former Soviet countries, the number of hospital beds per 1,000 population remains high in Tajikistan, at 4.5, with large regional disparities within the country (Figure 5.19:). On average, only two thirds of beds are filled, a strong indication of oversupply even when higher demand under improved public health coverage is assumed. Moreover, at nine days, the average hospital stay is long by international comparison.

Figure 5.20: Hospitals Per 100,000 Population in Tajikistan, Kazakhstan, and the Kyrgyz Republic by type, 2013

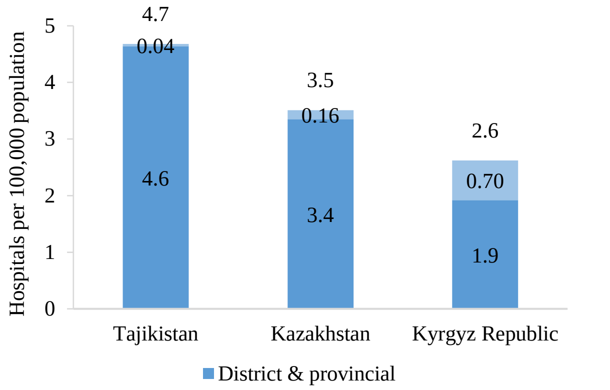
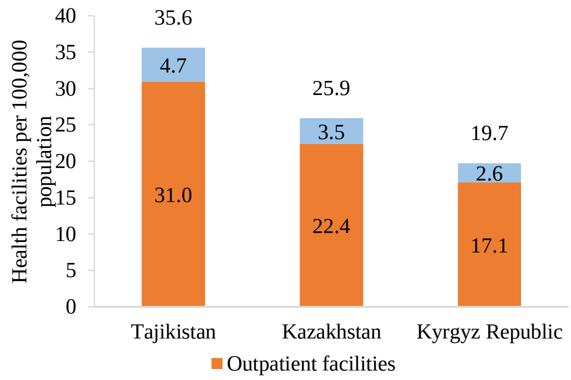


Figure 5.21: Health Facilities Per 100,000 Population in Tajikistan, Kazakhstan, and the Kyrgyz Republic by Type, 2013

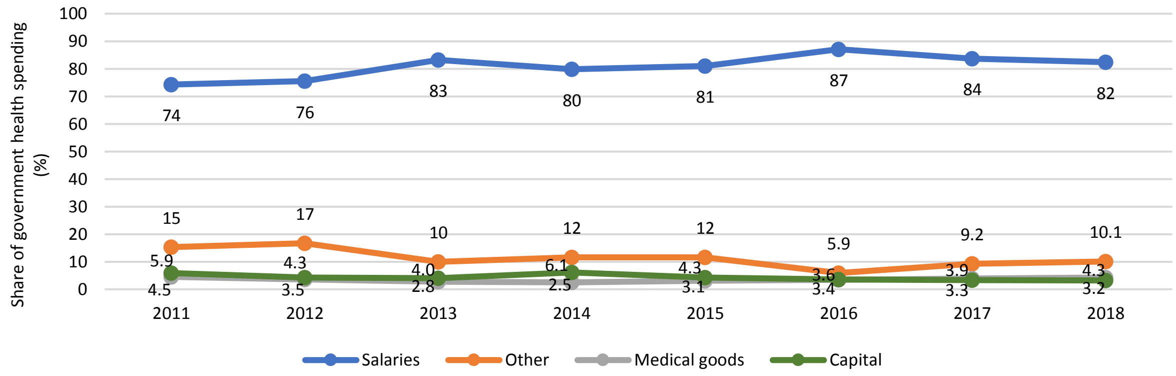


Source: Global Health Observatory data repository, WHO.

5.28. **Further potential for efficiency-enhancing consolidation lies in the disproportionately large number of small local hospitals and PHC facilities**. Kazakhstan and the Kyrgyz Republic, which both have lower population densities, achieve higher healthcare utilization rates with 40 percent fewer facilities than Tajikistan (Figure 5.20: and Figure 5.21:). It is therefore likely that a facility can be consolidated without jeopardizing geographic access.

Economic Allocation

Figure 5.22: Economic Classification of Public Healthcare Expenditure in Tajikistan



Source: Joint Annual Review, 2020.

5.29. **Disaggregation of government healthcare expenditures by economic classification reveals that 80 percent of the sectoral budget is spent on health worker salaries, and less than 5 percent on medical goods and capital investments each** (Figure 5.222). This is a distribution starkly at odds with the typical shares of 50–60 percent on salaries, 30–40 percent on medical goods, and at a minimum, 5 percent on capital[137].

5.30. **Health worker salaries have increased substantially over the past decade but remain low in absolute levels. Health worker density is high,** as Tajikistan currently employs 73.1 clinical workers per 10,000 population (Figure 5.23: and Figure 5.24:). This is over 60 percent more than the 44.5 minimum for UHC that the World Health Organization (WHO) recommends and substantially above even the upper middle-income average of 57.3.[138] Further indication for staffing redundancies is supported by caseload estimates: a survey of primary care providers in Sughd and Khatlon found an average of only 3.8 patient contacts per clinical staff per day.[139] Further analysis to assess the potential for staffing consolidation is therefore recommended.

Figure 5.23: Trend in clinical healthcare workers per 10,000 population in Tajikistan by cadre, 2011–17

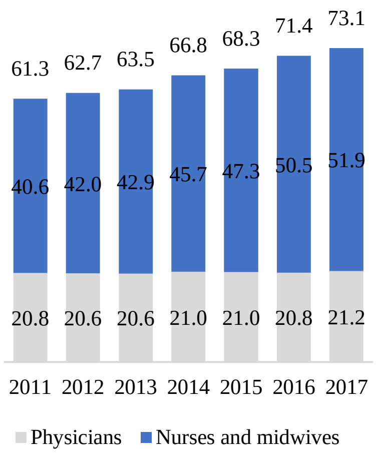
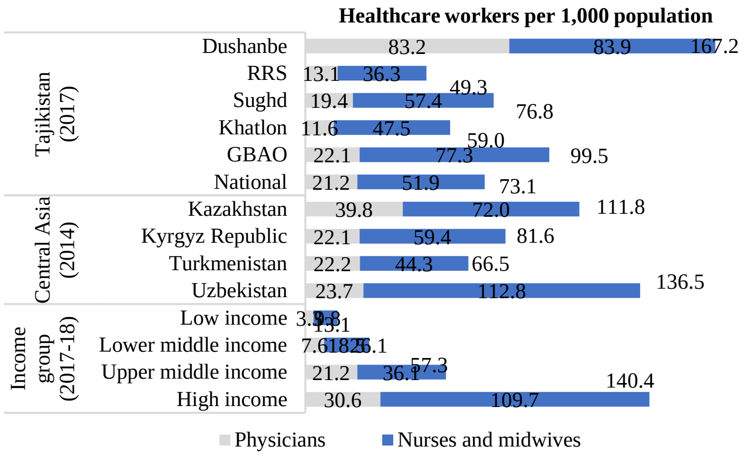


Figure 5.24: International comparison of clinical healthcare workers per 10,000 population by cadre, latest available data



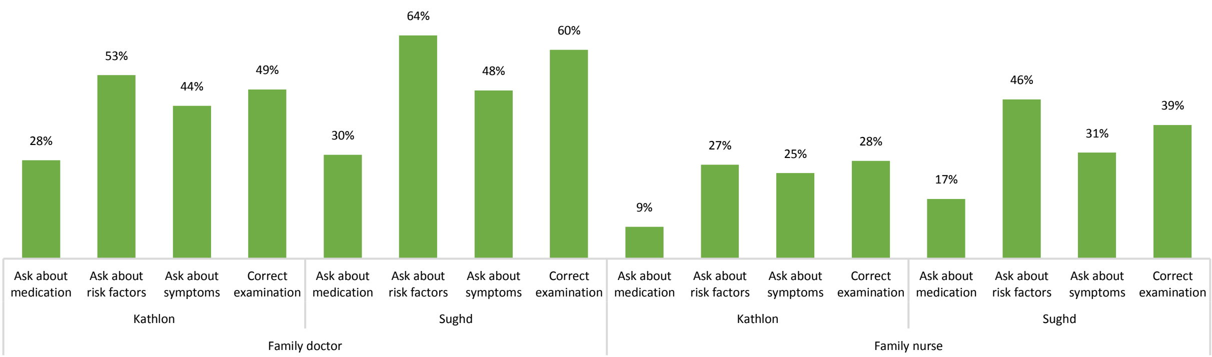
[137] Gaudin and Yazbeck 2014.
[138] WHO 2016.
[139] Ahmed and others 2019

Source: Tajikistan data from District Health Information System (DHIS), data for other Central Asia countries and country income groups from World Development Indicators (WDI), World Bank. Country income group data for physicians from 2017 and for nurses and midwives from 2018.

5.31. **Efficiency is further hampered by an overreliance on specialists and provider knowledge gaps.** Despite government and donor efforts to strengthen general practice and gatekeeping over the past decade, the share of general practitioners, or family doctors, among all physicians at 13 percent remains about half that in the European Union. Moreover, a recent study that tested PHC provider knowledge with clinical vignettes found large skill deficiency[140]. For instance, not more than 60 percent of family doctors, and not more than 40 percent of nurses, responded to a hypothetical patient with symptoms of cardiovascular disease with the correct set of examinations, and not more than half of either cadre asked relevant questions about the patient's medical history (Figure 5.25). Strikingly, less than a third of family doctors and not more than 17 percent of nurses asked about current medication, raising the risk of harmful drug interactions.

5.32. **The small share of public health funding allocated to the provision of medicines is used in an inefficient manner**, as drugs are procured through several disconnected supply chains[141]. The procurement of drugs for inpatient care that are covered by the public benefit packages is particularly inefficient, as each hospital purchases them individually from its own budget, thus volumes large enough to obtain meaningful discounts are not reached, and stock-management across facilities is rendered impossible. Due to underfunding and inefficiencies, drug stock-outs are common, and even public pharmacies typically carry less than 40 percent of the medicines on the country's essential drug list[142]. Moreover, a key quality issue and patient safety risk in the Tajik healthcare system is the excessive prescription and use of antibiotics, which is the result of cultural factors, misaligned health worker incentives, and a lack of regulation, as they continue to be available without prescription[143].

Figure 5.25: Results of cardiovascular health knowledge test of PHC clinicians in Tajikistan, 2014–15



Source: Data from clinical vignettes administered as part of a 2014–15 survey of PHC providers in Sughd and Khatlon (Arur and others 2017).

5.33. **With the low level of public investment in the health sector, basic infrastructure and equipment are often missing or in decay**. With expenditures on capital only accounting for 3.2 percent of public healthcare spending, the Tajikistan Government continues to underinvest in the maintenance and further development of its healthcare infrastructure and equipment. For example, in the aforementioned survey of PHC providers, 20 percent of rural health centers in Khatlon had no functional toilet and only half had access to clean water. In Sughd, a quarter of rural health centers

[140] Arur and others 2017.
[141] Stobbelaar and Machmudov 2018a.
[142] Stobbelaar and Machmudov 2018b.
[143] Versporten and others 2014, Donadel and others 2016, Kaae and others 2020.

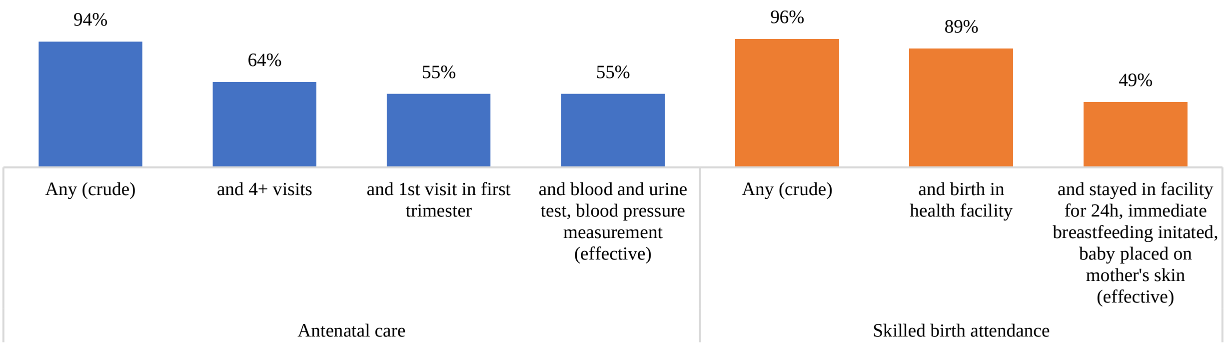
had no heating, essential for the winter months, with an average temperature below 0 degrees Celsius.[144]

E. Healthcare Access

5.34. **Newly available indexes of health coverage indicate that Tajikistan continues to fall behind its regional peers and is still far from achieving UHC**[145]. The country, however, performs well for its income level, achieving high levels of MCH service coverage in particular.

5.35. **There are large gaps in service quality that lead to low rates of effective coverage.** The high MCH coverage levels in Tajikistan, however, mask important quality gaps, as "effective coverage"—defined as the share of the population in need that receives care of appropriate quality—lies far below crude coverage levels[146]. For instance, while almost all women in Tajikistan now have access to skilled birth attendance, only half receive delivery and postnatal care of appropriate quality (Figure 5.26).

Figure 5.26: Crude and effective coverage of antenatal care and skilled birth attendance in Tajikistan, 2017

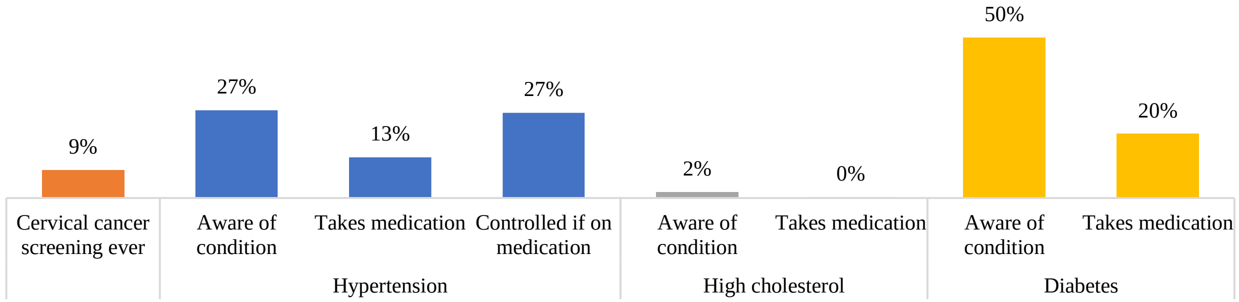


Source: DHS.
Note: Effective coverage can be thought of as a cascade of care, with crude coverage, typically defined as consulting a provider for a condition, at the beginning and effective coverage, defined as completing the appropriate treatment, at the end. The full cascade typically cannot be shown empirically due to a lack of data, but more detailed information on MCH care has recently become available in the DHS that allows distinctions between crude and (more) effective coverage, as shown in this chart.

5.36. **Unmet need for both preventive and curative care is particularly high for NCDs**, which form an ever-larger part of the disease burden in the country, as the system is clearly ill-equipped to meet the challenges of its epidemiological transition. For instance, recent survey data suggest that only 9 percent of adult females ever had a cervical cancer screening, that only 27 percent of hypertensive adults are aware of their condition, and that a mere 13 percent of them take any medication for it (Figure 5.27).

[144] Arur and others 2017.
[145] Hogan and others 2018, Lozano and others 2020, Wagstaff and Neelsen 2020.
[146] Boerma and others 2014, Amouzou and others 2019.

Figure 5.27: Access to NCD care in Tajikistan, 2016

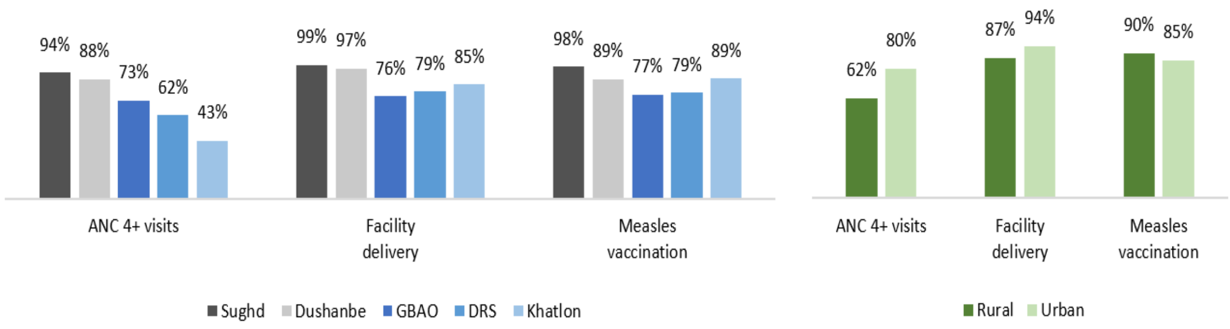


Source: Authors' calculations based on Tajikistan 2016 WHO STEPS.
Note: "Cervical cancer screening ever" is the share of women ages 18–70 who ever had a pap smear. "Hypertension" defined as high blood pressure (systolic blood pressure > 140 and/or diastolic blood pressure > 90) or on medication for high blood pressure. "Controlled" hypertension is the share of the population that is hypertensive or takes anti-hypertensive drugs for whom systolic blood pressure is under 140 and diastolic blood pressure is under 90. "High cholesterol" defined as high cholesterol or on medication for high cholesterol. "Diabetes" defined as capillary whole blood value ≥ 11.1 mmol/L) or currently on medication for diabetes.

Unmet need for family planning is the highest in the Central Asia region. At almost 23 percent, the share of women who are married or live in union and report unmet need for family planning, either to delay or to limit pregnancies, is about a fifth higher than in the Kyrgyz Republic and more than twice as high as in Uzbekistan, Turkmenistan and Kazakhstan, indicating that Tajikistan's high fertility rate could be reduced substantively if access to and uptake of modern contraceptives increased.

5.37. **From an equity perspective, unmet need for care is unequally distributed regionally and heavily concentrated among the poor** (Figures 5.29 and 5.30). According to the 2017 DHS, the chief reason for women to forgo needed care is lack of money, which 35 percent of all women and 58 percent of women in the bottom wealth quintile cite as a major obstacle.

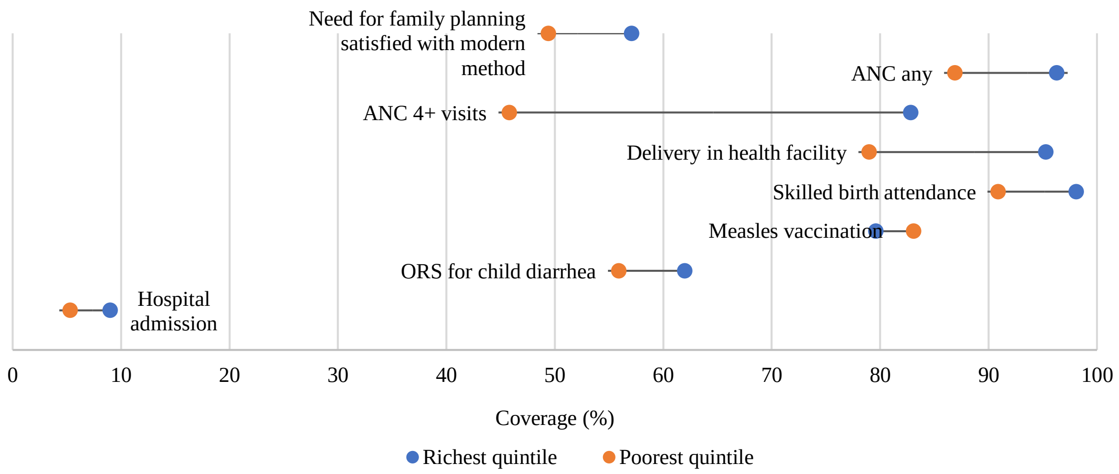
Figure 5.28: Regional and urban-rural inequalities in service coverage in Tajikistan, 2017



Source: DHS, 2017.

5.38. **An estimated 9,400 deaths per year could be avoided in Tajikistan with better healthcare access and quality**. Kruk and others (2018) estimate the number of deaths amenable to improved healthcare access and quality for low- and middle-income countries using country mortality profiles from the 2016 Global Burden of Disease study and case fatality rates from high-income countries with strong healthcare systems[147]. They find that 9,432 deaths could be avoided with improved access to quality healthcare. Of the latter deaths, roughly 60 percent are estimated to be due to poor care quality, with the rest being caused by low levels of utilization.

Figure 5.29: Wealth inequalities in service coverage in Tajikistan, 2017



Source: Data on all indicators other than hospital admission from DHS, 2017. Data on hospital admissions from World Bank Household Budget Survey, 2011.
Note: "Need for family planning satisfied with modern methods" defined as in Barros and others (2015). "Any ANC" is the percentage of pregnancies in the past two years of women ages 15–49 with at least one antenatal care visit. "ANC 4+ visits" defined as the percentage of pregnancies in the past two years of women ages 15–49 with at least four antenatal care visits. "Skilled birth attendance" is the percentage of most recent births of women ages 15–49 in the past two years who were attended by a doctor, nurse, midwife, or auxiliary nurse or midwife. "ORS for diarrhea" is the percentage of children under 5 with diarrhea in the two weeks before the survey who were given oral rehydration salts (ORS). "Measles vaccination" is the percentage of children ages 15–23 months having received a measles/Measles-Mumps-Rubella (MMR) vaccination, either verified by vaccination card or by recall of respondent. "Hospital admission" defined as share of adults with at least one hospital admission in the past 12 months.

5.39. **To date, little is known about disruptions in health service due to the COVID-19 pandemic, but temporary drops in excess of 20 percent are likely, and may cause more than 2,000 excess under-5 deaths**. Few data are available on the impacts of the COVID-19 pandemic on healthcare access and utilization in Tajikistan. In recent rounds of the periodical Listening to Tajikistan Survey, 20 percent of households report being unable to access needed healthcare[148]. This is in line with modeled estimates by Roberton and others (2020), who suggest reductions in MCH care coverage of 19–27 percent in their middle-impact scenario, which they estimate to lead to 2,202 additional under-5 deaths over the course of 12 months.

F. Recommendations

5.40. **Bringing public health spending closer to the level necessary to provide universal basic healthcare will be vital to achieve the government's priorities for the health sector.** Preliminary data indicate that per capita health spending increased by 30 percent between 2019 and 2020, but it remains well below the level necessary to achieve universal coverage of basic services. To further increase healthcare resources, the government may attract more international aid, and reallocate domestic resources from other sectors. By contrast, raising formal user fees or introducing a contributory health insurance mechanism are not recommended, as these approaches would negatively impact healthcare utilization and equity,[149] encourage adverse selection, and contribute to

[147] Naghavi and others 2017.
[148] World Bank 2020b.
[149] Lagarde and Palmer 2008, 2011.

the fragmentation of healthcare delivery and financing.[150] To build consensus around the need for greater spending and sectoral reforms, the authorities should conduct systematic stakeholder analyses.

5.41. **The government can improve the health sector's financing model by introducing an independent payer organization and centralizing all public funds.** These measures would help to increase transparency of the budgeting process, replace input-based financing for hospitals with a mix of case-based financing and reimbursements for high-cost services, and align the current per capita financing policy with successful capitation mechanisms elsewhere. Health financing reforms from neighboring countries – in particular, lessons from the Kyrgyz Republic – can provide valuable lessons for Tajikistan.[151]Including a substantial portion of current for-pay services and medicines in the public benefits package would promote more equitable healthcare access and reduce catastrophic out-of-pocket expenditures. The government should: (i) provide public coverage for an essential outpatient drug package, improve access to medicines among poor households, and disincentivize self-medication and uncontrolled polypharmacy; (ii) revise fee exemptions under the public benefits packages to target poor households more effectively; (iii) integrate the BBP and Decree 600 and clarify benefits for both patients and providers; and (iv) update facility infrastructure and equipment.

5.42. **While mobilizing additional resources will be critical, the limited fiscal space requires that the authorities also take steps to increase the efficiency of public health spending.** A nationwide analysis of health-system assets could identify opportunities to consolidate healthcare facilities and cut excess capacity without jeopardizing the supply of healthcare services. Replacing the current model of input-based provider payments and protected line items with a new model based on strategic purchasing could increase value for money in health spending. Moreover, prioritizing access to family-planning services could be a highly cost-effective approach to improving public health indicators.

[150] McIntyre and others 2008, Cotlear and others 2015, Yazbeck and others 2020.
[151] Ibraimova, A., Akkazieva, B., Ibraimov, A., Manzhieva, E., Rechel, B. and World Health Organization, 2011. Kyrgyzstan: Health system review

Chapter 6. Upgrading Education

A. Introduction

6.1 **At 5.4 percent of GDP and 17.8 percent of total government expenditures, education is the second largest recipient of public resources in Tajikistan after the energy sector, but data limitation constrains a full-fledged value for money analysis.** This level of public resource allocation places Tajikistan among the best performers of the regional and other peers. However, there is very limited data to link inputs to outcomes through a value for money analysis and thereby assess the efficiency of public resource utilization.[152]

6.2 **The Government of Tajikistan has begun implementing its new long-term education development strategy of 2020.**[153] The new National Strategy for Education Development (NSED) determines the overall direction of education reforms through 2030 and includes among its key priorities access and equity, quality and relevance, and effective governance and financing of education. The main goal of the Strategy is to create an effective education system that ensures inclusive and equal opportunities and contributes to the development of abilities, intellectual development, employment, and improvement of the general well-being of the population. It will be important to reflect critical policy and reform priorities in annual budgets and MTEFs.

6.3 **The introduction and expansion of per-capita formula funding since mid-2000s and relatively high public spending on education have made education services more accessible and equitable.** Since the nationwide rollout of per-capita financing in general secondary education, total education spending rose by 133.8 percent, reaching more than $350 million in 2020, enabling the government to increase per-capita allocations to schools. Per-capita financing has generated a positive impact on secondary education, including the rationalization of class groups and introducing more equitable and balanced budget planning. In addition, shifting from financing of schools (i.e. input-based financing) to per-capita formula funding has also provided schools with greater autonomy in resource management and transparency in how resources are distributed and utilized.

6.4 **A positive impact from per-capita formula funding and other education reforms has led to improvements in sector performance**, which can be observed in the relatively high enrolment and transition rates in general secondary education level, modest increases in coverage of preschool-age children, and better management of public finances. Data on learning outcomes is limited, but available data from the Early Grade Reading Assessment (EGRA) suggest that learning outcomes can be improved substantially. To date, Tajikistan has not participated in other international large-scale assessments, which makes it hard to assess learning outcomes more broadly.

6.5 **Despite its success, the formula funding has some weaknesses**. Its funding primarily relies on subnational governments' budget which is often insufficient to allocate the amounts that the formula indicates. There is not sufficient intergovernmental transfer to fill the gap, either. Hence, in reality, the formula funding is not implemented as intended. The formula could also benefit from a revision to consider factors important for equitable financing, such as school feeding[154] for primary-

[152] Data on internal efficiency of the education system and learning outcomes is very limited, which constrains cause-and-effect analysis of how allocated resources translate into tangible education outcomes and lasting performance improvements.
[153] Resolution of the Government of the Republic of Tajikistan 'On the National Strategy for Education Development of the Republic of Tajikistan for the period until 2030' (#526 dated September 29, 2020).
[154] Resolution of the Government of the Republic of Tajikistan #689 dated December 31, 2020 'On Measures for Implementing the Law of the Republic of Tajikistan 'On State Budget of the Republic of Tajikistan for 2021.'

grade students and enrollment of children with disabilities. These issues require further attention to extract the full potential of reforms.

6.6 **Given the anticipated budgetary constraints, it might not be feasible to pursue the two big reforms in the National Strategy for Education Development (NSED).** The financing gap to achieve existing SDG 4 targets for children's education is estimated to cost 2.3 billion somoni by 2030, which equates to about 1.1 percent of GDP and more than 3 percent of total government spending.[155]

6.7 The scheduled transition to 12-year schooling by 2030 and the envisaged increase in preschool enrolment of 3-6 years old to 50 percent by 2030 will require significant resources. In particular, the NSED envisages a transition to a 12-year schooling system through the introduction of preparatory pre-primary year for 6-year-old children. This reform will require large-scale training and retraining of teachers, the preparation of teaching and learning materials and updated curricula, and the provision of state support to Child Development Centers (CDCs), and will cost an estimated 629 million somoni ($55mln) per year on average over a six-year transition period. This reform alone will require a 7-10 percent increase in total education spending for 2021-2023.[156] The transition requires a detailed and costed Action Plan, as agreed upon at the high-level Development Forum in 2010. With the introduction of budget consolidation measures and modest resource envelope projections for the education sector, it may be necessary to prioritize learning recovery programs, properly revise the pace and sequence of reform implementation, secure sustainable and predictable sources of funding, and possibly delay the implementation of these two big reforms by a few years.

6.8 **Public policy planning for preschool and general secondary education is centralized at the Ministry of Education and Science (MoES), but its budgeting and execution is fragmented, leading to poor linkages between policy planning and financing as well as diluted accountability.** While the MoES is ultimately accountable for education policy, education financing hinges on the availability of resources from other public sector entities, most notably sub-national governments. The financing of education is administered through 24 Main Administrators of Budget Allocations (MABAs),[157] which results in competition for limited public resources. Financing and accountability of alternative preschool institutions, such as Child Development Centers (CDCs) is not adequately regulated by the state. The disjointed and diluted planning and financing system also hampers the generation of statistics on consolidated revenue generation at preschool and general secondary levels. In turn, this severely constrains the evidence base for an informed policy discussion on schools' and kindergartens' financial discretion and available resources.

6.9 **The COVID-19 pandemic led to learning losses, with an expected decades-long impact on the economy.** The pandemic exposed vulnerabilities of the education sector and its dependency on overall socio-economic situation. According to the World Bank staff estimations, learning losses and reduced years of schooling for student cohorts affected by COVID-19 is estimated to reduce their expected earnings by a projected 2.3 percent per year, assuming a year of schooling increases earnings by 8 percent on average. This may amount to an overall economic loss of up to $219 million (2011 PPP) every year. In the post-COVID period, Tajikistan needs to protect education spending, ensure remediation to recover learning losses, prevent student dropouts, and invest in building a resilient education system for future crises.

---

[155] Based on a *Policy Brief 'Transition to 12-Year Education System in Tajikistan: Options, Scenarios and Costing,'* prepared by UNICEF in consultation with development partners and submitted to the Minister of Education and Science on March 10, 2020.
[156] Ibid.
[157] In the sense that there are many high-level budget authorities (or MABAs), financing is not directly linked to policy.

B. Education System Organization and Financing

Legislative and Institutional Framework

6.10 **The education system in Tajikistan is governed by the Constitution and a set of primary and secondary legislation.** Article 17 of the Constitution of the Republic of Tajikistan guarantees free basic education (grades 1-9) and full equality between men and women, while Article 41 further states that everyone has the right to education and that basic education is free and compulsory. More than 25 laws and at least 120 bylaws and other normative documents regulate the activities of the education sector.

6.11 **The Law of the Republic of Tajikistan On Education determines nine basic forms of formal education and types of educational institutions** (Table 6.1). These include preschool education, general secondary education, initial vocational education and training, secondary vocational education and training, higher education, postgraduate education, continuing education, specialized education, and adult education. The education law was adopted on May 17, 2013 and was last amended on December 17, 2020. According to Article 33, the MoES appoints the heads of district and provincial education departments in agreement with respective sub-national authorities.

Table 6.1: The structure of formal education in the Republic of Tajikistan.

Age category (indicative)	Years of education, grades	Levels of education		
1.5-3	3 years	Preschool education (nursery and kindergartens)		
4-6	3 years			
7-10	1-4 grades	Primary education – 1st level of general secondary education (mandatory)		
11-15	5-9 grades	Lower secondary[158] – 2nd level of general secondary education (mandatory)		
16-17	10-11 grades	Upper secondary (3rd level of general secondary education*; optional)	Primary professional education[159]	Secondary professional education
18-21	4 years	Bachelor's degree	On-the-job (i.e. at-work) education and increase of qualification	
22-23 (22-24)	2 years (3 years)	Master's degree		
23 years and above	3 years	Doctorate degree (PhD)		
25 years and above		Continuing education	Short-term education: formal, informal, and self-education	
		Specialized education		

Source: National Strategy for Education Development of the Republic of Tajikistan for the period until 2030.

* General secondary education covers grades 1-11and comprises mandatory basic education (grades 1-9) and optional upper secondary (or high school; grades 10-11). Basic education, in turn, comprises primary education (grades 1-4) and lower secondary (grades 5-9).

6.12 **The current structure of the education system includes 4-5 years of preschool education and 11 years of general secondary education.** Presently, the official entrance age to compulsory education is 7 years. Preschool and general secondary education are predominantly financed by sub-national governments, which often limits the ability of the MoES to influence the implementation of reforms and policy priorities. As mentioned earlier, the NSED envisages a gradual (stepwise)

[158] Primary and lower secondary levels from compulsory basic education.
[159] Primary professional education is the equivalent of initial vocational education and training (IVET), whereas secondary professional education is the equivalent of secondary vocational education and training (SVET).

transition to a 12-year schooling system by 2030. This will change the entrance age to compulsory education from 7 to 6 years, among other implications.

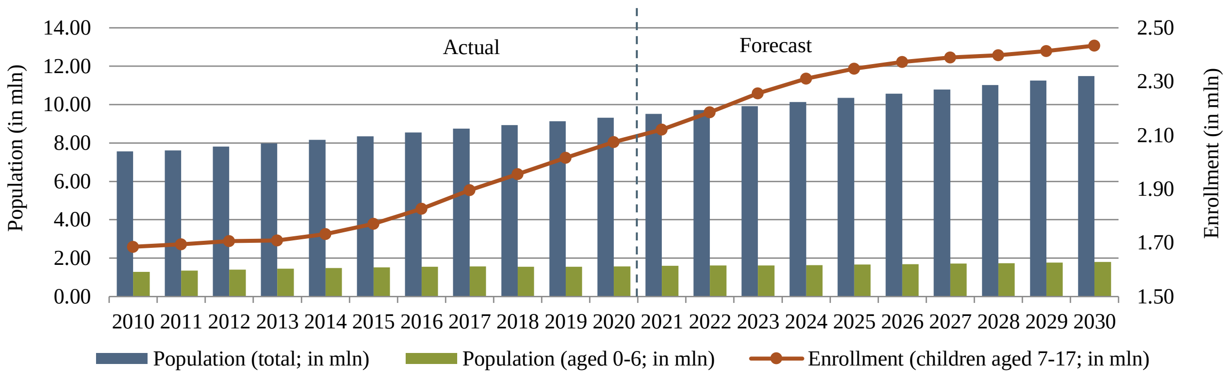
6.13 **The National Strategy for Education Development (NSED) adopted in 2020 sets ambitious targets, is comprehensive and builds on the lessons learned from previous implementation years.** The NSED for the period until 2030 represents the continuation of reforms that started in the previous 10 years. It is being operationalized through a Mid-Term Education Action Plan (MTEAP) for 2021-2023. The NSED is aligned with the National Development Strategy (NDS) for the period until 2030, including its corresponding Mid-Term Development Programme (MTDP) for 2021-2025, the Sustainable Development Goals (SDGs) and the principle of 'Leave No One Behind'. The trajectory of its reforms builds on three main policy objectives: (i) ensuring access and equity in education, (ii) improving the quality and relevance of education, and (iii) strengthening effective governance and financing of education sector. Cross-cutting priorities such as inclusive education, infrastructure, capacity and professional development, modernization of legislative and regulatory framework, and accountability and oversight practices are embedded in the new Strategy.

6.14 **Implementation of the NSED will require significant resources, which heavily hinges on the availability of off-budget resources**. Provisional costing of the NSED's operational framework, i.e. Mid-Term Education Plan (MTEAP) for 2021-2023, is estimated to be equivalent to $495 million or about $165 million per year for the next three years. This annual financing requirement is close to half of total education spending for 2020. Besides, more than 60 percent of the MTEAP's total financing need is expected to be met by overseas development assistance and private investment, which could potentially undermine the implementation of anticipated reform measures and condition progress on the availability of off-budget resources.

C. Access And Equity in Education

6.15 **Demographic pressure poses a serious challenge to government efforts to improve access and equity, particularly in preschool and general secondary education.** The annual population growth rate in Tajikistan averages 2.1 percent and remains the highest in the Europe and Central Asia (ECA) region.[160] Tajikistan's population has doubled in the past 32 years and is projected to expand by another 20.7 percent in the next 10 years, reaching approximately 11.49 million by 2030 (Figure 6.1). Such rapid population growth will place an added burden on the ability of educational institutions to absorb new entrants into preschool and general secondary education.

Figure 6.1: Trends in population and enrollment in Tajikistan, 2010-30



Source: Education Management Information System (EMIS). Ministry of Education and Science of the Republic of Tajikistan.

[160] Although the total fertility rate (number of births per woman over the course of her expected life) in Tajikistan remain well above the replacement level, they have steadily declined from 3.493 in 2000 to 2.905 in 2010 and further down to 2.433 in 2019.

Preschool education

6.16 **Preschool coverage rates have increased nationally and uniformly across all regions in Tajikistan, but still fall short of government targets.** Preschool coverage rates of children aged 3-6 improved from 12.3 percent in 2015 to 15.9 percent in 2019 (Figure 6.2). However, these rates remain well short of the milestone of 50 percent coverage by 2030 set by the National Development Strategy. Despite moderate improvement in coverage rates, significant urban-rural variations persist. While 73.8 percent of Tajikistan's population resides in rural areas, only 34.7 percent of all preschool institutions are in those areas, compared with 65.3 percent in urban areas. Growth in the number of preschool institutions in rural areas (17.9 percent in 2015-2019) did exceed that in urban areas (12.8 percent in 2015-2019), but more progress is required to increase coverage rates in rural areas. In addition, coverage rates vary by regions. For example, a 2019 World Bank report indicated that some districts have only one kindergarten per 10,000 preschool-aged residents, which is well below the average of 5.5 per district in Tajikistan. Broadly, the number of kindergartens per 10,000 preschool-aged residents ranges between 1 and 45 per district (excluding Dushanbe, which has 134 preschools.[161]

6.17 **Improvements in coverage are mainly driven by growth in alternative forms of preschool education, including Child Development Centers (CDCs).** Most recent estimates indicate that at least 68.5 percent of the improvement in coverage rates during 2011-2019 is attributed to the growth of CDCs, which account for 48.7 percent of total enrollment in preschool education.[162] The number of CDCs has expanded from 1,588 in 2015 to 1,771 in 2019, i.e., by 11.5 percent. In comparison, the number of state kindergartens rose by 7.3 percent and kindergarten-schools rose by 10 percent in the same period.

6.18 **Private investment also contributed to the improvement in preschool coverage rates.** Specifically, the number of non-state kindergartens rose from 37 in 2015 to 82 in 2019, i.e.. by 121.6 percent during the last five years. There are more privately-owned kindergarten-schools (7) than state-owned kindergarten-schools (6) in Tajikistan.

Figure 6.2: Coverage of children by preschool education in Tajikistan, 2015-19.

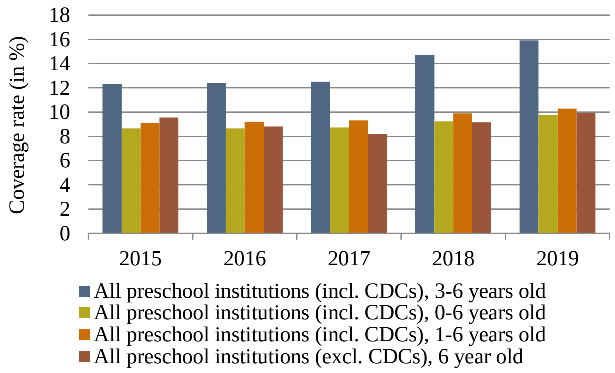
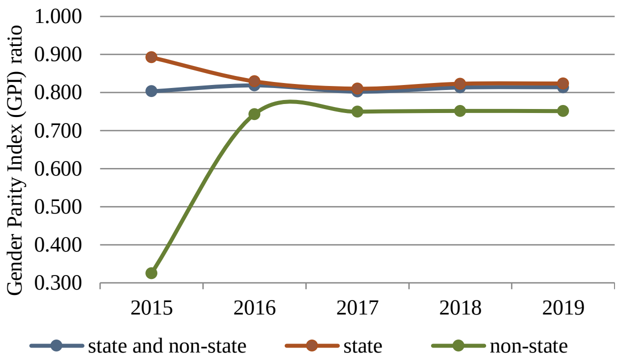


Figure 6.3: Trends in gender parity index (GPI) in preschool education in Tajikistan, 2015-19.



Source: Education Management Information System (EMIS). Ministry of Education and Science of the Republic of Tajikistan.

[161] World Bank. 2019. *Early Childhood Education and Care: A Focused Review of Preschool Education in Tajikistan*. June 25, 2019. Washington DC, pp.33-34.

[162] Although CDCs don't receive government subsidies, they are still regarded as state preschool educational institutions.

General Secondary Education

6.19 **Enrollment in general secondary education (grades 1-11) is steadily expanding across regions and rural-urban areas.** Total enrollment in general secondary education grew by 249,395 children, or 14 percent, during 2015-2019. In addition, growth during this period in the number of new girls enrolling in the first grade of primary education (16.4 percent) exceeded growth in the number of boys (15.8 percent). Such growth in the number of girls entering the first grade of primary education was particularly high in Khatlon province (19 percent) and DRS (17.8 percent).

6.20 **Enrollment rates in primary education and lower secondary education are high in Tajikistan (Figure 6.4).** The gross enrollment rate (GER) in grades 1-4 was 104.8 percent in 2019. The net enrollment rate (NER) in primary education was consistently at 100 percent during 2015-2019. In basic education (grades 1-9), GER rates rose from 94.6 percent in 2010 to 96.4 percent in 2015 and 101 percent in 2019; and NER rates have also improved from 94.5 percent in 2010 to 96.1 percent in 2015 and further up to 100 percent in 2019. The differentials between GER and NER demonstrate the presence of underage and overage learners,[163] especially in primary grades, while some degree of discrepancy in government data cannot be ruled out.

Figure 6.4: Enrollment in general secondary education broken down by grade and gender in Tajikistan, 2019/20 academic year.

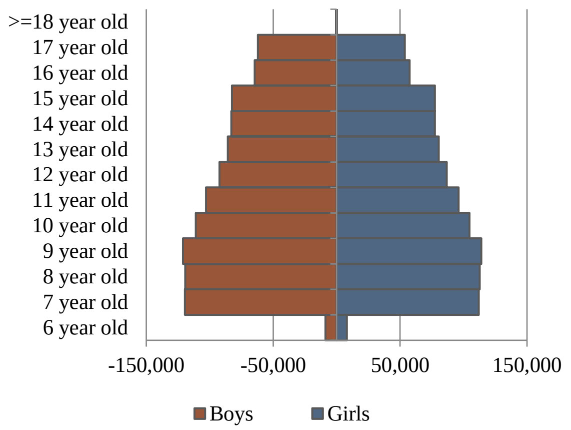
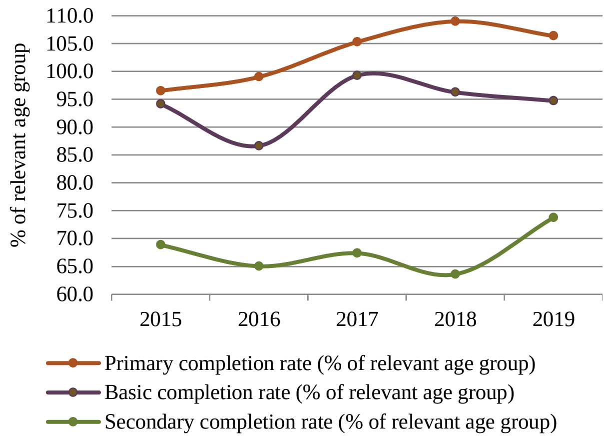


Figure 6.5: Completion rates by each level in general secondary education in Tajikistan, 2015-19.



Source: Education Management Information System (EMIS). Ministry of Education and Science of the Republic of Tajikistan.

6.21 **Tajikistan exhibits gender balance in school enrollment, with the GPI rate of 0.931 in 2019**. This was a significant and steady improvement from the GPI rate of 0.883 in 2010 and 0.912 in 2015. In absolute numbers, 129,810 more girls enrolled in general secondary educational institutions in the past five years, compared to an inflow of 120,163 more boys.

6.22 **Despite improving enrollment rates and greater gender parity, both genders drop out of school as they progress to higher grades.** Progression through each grade results in higher dropout rates of both girls and boys. In 2019, the primary completion rate was 106.4 percent of relevant age group due to underage and overage learners, but the basic completion rate (grade 9) and secondary completion rate (grade 11) are significantly lower at 94.7 percent and 73.8 percent, respectively (Figure 6.5), of relevant age groups. Nonetheless, basic and secondary completion rates have both

163 The differences in GER and NER show that grade-age mismatch in enrollment remains relatively high, particularly at the primary education level. NER sometimes exceeding 100 percent also demonstrates relatively weak accuracy and credibility of statistical accounting of enrollment and/or population data.

improved since 2010 (88 percent and 49.1 percent of relevant age groups, respectively) and 2015 (94.1 percent and 68.9 percent of relevant age groups, respectively).

6.23 **Introduction of a per-capita financing (PCF) mechanism, accompanied with a greater autonomy of schools in their budget utilization, has ensured more equitable and transparent allocation of public resources and a more efficient use of resources at the school level.** Following the pilot in 5 districts, the PCF mechanism in general secondary education was gradually introduced to all districts nationwide in 2007-2010[164] and accounts for school enrollment, school type, number of languages of instruction, and district-level coefficients. The PCF monitoring report in 2007-2017[165] showed significant improvements in transparency and equity of the state budget distribution among schools, as well as increased efficiency in budget utilization within schools till 2016. However, it also exposed deterioration of key PCF indicators[166] in 2017, due to deviation from the PCF model in the same districts. In preschool education, normative (i.e., per-capita) financing was introduced in 2015.[167] Per-capita financing was rolled out nationally among state preschool institutions starting from 2019. However, there is lack of experience with the 2019 funding formula in preschool education at the time of the report-writing. MoES has agreed to conduct an evaluation of the current operation of PCF in both pre-school and general education, with donors' support.

6.24 **Although the government's policy decision to transit to 12-year schooling is articulated in national policy documents, specific transition model has not yet been formally agreed among stakeholders.** The latest policy discussions from February 2020 resulted in prioritization of one-year pre-primary education for 6-year-old children because it is likely to offer the greater returns in terms of improving the quality of education. This would also be the most appropriate scenario for the country given its current low preschool enrollment, budget constraints, and economic and financial circumstances. Full implementation of the transition reform will ensure 100-percent coverage of 6-year-old children. Focusing on children's readiness to school also ensures a more homogeneous group of students in early grades, which in turn will increase learning outcomes, and enable those children with various disadvantages to have greater opportunity of learning at the same pace as their peers. At the same time, one year of pre-primary education cannot be made compulsory until full availability of infrastructure and pedagogy content is ensured for universal coverage. This will require a gradual process, including the possibility to adopt a multi-year approach as implemented in similar education reforms in other countries. The Ministry of Education and Science agrees that this is the preferred transition scenario, but the precise gradual transition plan and its associated cost implication should be submitted to the government and subsequently endorsed, which will enable the MoES to proceed with the transition preparation and secure public resources through the Ministry of Finance.

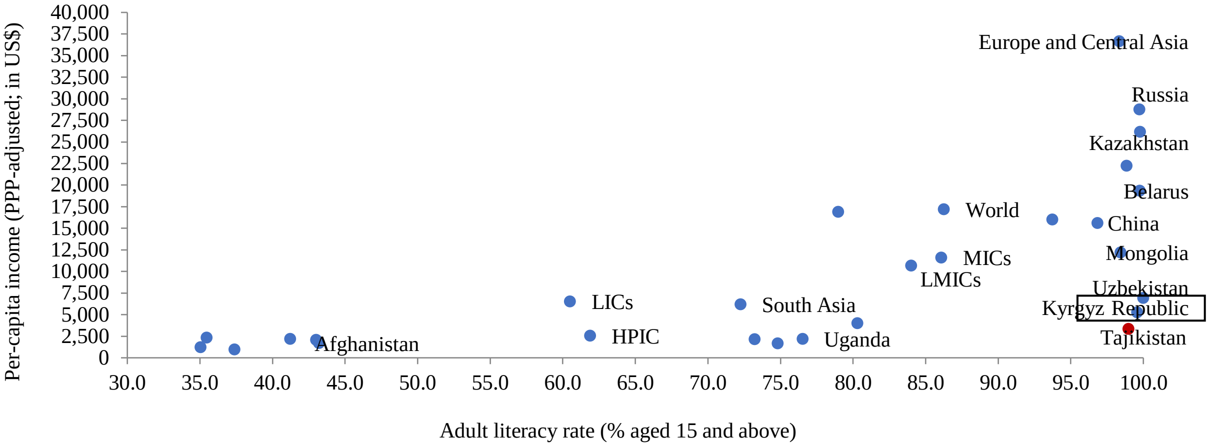
Quality of Education

6.25 **The adult literacy rate is high in Tajikistan.** Tajikistan is one of the best performers in adult literacy among lower-income countries (LICs) and in the Europe and Central Asia (ECA) region. At 99 percent in 2018, Tajikistan's literacy rate of adults aged 15 and above is significantly higher than

[164] Following Resolution of the Government of the Republic of Tajikistan 'On the Approval of Regulations for Normative (Per-Capita) Financing of General Secondary Educational Institutions' (#505 dated October 1, 2007).
[165] The WB & GPE (administered by the WB) supported PCF in education from 2006-2017.
[166] Wage bill share in the school budget and Student-Stavka Ratio (SSR)
[167] Following Resolution of the Government of the Republic of Tajikistan 'On Transition of State Preschool Educational Institutions to Normative (Per-Capita) Financing' (#627 dated November 2, 2015). The PCF mechanism was initially piloted in 3 districts and 8 cities starting January 1, 2016. In preparation for the nationwide roll out of PCF, all state preschool educational institutions registered as legal entities and improved their accounting and financial management. PCF in preschools was introduced nation-wide in 2017 with some deviations from the original model. It's implementation progress is yet to be reviewed and evaluated.

the 60.5 percent average among LICs (Figure 6.6). Literacy level is important for development, as educational attainment generates a variety of economic and social benefits.

Figure 6.6: Adult literacy in Tajikistan in relation to GDP per capita of comparable low-income countries and countries in the Europe and central Asia region (2018 or latest available year).



Source: World Bank database; author's calculations.

6.26 **Tajikistan has participated in Early Grade Reading Assessments (EGRAs) in 2014, 2016 and 2018.** All past EGRA assessments were supported by the United States Agency for International Development (USAID) and are conditional on the availability of external financing. In 2018, the first nationally representative EGRA was conducted, based on a sample of 287 schools (217 and 70 of which used Tajik and Russian, respectively, as the language of instruction). According to the baseline 2018 EGRA report, Tajikistan performed quite low, compared to the Kyrgyz Republic, Kazakhstan and Uzbekistan. Only 14.9 percent of grade 2 students and 22.5 percent of grade 4 students reached national standards in reading comprehension in the Tajik language. The test was also administered in the Russian language, and 11.9 percent of grade 2 students and 41.6 percent of grade 4 students reached national benchmarks.[168]

6.27 **In April and May 2019, the midline EGRA assessment was carried out** with data collected electronically from 207 schools (in 146 Tajik language schools and 61 Russian language schools) and assessed students from grade 2 (1,948 students) and grade 4 (1,912 students). Overall, the midline EGRA results demonstrate strong reading outcomes for students studying in Tajik and Russian. Regardless of language or grade, the percentage of students who received zero scores on the oral reading fluency (ORF) was extremely low, less than 1 percent, indicating that nearly all students had some ability to read. In the meantime, while a good proportion of students are reading at or above the standard, and girls generally outperformed boys (especially in Tajik-language schools),[169] basic language and reading skills need to be reinforced throughout grades 1 and 2, so that students have a strong basis to build their reading skills further. And despite strong outcomes overall, Tajik students' comprehension of skills are not at the same level as their fluency skills. This is especially true for Tajik grade 2 – where students read 36.66 correct words per minute (CWPM) but answered less than 2 out of 5 comprehension questions correctly – and for Tajik grade 4 – where students read 59.86

[168] United States Agency for International Development (USAID). 2018. Early Grade and Reading Assessment and Impact Report. Washington DC.

[169] In addition, students from urban areas outperformed students from rural areas on a variety of subtasks and by wide margins. This trend was consistent at both baseline (2018) and midline (2019) studies across grades and languages. This is mostly explained by the fact that students in urban areas often have some advantages over their peers in rural areas in terms of access and exposure to a wide range of reading materials. Furthermore, teachers attending training from schools that are located in rural areas often report that they have not had re-training opportunities for some time.

CWPM but answered just over 2 out of 5 comprehension questions correctly. Another key finding was that performance for Tajik grade 2 students declined on several skill areas[170] from 2018 to 2019. The declines may be the result of teachers for that language and grade struggling to adapt and implement teaching strategies, a possibility that is supported by the fact that teachers in Tajik grade 2 classrooms received significantly lower overall scores on lesson facilitation, checking for understanding, and providing student feedback than teachers in Tajik grade 4 classrooms. A more comprehensive trend analysis will be released along with the endline EGRA study in 2022.

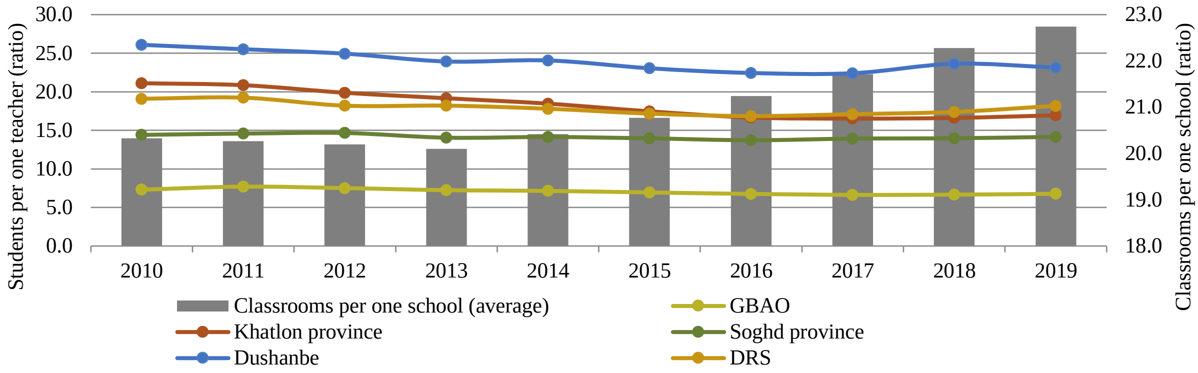
6.28 **The first ever National Learning Assessment (NLA) of students in the 5th and 11th grades in Tajikistan was conducted in April 2021** by the National Testing Center under the President of the Republic of Tajikistan with support from the European Union. The assessment was conducted in 236 schools and covered approximately 5,000 students. The 5th grade students' competencies in Tajik, mathematics and sciences subject and 11th grade students' competencies of Tajik, mathematics, chemistry, biology and physics were assessed. Questionnaires for parents, students and teachers were also used as part of this study. The NLA results and recommendations will be released in 2022, which will provide solid basis for internal efficiency analysis in general secondary education and encourage policy makers to make informed decisions based on evidence on the learning outcomes.

6.29 **There were no other national learning assessments conducted in recent years, which is why it is difficult to comprehensively assess learning outcomes in Tajikistan.** Tajikistan has not participated in internationally comparable assessments like the Progress in International Reading and Literacy Study (PIRLS), Trends in International Mathematics and Science Study (TIMSS), International Computer and Information Literacy Study (ICILS), or the OECD's Program for International Student Assessment (PISA). The Ministry of Education and Science plans to conduct its first PISA in 2025, as part of efforts to build on the implementation of competency-based learning in general secondary education. Provisional timelines for conducting other internationally comparable assessments are less clear.

6.30 **Average student-teacher and student-classroom ratios have slightly improved since 2010 (Figure 6.7).** The average student-teacher ratio (STR) improved from 18.1 in 2010 to 16.2 in 2015 and 16.4 in 2019,[171] although there are some regional variations. In Khatlon province, for example, the STR improved from 21.1 in 2010 to 17.5 in 2015 to 16.9 in 2019. In general, the STR depends heavily on school size, which also correlates with per-capita spending levels. The average student-classroom ratio (SCR) in schools has hovered from 22.2 in 2010 to 22.3 in 2015 and 23 in 2019. In primary education, there were 23.2 students per classroom on average, while in post-primary education (i.e., grades 5-11), the SCR was 22.8 in 2019.

[170] Such as on three out of four timed subtasks – letter name identification, familiar word reading, and ORF. This was notable because the timed subtasks, along with initial sound identification, are the EGRA subtasks that are most comparable from one time point to another.
[171] Note: STR estimation also accounted for the total number of students and teachers in boarding institutions.

Figure 6.7: Student-teacher ratio (str) and classroom-school ratio (CSR) in general secondary education in Tajikistan (state and non-state), 2010-19.



Source: Education Management Information System (EMIS). Ministry of Education and Science of the Republic of Tajikistan.

6.31 **Internal efficiency has slightly decreased in general secondary education, and teachers are likely to have lower workload.** In particular, the student-stavka[172] ratio (SSR) decreased from 15.9 in 2015 to 15.3 in 2019. In addition, the proportion of teachers with more than one teaching load (*stavka*) has steadily declined from 46.3 percent in 2011 to 42.4 percent in 2015 and 39.6 percent in 2019.[173] That correlates with the decrease of stavka-teacher ratio (STR) from 1.17 in 2015 to 1.06 in 2019.

D. Education Expenditures

Overview of Public Expenditure in Education

6.32 **The Government of Tajikistan has been allocating a relatively large proportion of its public spending to the education sector.** The government budget for the education sector has grown from 990.0 million somoni in 2010 to 4,429.7 million somoni in 2020, with an annual growth averaging 16.9 percent in nominal terms during this period. Even after adjusting for inflation, annual growth of education spending averages 10.7 percent, except for a drop by 3.5 percent in 2020 due to the COVID-19 pandemic. Public spending on education at 5.4 percent of GDP and 20 percent of total spending places Tajikistan among the best performers of its regional and other peers (Table 6.2).

Table 6.2: Education expenditure as a share of GDP and total government expenditure for Tajikistan and selected other countries, 2017-2018

	Public Education Spending (as a percent of GDP)	Public Education Spending (in percent of total public spending)	Public Education Spending Per Student (in percent of GDP per capita)
Belarus	4.8	12.3	35.7
Burkina Faso	5.4	22.7	19.9
Georgia	3.5	13.0	…
Kazakhstan	2.6	13.9	21.2
Kyrgyz Republic	6.0	15.7	…
Mali	3.8	16.5	25.5
Moldova	5.4	17.5	31.1
Mongolia	4.1	12.6	…
Niger	3.5	16.8	17.1
Russia	4.7	13.5	…
Rwanda	3.1	10.8	21.7

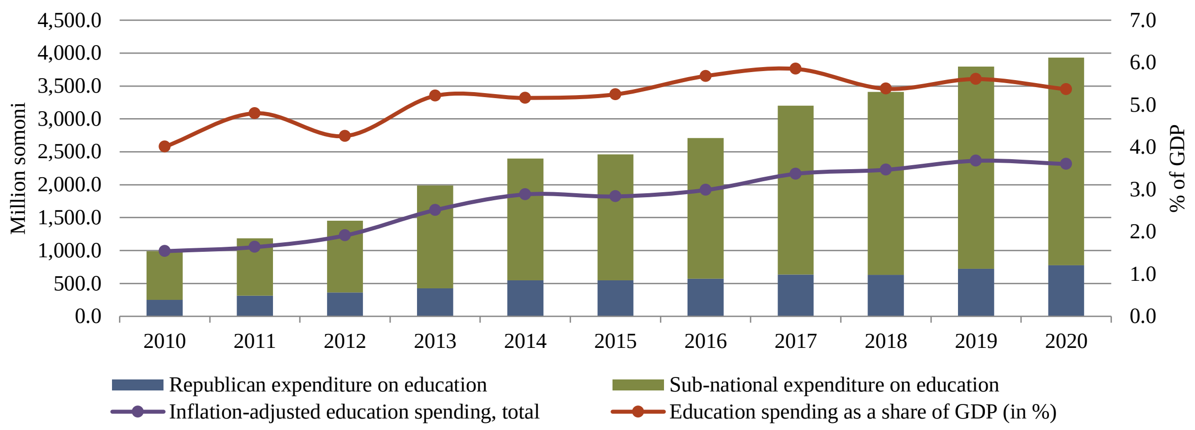
[172] Stavka corresponds to the teaching load or Full-Time Equivalent (FTE)
[173] Tajikistan is gradually moving away from three-shift schools. There are now less than 3 percent of total enrollment in three shift schools, compared to 5 percent in 2015 and 8 percent in 2010. The number of schools offering three shifts is also declining (from 147 schools in 2010 to 100 schools in 2015 and further down to 65 schools in 2019).

Sierra Leone	7.0	32.5	14.3
South Asia	3.5	15.1	12.0
Tajikistan	**5.4**	**19.0**	**21.0***
Ukraine	5.4	13.1	30.3
Uzbekistan	5.3	23.0	…
Europe and Central Asia	4.0	12.3	23.0
LICs	3.4	15.8	…
LMICs	4.0	16.9	…

Source: World Bank database.
* Estimated figure based on government statistics (excluding adult education).

6.33 **Government spending on education represents a substantial share of overall public expenditures in Tajikistan and has remained relatively resilient, notwithstanding economic challenges and fiscal constraints (Figure 6.8).** Education spending expanded from 16.7 percent of general government budget in 2010 to 17.5 percent in 2015 and 18.1 percent in 2020 (Table 6.3). Education was the largest recipient of public resources until 2014 and has fallen behind only energy sector spending in the past six years. In real terms, education expenditure comprised 5.4 percent of GDP in 2020, compared to 4 percent of GDP in 2010.

Figure 6.8: trends in public expenditure on education, 2010-20 (million somoni; without PIP).



Source: Ministry of Finance of the Republic of Tajikistan.

Table 6.3: Public spending on education by levels, 2010-2020
(in million somoni; excluding pip**).**

	2010	2015	2016	2017	2018	2019	2020
General government spending, total	6,712.6	16,277.4	18,294.3	22,264.2	24,187.4	23,806.6	24,925.5
Education spending, total	990.0	2,539.3	3,093.8	3,572.7	3,702.6	4,338.6	4,429.7
of which: Preschool	49.2	145.5	165.4	193.9	226.0	237.8	228.7
of which: General secondary	736.2	1,725.5	1,913.6	2,274.2	2,461.6	2,698.9	2,802.4
of which: Primary professional	0.0	41.8	46.2	55.9	60.9	67.8	69.4
of which: Secondary professional	31.5	75.5	81.8	97.7	108.2	126.7	132.0
of which: Higher professional	99.2	275.2	293.9	339.4	275.7	341.3	383.3
Share of recurrent expenditure (percent)	78.5	87.7	90.4	87.6	88.6	90.2	93.3
Share of capital expenditure (percent)	21.5	12.3	9.6	12.4	11.4	9.8	6.7

Source: Ministry of Finance of the Republic of Tajikistan.

6.34 **Rapid expansion in the education workforce led to a significant rise in the wage bill and thus to the dominance of salary spending, relative to non-wage discretionary spending, of educational institutions.** To keep up with the enrollment rate, the teaching workforce in the education sector grew from 112,343 teachers to 155,204, or by 38.2 percent, from 2010-19. Accordingly, total spending on workers' wage bill has also grown by 19.5 percent annually on average during 2010-2020 (Figure 6.9). This annualized nominal growth rate significantly exceeded the growth rate of total spending in the education sector during the same period. The share of the wage bill[174] in total education spending expanded significantly, from 46.1 percent in 2010 to 57.6 percent in 2020. In the 2019-2020 academic year, the wage bill accounted for 69.7 percent of total school spending[175] and 55.7 percent of the total spending of preschool institutions. The rising cost of the growing workforce in the education sector, without a commensurate increase in the total education budget, has led to a reduction of discretionary non-wage spending by educational institutions in the past eleven years (Figure 6.10). There are also large regional disparities in average monthly earnings of education workers, for example, an average 1,761.3 somoni per month in 2019 in Dushanbe, compared with 940 somoni in DRS, Soghd oblast and Khatlon oblast.[176] This is explained by the fact that higher education is mainly concentrated in Dushanbe, with university workers being much higher paid, compared to other levels of education and other factors, such as higher teacher-stavka ratios).

Figure 6.9: Inflation-adjusted average monthly remuneration of education workers, 2010-19.

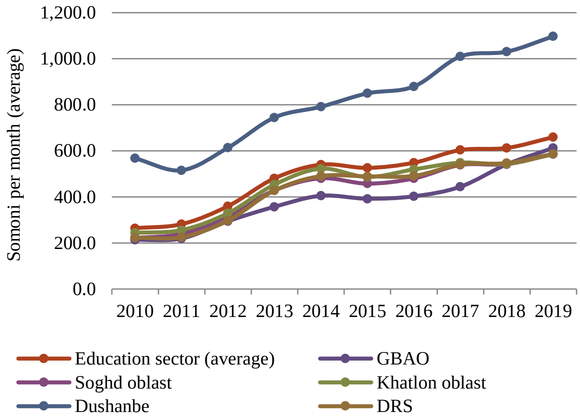
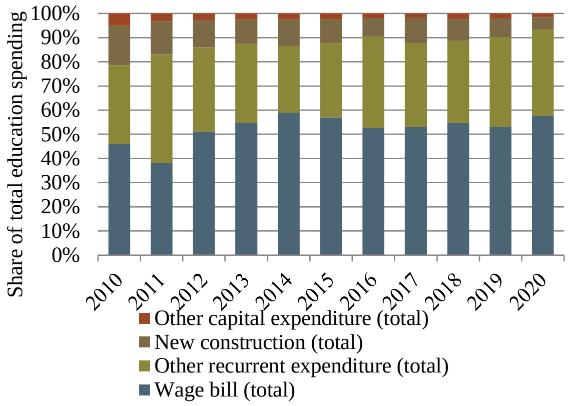


Figure 6.10: Relative share of major spending categories in the education sector, 2010-20.



Source: Agency for Statistics under the President of the Republic of Tajikistan; Ministry of Finance of the Republic of Tajikistan.

6.35 **Allocations for capital expenditures are insufficient to keep pace with demographic pressure and rising infrastructure needs, particularly in preschool and general secondary education.** Quality infrastructure and capital investment are essential for ensuring progress in education services, especially in the context of a rapidly growing population and growing demand for new facilities. Public spending on capital needs has grown from 212.4 million somoni in 2010 to 426.4 million somoni in 2019 and accounted for 10 percent of the sector's total budget in 2019. However, in at least five of the last eleven years, capital expenditure shrank year-on-year. In preschool education, capital expenditure totaled only 8.9 million somoni in 2020 and 19.7 million somoni in 2019, an equivalent of $0.8 million and $2.1 million, respectively, for each year. All capital expenditure needs in state preschool education are financed by sub-national governments. In 2019, 66.2 percent of capital expenditure needs in general secondary education were financed by sub-national governments before sliding down to 45.1 percent in 2020, mainly because the sub-national governments' inability to raise sufficient revenues due to COVID-19.

6.36 **The introduction of a per-capita financing mechanism, first in general secondary education, then in preschool education, has been largely a success.** The PCF mechanism in general secondary education was rolled out nationwide from 2010 and has largely been a success, resulting in the more equitable allocation of public expenditures among schools. Building on experiences and lessons learned at the school level, the PCF mechanism was also introduced in preschool education

[174] Without social contributions that are deducted from salaries.
[175] Including capital expenditures and other recurrent expenditures (e.g., teachers' professional development and textbooks).
[176] Source: Agency for Statistics under the President of the Republic of Tajikistan.

and rolled out nationwide from 2019. Currently, the normative (or per-capita) budget accounts for about 85-90 percent of total spending in general secondary education and preschool education.

6.37 **However, there is room for further improvement in the PCF mechanism.** Currently, the PCF formula for schools and kindergartens does not account for vulnerable children with special needs. In addition, the cost of meals for school-aged children are omitted from the formula altogether, instead leaving schools to rely on parental fees and external financing, such as from the World Food Programme (WFP) and the Russian Federation who are procuring food for meals in about 2,000 out of 3,821 state-owned schools across the country. Also, the normative or unit cost-based allocations for preschools are determined at the regional level, such as in Khatlon and GBAO, which may not be reasonable, given variances in coverage and cost-of-living ratios among districts within these regions. A simulation exercise may be needed to assess the viability of a methodology proposed by the Ministry of Finance and to determine the set of PCF parameters at the national level.

Table 6.4: Inflation-adjusted normative spending allocations in schools, 2010-2020
(in million somoni)

	2010	2015	2016	2017	2018	2019	2020
Normative allocation per child	244	492	551	547	539	581	560
Normative allocation per school	45,159	91,300	102,279	101,548	99,928	107,781	103,856
Normative allocation (percent growth)	9.8	2.9	17.0	4.0	2.0	13.0	2.0
Total education spending (percent growth)	-1.7	5.3	12.8	2.9	6.1	-2.1	-1.7
CPI, period-average (percent change year-on-year)	12.5	5.7	6.0	6.7	5.4	7.3	9.4

Source: Ministry of Education and Science of the Republic of Tajikistan; author's calculations.

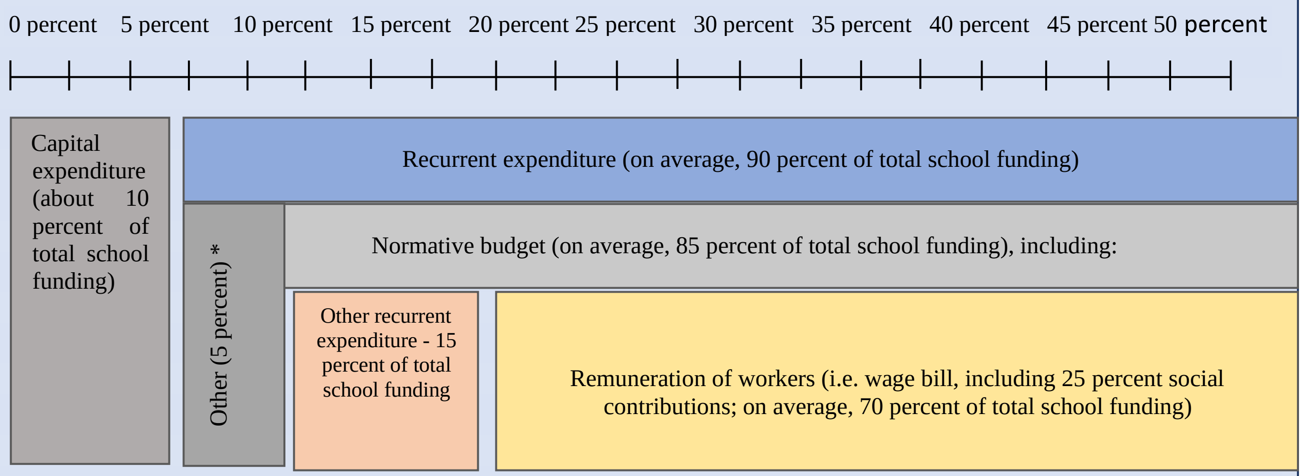
6.38 **Budget allocations based on normative unit costs in general secondary education grew broadly in line with changes to total education spending (Table 6.4).** Normative or per-capita expenditure allocations per child and per school have grown by 130 percent (inflation-adjusted) from 2011-2020. The largest (52 percent) year-on-year nominal increase in per-child and per-school allocations was in 2013, while the lowest (2 percent each) nominal increase was recorded in 2018 and 2020. While percentage growth in normative unit costs may seem erratic, in fact it positively and strongly correlates with the total inflation-adjusted spending in the education sector (r=0.895), excluding externally financed PIP and special funds. This suggests that percentage increases in normative unit costs is proportionate to the growth of the total education sector spending. In contrast, normative unit cost changes weakly and is inversely correlated with changes in inflation rates (r=-0.358), which reaffirms that increases in normative unit costs do not account for changes in consumer prices.

6.39 **Normative school budgets are approved via unit cost allocations per child and per institution, but often remain underfunded.** In 2015-2019, normative budgets were underfunded on average by 8.6 percent in comparison with their original expenditure allocations in line with the PCF formula.[177] This is mainly driven by the high dependency of school funding on the revenue performance of sub-national governments (SNGs). While the PCF mechanism made resource allocations more balanced regionally, it has also reduced the role of SNGs, as normative budgets are approved at a central government level. In 2020, 93.6 percent of school budgets were financed by SNGs (excluding externally financed PIP and special funds). Since normative unit costs comprise up to 85 percent of school budgets and up to 90 percent of preschool budgets, it is imperative that they are financed in full. Normative unit costs in preschool education were approved for a nationwide roll

[177] Normative budgets consist of recurrent expenditure, excluding in-service teacher training and purchase of textbooks. Notably, the cost of school meals is not included in the normative budgets of general secondary educational institutions, but from 2019, the Resolution of the Government of the Republic of Tajikistan "On Measures to Implement the Law of the Republic of Tajikistan 'On State Budget of the Republic of Tajikistan for 2021' stipulates that normative budget estimates for the inclusion of school meals should be developed for children enrolled in primary grades (grades 1-4).

out in 2019 and, unlike schools, also cover meals, but the amount of public resource allocations is presently negligible. In 2019, normative allocations for meals equaled just 1 somoni per child per day in preschool institutions in Soghd oblast, compared to 4 somoni per child per day in Dushanbe and 2.1 somoni per child per day in all other districts. In fact, up to 90 percent of the cost of meals in state preschool education is covered via parental fees, which potentially restricts access for children from financially disadvantaged families.

Box 6.1: A stylized representation of total school budgets (excluding external financing).[178]



/* Category 'Other (5 percent)' includes other recurrent expenditures, such as in-service teacher training costs and purchase of textbooks. Textbooks are not purchased by schools but rented through the Textbook Rental System (TRS). Following the TRS, students pay 33-35 percent of the textbooks' cost. Thus, the cost is recovered in three years.

6.40 **Alternative forms of early childhood education are often financially supported by state schools, but this is not reflected in consolidated financial accounts.** The majority of the 1,771 Child Development Centers (CDCs) in Tajikistan are located on school premises and enjoy the coverage of their utility bills via respective school budgets. While CDCs are regarded as state preschool educational institutions, they neither have a special fund treasury account (which would help policy makers monitor their revenue streams) nor pay for various recurrent expenditures, such as utility bills (which suggests that a relatively small share of school budgets is channeled to support operations of preschool educational institutions and should therefore be separated in financial/treasury accounting). CDCs can also exercise full discretion in setting the threshold for parental fees, while their budgets are not consolidated through the central treasury system and are therefore unavailable for analysis. It should be noted that CDCs, if co-financed by the state, would enroll six to eight times more children than regular kindergartens for the same budget funds.[179] Thus, state financial support and regulation of CDCs should be strengthened, including greater accountability and transparency, which will help achieve the 50 percent preschool coverage of children aged 3-6 by 2030.

---

[178] An important disclaimer here is that the school budget shown in Box 2.3 includes all funds that a school receives from the government, excluding the school's own revenues. Besides, many schools do not have any capital expenditures, while those that do receive funds for capital expenditures (and capital repairs) from the republican budget and sub-national governments. If only normative budgets are shown and broken down by economic lines, then the share of the wage bill rises to 80-85 percent.

[179] World Bank. 2019. *Early Childhood Education and Care: A Focused Review of Preschool Education in Tajikistan*. June 25, 2019. Washington DC.

6.41 **Financing of specialized/boarding schools differs from that of other general secondary educational institutions.** The structure of spending shows that boarding schools received better allocation for covering utility costs but poor allocation for capital expenditure needs. Similar proportions are also prevalent in other specialized schools, such as schools for gifted students.

Adequacy and Sustainability of Education Financing

6.42 **The estimated high cost of key reforms, such as, will require revisiting the implementation timeline of transitioning to 12-year schooling and improving preschool coverage rates in line with the NDS-2030 targets.** Irrespective of the confirmed transition scenario, sufficient resources will be needed to fund both the setup and operational costs. These reforms will require building the required infrastructure to accommodate 204,903 children at the age of 6. The recommended pathway of the reform implementation is to employ a gradual transition approach over a number of years, which will smoothen expenditure needs and reduce the overall fiscal pressure. Initial cost estimations undertaken by UNICEF indicate that the total additional cost of transition over a six-year period will be around $330 million (or around $66 million per year, which is equivalent to about 18 percent of total education budget for 2020. In preschool education, improving coverage rates from 15.9 percent of children aged 3-6 in 2019 to 50 percent in 2030 will require at least $50 million (without population growth and assuming unchanged value of the national currency against the dollar). If population growth is taken into account, then the approximate cost of expanding preschool coverage in line with the NDS-2030 target will exceed $65 million. As a comparison, this financing need exceeds the 2020 preschool budget by 2.3 times.

6.43 **The execution of normative or per capita budgets of educational institutions is exposed to the risk of revenue shortages at the sub-national level.** Approximately 85 percent of annual school budgets and 90 percent of preschool budgets are derived from normative spending based on per-child and per-institution expenditures. The remaining funds constitute capital expenditures, which are not transferred over to public accounts of educational institutions and sit outside their normative spending. Although normative budgets are mainly composed of worker salaries, they also include utility payments, recurrent repairs, purchase of goods, energy items, and other recurrent expenditures. While normative budgets are determined in agreement between the Ministry of Education and Science and the Ministry of Finance at a central level and approved by the Annual Budget Law, their financing depends *solely* (in preschool education) or *largely* (in general secondary education) on the revenue performance of SNGs. During 2010-2020, the share of spending on schools from SNGs increased from 86.6 percent to 93.6 percent, further increasing reliance of the education sector on the financial health of SNGs.

6.44 **Weak revenue planning by SNGs and the lack of a robust mechanism to compensate for insufficient revenues affects the quality of expenditure planning and exposes the education budget to the risk of underfunding.** Tax revenue performance at the sub-national level, especially shared revenues from corporate income taxes (CIT) and value added taxes (VAT), is volatile and difficult to predict on a small regional scale. Also, the shares of PIT, CIT and VAT that are retained by SNGs change from year to year and are set arbitrarily by different SNGs. For them, the volume of anticipated revenue streams can therefore become challenging to forecast on a rolling three-year basis. In turn, this negatively affects the financing of education spending, especially non-statutory normative expenditure lines (Figures 6.11 and 12). This also implies that annual approval of normative budgets by the Government of Tajikistan on a rolling basis is somewhat meaningless, unless they are guaranteed by a full and timely financing.

6.45 **Inter-governmental fiscal transfers (IGFTs) do not guarantee full financing of non-wage normative budgets of educational institutions.** The most notable examples of IGFTs in Tajikistan's budgeting system include *subventions* and *dotations*, but neither is specifically earmarked to cover the financing gap of normative budgets in the education sector, except for worker salary, which is a statutory expenditure line. For instance, total subventions received by SNGs in 2020 equaled 34.6 percent of the total wage bill in the education sector (Table 6.5).[180] These cash transfers fill the wage gap, not only in education, but in other sectors as well. This lack of cover stretches SNGs' budgets and could leave sector policy mandates or reform activities unfunded. Thus, IGFTs from the republican budget should be used to support not just the wage bill, but the non-wage normative budgets in the education sector as well. This could reduce the dependency of the normative budgets of educational institutions on the revenue performance of SNGs and ensure full and guaranteed disbursements of funds for schools and preschool institutions as approved.

Figure 6.11: Proportion of main expenditure items in public pre-school education budgets by reliance of SNGs on IGFTs, 2020.

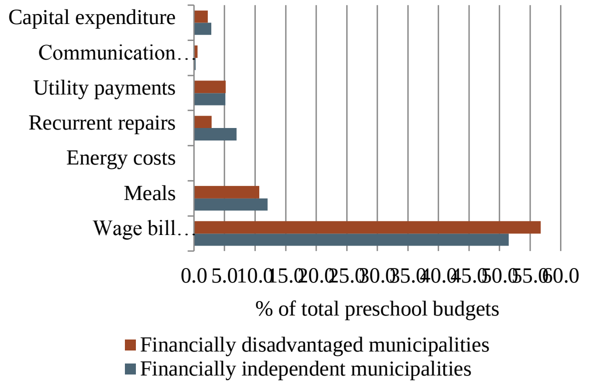
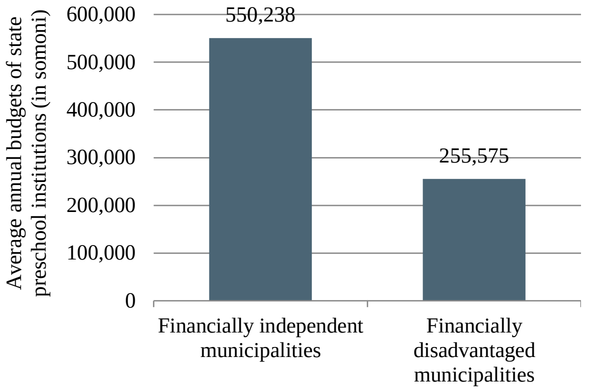


Figure 6.12: Average annual expenditures of public preschool education by reliance of SNGs on IGFTs, 2020.



Source: Ministry of Finance of the Republic of Tajikistan; author's calculations.

Table 6.5: Subventions to financially disadvantaged regions in Tajikistan, 2015-20

	2015	2016	2017	2018	2019	2020
Subventions, total (in million somoni) *	800.6	809.3	876.0	796.9	920.1	882.5
of which: GBAO (7 out of 8 districts)	159.0	159.3	173.3	169.0	186.1	189.2
of which: Khatlon oblast (20 out of 25 districts)	468.0	487.1	519.8	447.5	524.0	478.0
of which: DRS (8 out of 13 districts)	173.6	162.8	182.8	180.3	210.0	215.4
Subventions (in percent of wage bill, education) **	55.4	49.8	46.3	39.3	40.0	34.6
Subventions (in percent of wage bill, state budget) **	23.9	21.3	20.1	17.1	17.6	15.7

Source: Ministry of Finance of the Republic of Tajikistan; author's calculations.
* No municipality in Soghd oblast or Dushanbe receives subventions from the republican budget.
** Excluding social contributions

6.46 **Although the proportion of privately-owned schools is relatively low, private investment is often used to finance public sector infrastructure in general secondary education.** In 2019, 44.4 percent of the 32,560 new seats in Tajikistan were created with support from local entrepreneurs and local communities. In total, 72 out of 130 new school buildings were constructed via non-state investment. In total, off-budget resources through private entrepreneurs and local communities comprise 28.6 percent of the total cost of new construction in general secondary education (Table 6.6) According to the Education Management Information System (EMIS) data for the 2019-2020 academic year, the private sector financed 28.6 percent of the total cost of new construction in general secondary education, except in Soghd oblast and Dushanbe, which are financially independent and do not rely on cash transfers from the republican budget. Financially disadvantaged districts serve as a proxy for a marginal private sector participation in education. Thus, private sector contributions to

[180] This statistic should also be put into the context of cash transfers as of 2019 comprising 13.9 percent of the sub-national budgets, compared to 17.7 percent in 2015.

the education sector are also helping to expand both private and public sector infrastructure and should be further encouraged through appropriate incentive structures and benefits for entrepreneurs.

Table 6.6: Financing of new construction in general secondary education in Tajikistan by sources and geographic locations, 2019/20
(in thousands of Somoni)

	SOGHD OBLAST		KHATLON OBLAST		GBAO		DRS		TOTAL	
	Seats	Cost	Seats	Cost	Seats	Cost	Seats	Cost	Seats	Cost
Republican budget	816	14,129	4,548	97,627	0	0	7,332	193,420	12,696	306,176
Oblast budget	0	0	240	1,600	888	22,000	0	0	1,128	23,600
District (rayon) budget	156	740	216	1,500	1,416	7,566	904	7,301	2,692	17,107
Development partners	0	0	1,008	7,200	0	0	576	3,900	1,584	11,100
Private entrepreneurs	0	0	3,192	24,600	744	6,750	5,611	91,351	9,547	122,701
Community support	0	0	3,006	13,550	1,008	4,220	899	2,545	4,913	20,315
TOTAL:	972	14,869	12,210	146,077	4,056	40,536	15,322	298,517	32,560	500,000

Source: Education Management Information System (EMIS), Ministry of Education and Science of the Republic of Tajikistan.

6.47 **Average household spending per month on education services increased to 1.6 percent of household average monthly expenditure in 2019, compared to 1.2 percent in 2015 and 0.6 percent in 2010 (Figure 6.13).**[181] Findings from the Agency for Statistics' Household Budget Survey (HBS) show that, in 2019, each household spent, on average, 47 somoni per month on education services, of which 9 somoni per month was spent on early childhood education. This excludes non-service expenditures, such as the purchase of textbooks[182] and learning materials, clothing, and meals, which equaled about 50 somoni per month per household. Thus, total household spending on education increased to about 100 somoni per month, which is a relatively significant amount, especially for poor families.[183]

Figure 6.13: Proportion of expenditures on education services by poorest and richest 10 percent of surveyed households, 2010-19.

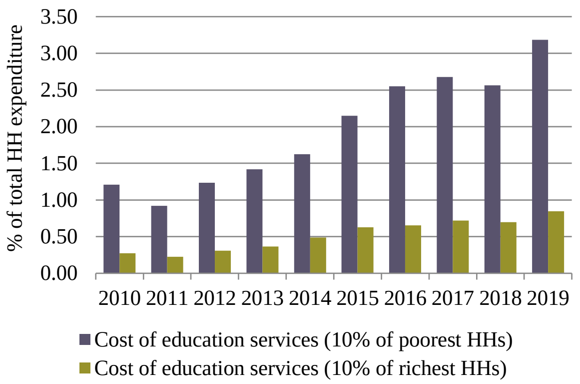
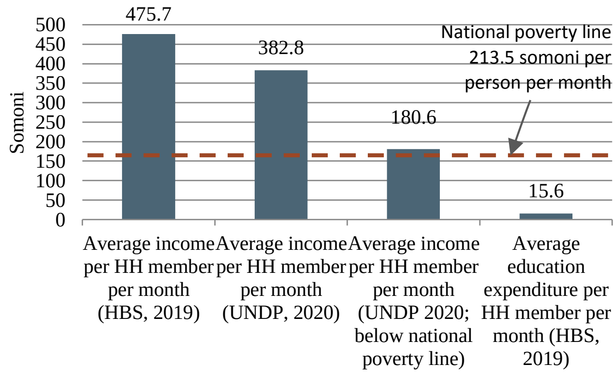


Figure 6.14: Average income and education expenditure per household member per month vis-a-vis the national poverty line, 2019-20.[184]



Source: Household Budget Surveys (HBS), Agency for Statistics under the President of the Republic of Tajikistan; 2020 UNDP Report 'Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-Sized Enterprises in Tajikistan; and author's calculations.

6.48 **Income inequality mostly affects access to preschool and upper secondary education services.** In 2019, expenditure on education services of the poorest quintile comprised 3.2 percent of

[181] Household Budget Surveys, Agency for Statistics under the President of the Republic of Tajikistan.
[182] Families receive textbooks from the Textbooks Revolving System (TRS) and pay 34% of the textbooks' price.
[183] This is based on the 2019 average of 6.2 members per household in Tajikistan (based on the nationally representative survey of 3,000 households by the Agency for Statistics under the President of the Republic of Tajikistan).
[184] In 2019, the absolute national poverty line was 213.51 somoni and the extreme poverty line was 166.25 somoni (Source: Agency for Statistics under the President of the Republic of Tajikistan).

their average monthly household budget, compared to 0.8 percent in the richest quintile.[185] At the same time, expenditures on education of the poorest 10 percent of households (237.2 somoni per household member per month) were nearly four times lower than education expenditures of the richest 10 percent of households (893.2 somoni per household member per month). In 2021, the size of parental fees in state preschool education varied from 60 somoni to 120 somoni, based on the location of an educational institution. This represents between 4.1 to 8.1 percent of average monthly expenditure among the poorest 10 percent of households.[186] Accounting for other levels of education and additional expenditures associated with education, such as the cost of school uniforms, meals, notebooks and other utensils, the average share of household budget spent on education rises to an estimated—and unaffordable—20 percent of total for the poorest quintile of households, given the size of their earnings (Figure 6.15).

Figure 6.15: Economic welfare by level of education of household head (principal income earner of household), 2019-20.

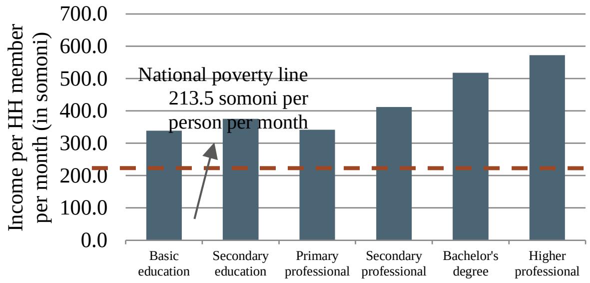
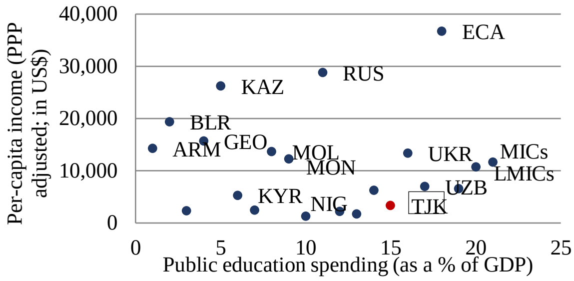


Figure 6.16: Public investment in education as a share of national income, 2018-19.



Source: 2020 UNDP Report 'Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-Sized Enterprises in Tajikistan; and author's calculations.

6.49 **In addition to the state budget allocations, educational institutions of all levels generate revenues to support their core operations**. In 2019, revenues from alternative sources of educational institutions (1,031.3 million somoni) helped finance 21.4 percent of the total education budget. Educational institutions located in sub-national municipalities that are not reliant on IGFTs from the republican budget have a higher average share of their budgets financed through own revenues. This is true for most schools and kindergartens. Parental fees comprised 59.3 percent of all revenues generated by state preschool institutions in 2019 (Table 6.7). In preschool and general secondary education, special funds often include parental fees and other services,[187] which can replenish up to 35 percent of annual preschool budgets and up to 10 percent of annual school budgets.

[185] Expenditures of 10 percent of the poorest HHs (237.2 somoni per HH member per month) were nearly 4 times lower than expenditures of 10 percent of the richest HHs (893.2 somoni per HH member per month).
[186] And from 1.1 to 2.1 percent of average monthly expenditures among the richest 10 percent of households.
[187] E.g., additional classes for lagging children, preparation for entrance examinations, language classes, specialized courses for children and their parents (such as sewing or choreography), Internet and computer services, rental of textbooks, and others. These services are often provided at a fee and are accounted for as special funds (i.e., revenues) in the treasury system.

Figure 6.17: Proportion of all revenues generated in the education sector by levels of education, 2019

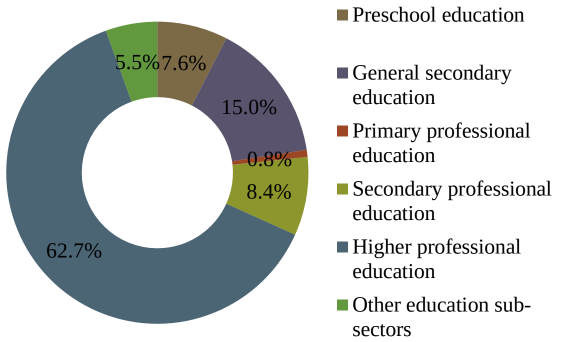
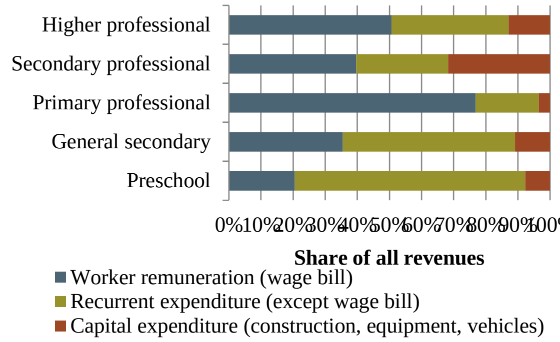


Figure 6.18: Proportion of total revenues spent on main economic expenditure categories by levels of education, 2019



Source: Ministry of Finance of the Republic of Tajikistan; and author's calculations.

6.50 **While these revenues are highly regulated, the information on these funds is insufficiently used to inform policy design and implementation.** Consolidated treasury data on revenues of such *special funds*[188] is neither publicly accessible, nor utilized by key ministries for the analysis of internal financial efficiency of educational institutions. The level of own revenue mobilized by educational institutions varies by education level and is scarce in the case of general secondary and preschool education. In preschool education, 71.8 percent of revenues were channeled to non-wage recurrent expenditures, compared to the average 34.6 percent across other levels of education (Figure 6.18). In general, secondary education, data on revenues generated by schools is practically not available or consolidated at the national level by sources and other disaggregation.

Table 6.7: Parental fees in state preschool education, 2010-19

	2010	2011	2015	2016	2017	2018	2019
Parental fees (in million somoni)	2.546	5.496	15.309	25.494	48.393	41.116	46.210
Parental fees (in percent of preschool budgets)	5.2	9.3	10.5	15.4	25.0	18.2	19.4
Average annual fee per child (in somoni)	49.3	102.5	188.1	317.1	595.4	491.4	519.9
of which: in percent of nominal GDP per capita	1.5	2.6	3.3	5.0	8.5	6.4	6.1
Average annual fee per institution (in somoni)	5,791	12,525	31,116	50,584	95,450	79,992	89,381

Source: Ministry of Finance of the Republic of Tajikistan; author's calculations.
The budget figures shown in the table represent expenditures (out of total revenues generated in a given period) and not total revenues.

Figure 6.19: Share of parental fees in annual expenditure budgets of state preschool educational institutions, 2010-19

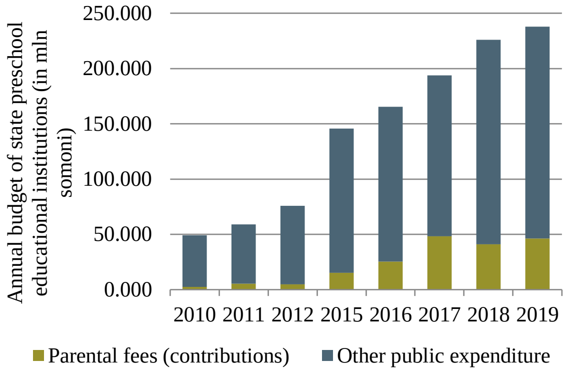
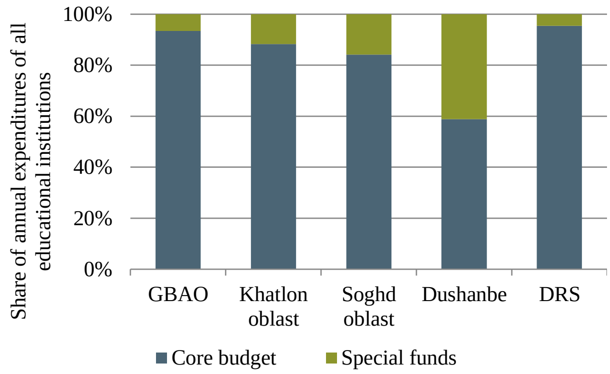


Figure 6.20: Share of special funds in the total education sector budgets, 2019 (by regions)



[188] Special funds are determined in the national legislation. Article 19 of the Law of the Republic of Tajikistan 'On the State Budget' and Article 12 of the Law of the Republic of Tajikistan 'On Public Finances' defines the *special funds* as 'income of budget organizations from the provision of paid services.'

Source: Ministry of Finance of the Republic of Tajikistan; and author's calculations.

6.51 **These revenue utilization variances are attributed to differences in financing gaps among educational institutions and the composition of republican and sub-national budget allocations**. Furthermore, some educational institutions, such as universities and professional colleges, have significantly greater financial discretion in comparison with schools. Thus, schools rely much more heavily on government expenditure allocations, including cash transfers from the republican budget, except in Dushanbe, where the population size and income level enables schools to generate 58.4 percent of total revenues of all schools in the country (Figures 6.19 and 6.20).

Table 6.8: Revenues generated by state educational institutions, 2019 (in current somoni)

	Preschool Education	General Secondary Education	Professional Education		
			Primary	Secondary	Higher
Number of state educational institutions (in units)	517	3,734	61	78	32*
Average revenues generated per institution	150,706	41,504	127,310	1,110,256	20,218,342
Total revenues generated in the education sector	77,914,947	154,974,410	7,765,932	86,599,968	646,986,942
of which: GBAO (in percent of all revenues)	0.9	0.9	1.6	0.1	1.1
of which: Khatlon oblast (in percent of all revenues)	11.4	11.6	15.1	19.1	14.4
of which: Soghd oblast (in percent of all revenues)	44.0	21.9	26.3	24.2	12.2
of which: Dushanbe (in percent of all revenues)	38.1	58.4	15.0	46.4	71.9
of which: DRS (in percent of all revenues)	5.6	7.2	42.0	10.2	0.4

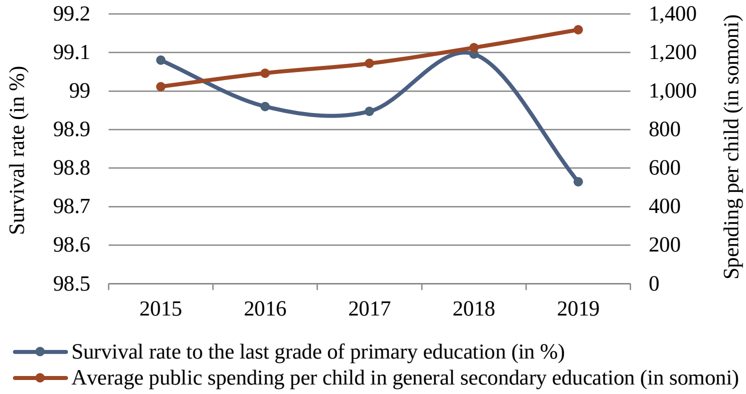
Source: Ministry of Finance of the Republic of Tajikistan; author's calculations.
* Excluding law-enforcement higher educational institutions (HEIs) and affiliate institutions.

E. Efficiency and Effectiveness of Education Spending

6.52 **Assessing the efficiency of public resource utilization requires data on learning outcomes, repetition and dropout rates, and information on different school inputs.** Since financial and human resource requirements differ at different levels of education, an efficiency analysis should ideally be conducted for each level of education and would link input measures to outcome measures through a value for money analysis. These measures are for the most part available, except for high-frequency data on learning outcomes (such as EGRA, PISA and others), repetition and dropout rates,[189] and different school inputs, such as classrooms, seats, desks, laboratories, libraries, electricity, water, toilets, and heating. This information is not available in full and for all levels of education, rendering the examination of the efficiency of public resource utilization limited and incomplete.

Figure 6.21: Survival rate to the last grade of primary education and public spending per child in general secondary education, 2015-20.[190]

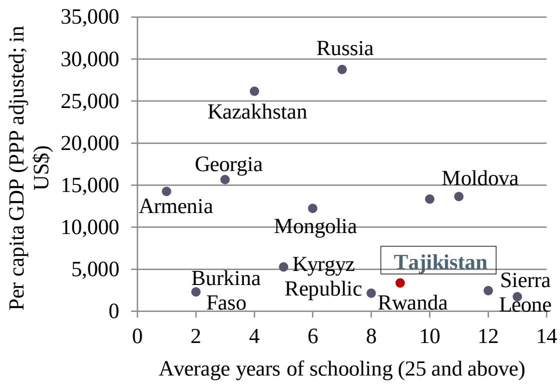
[189] According to the Ministry of Education and Science of the Republic of Tajikistan, statistics on repetition and dropout rates are recorded at the level of educational institutions but are not consolidated through the EMIS.
[190] Data on public spending per child is taken from Annual EMIS Booklets, Ministry of Education and Science of the Republic of Tajikistan.



Source: UNESCO Education Database (http://data.uis.unesco.org); and author's calculations (extrapolations for 2017, 2018 and 2019).[191]

6.53 **Survival rates in Tajikistan have been historically high, especially compared to other countries.** Data on enrollment and estimated number of repeaters yields a survival rate to the last grade of primary education, which is commonly considered a prerequisite for sustainable literacy. Despite a slight drop in 2019, survival rates were consistently above 98 percent during 2010-2019 (Figure 6.21), and higher than in other countries in Central Asia and other low-income countries (Table 6.9). Survival rate to 10th grade is of particular interest because according to the Ministry of Education and Science up to 20 percent of graduates of grade 9 choose to enroll in vocational education, while the others opt in favor of moving away from the education system altogether by entering the labor market or other non-education activities.

Figure 6.22: Attainment of years of schooling by GDP per capita for Tajikistan and selected other countries, 2018.



Source: UNESCO Education Database (http://data.uis.unesco.org); and author's calculations (extrapolations for 2017, 2018 and 2019).

6.54 **The improved survival rate could be considered as a proxy for an improving internal efficiency of invested resources into the education sector.** Although survival rate to 10th grade of secondary education is low, it is steadily improving from 69.1 percent in 2011 to 75.8 percent in 2015 and 77.5 percent in 2019. This could be interpreted as an improvement in internal efficiency because they indicate a high level of retention and lower incidence of drop-out and is particularly important because improvements in survival rates are also complemented by improving enrollment, intake and completion rates. Besides, there are not many countries who accumulated more years of schooling at a lower GDP per capita than Tajikistan (Figure 6.22), indicating the country's ability to adequately provide the skilled human capital required in an economy that largely depends on the services sector and further reinforces the need to strengthen its education system.

Table 6.9: Internal efficiency indicators for Tajikistan and selected other countries, 2018

	Survival Rate to the Last Grade of Primary Education (in percent)	Mean Years of Schooling of Population Aged 25 and Above	GDP Per Capita (PPP adjusted; in current US$)	Public Spending on Education (in percent of GDP)
Armenia	95.97	11.67	14,258	2.71
Burkina Faso	55.92	1.37	2,275	5.38
Georgia	98.68	12.61	15,656	3.52
Kazakhstan	99.17	11.00	26,167	2.62
Kyrgyz Republic	98.25	10.60	5,258	6.03
Mongolia	98.59	9.50	12,206	4.09
Russia	…	10.70	28,764	4.69
Rwanda	66.62	4.01	2,140	3.07

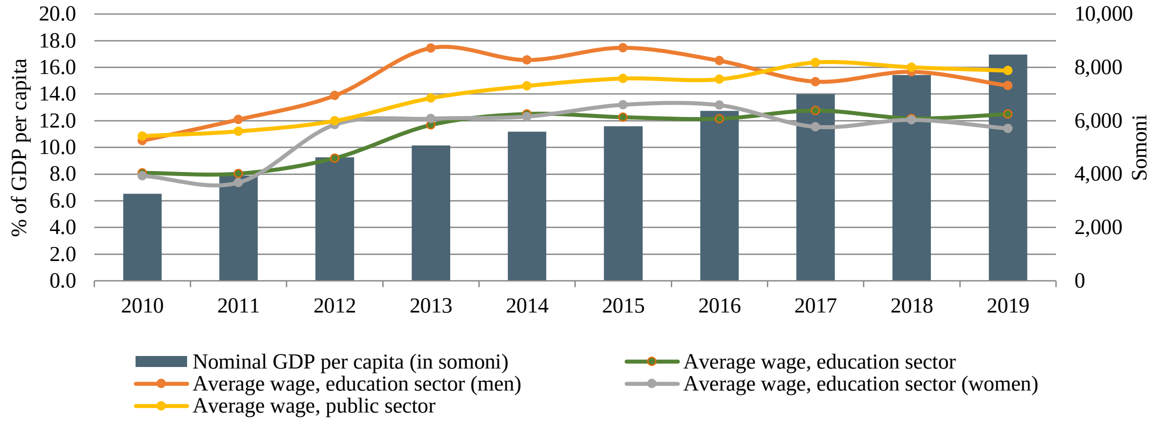
[191] Repetition rates for Tajikistan were extrapolated on the basis of UNESCO online database (0.04 percent of total enrollment in 2014, 0.04 percent in 2015, and 0.08 percent in 2016). The assumption is that repetition rates remained constant at 0.05 percent of total enrollment.

Tajikistan	**99.10**	**10.70**	**3,314**	**5.38**
Ukraine	98.68	10.40	13,341	5.41
Uzbekistan	98.31	...	6,920	5.28

Source: UNESCO Education Database (http://data.uis.unesco.org); World Bank database.

6.55 **The effectiveness of the education system depends on the teachers' qualifications and their remuneration.** Teachers' salaries have increased across all levels of education both nominally and as a share of GDP per capita (Figure 6.23). In terms of the adequacy or volume of salaries of education workers, the average annual starting salary in 2019 of a school or preschool teacher with the lowest qualification was 67.5 percent of GDP per capita, while the average salary of highest-ranking schoolteacher was equivalent to 126.9 percent of GDP per capita. Given that 48.3 percent of teachers in general secondary education belong to higher-qualification categories and thus receive higher pay, the actual salary scale of schoolteachers is higher than the median salary of all workers in general secondary education.

Figure 6.23: Salary of workers in the education sector, 2010-2019
(in percent of GDP per capita).



Source: Ministry of Education and Science of the Republic of Tajikistan; author's calculations.

6.56 **The salary cost of teachers per student in preschool or general secondary education has increased, but more analysis is needed to assess the degree of the improvement.** Steadily rising salaries of teaching personnel in general secondary education is complemented by increased salary cost of teachers per student from 4,089.6 somoni in 2015 to 6,596.1 somoni in 2019 (in constant 2015 prices). In preschool education, the salary cost of teachers per student has also increased from 853.4 somoni in 2015 to 1,073.1 somoni in 2019 (in constant 2015 prices; see Table 6.10). In dollar terms, the salary cost of teachers in general secondary education ($594) is broadly comparable to other low-income economies and countries in Central Asia. At the same time, state preschool workers continue to be low paid, which is explained by low levels of public resource allocations to preschool education and reliance on parental contributions. In turn, low salary of preschool workers also results in the lack of teachers and lack of preschool services across the board.

Table 6.10: Salary cost of teachers per student in Tajikistan, by level of education (in constant 2015 prices, 2015-19)

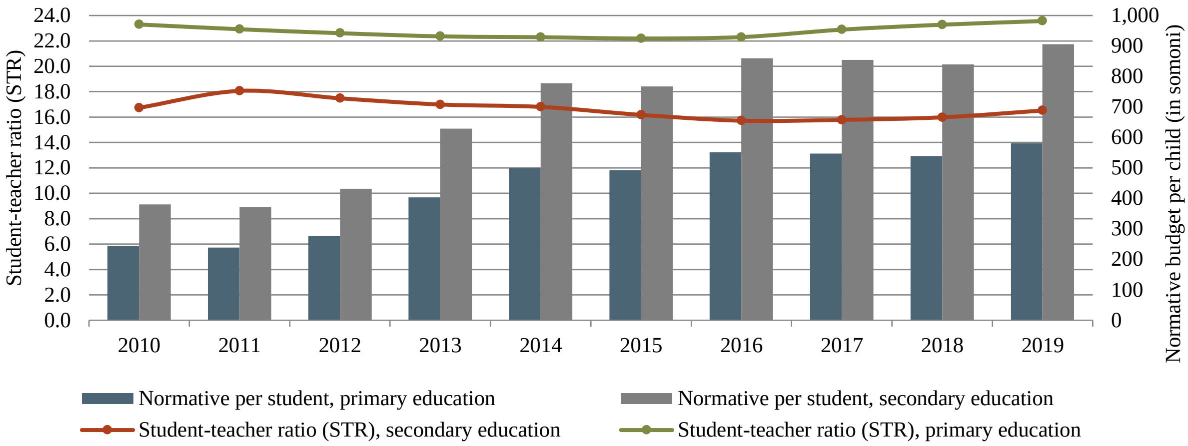
	2015	2016	2017	2018	2019
In current somoni					
General secondary education, total	4,089.6	4,522.0	5,241.3	5,618.7	6,596.1
Preschool education, total	853.4	1,030.2	1,189.8	1,268.4	1,345.7
In constant somoni (2015=100):					
General secondary education, total	4,089.6	4,266.1	4,650.7	4,757.6	5,260.1
of which: percent change year-on-year	...	4.3	9.0	2.3	10.6
Preschool education, total	853.4	971.9	1,055.7	1,074.0	1,073.1
of which: percent change year-on-year	...	13.9	8.6	1.7	-0.1

In percent of GDP per capita (PPP-adjusted)					
General secondary education, total	20.7	19.0	18.2	16.9	19.2
Preschool education, total	4.3	4.3	4.1	3.8	3.9

Source: Ministry of Finance of the Republic of Tajikistan; Ministry of Education and Science of the Republic of Tajikistan; Agency for Statistics under the President of the Republic of Tajikistan; and author's calculations.

6.57 **The quality and efficiency of public education may suffer significantly, if non-salary expenditures continue to shrink further.** While the total inflation-adjusted wage bill in general secondary education has nearly doubled from 2010-2020, normative unit costs per one student and per one institution increased by a much lesser margin (130 percent). In turn, this resulted in the expansion of the wage bill as a proportion of the total per-capita budget and the reduction of non-salary discretionary resources available to schools from 60.5 percent to 55.9 percent of their total per-capita budgets (Figure 6.24).

Figure 6.24: Inflation-adjusted normative unit costs per student and student-teacher ratios in general secondary education, 2010-2019 (based on corresponding government resolutions)



Source: Ministry of Education and Science of the Republic of Tajikistan; author's calculations.

Implications of COVID-19 on Education

6.58 **The COVID-19 pandemic has had a significant negative impact on the education sector.** The pandemic impacted fiscal revenues and necessitated the reshuffling of expenditures in 2020, which led to an 11.5 percent reduction in the education budget, compared to initial allocations. Education budgets were particularly negatively affected at the sub-national level in the second and third quarters of 2020 (Figure 6.25). All educational institutions had to adjust their budgets to re-allocate resources from core education services to the procurement of medical supplies, protective equipment, sanitary and hygiene items, and broad-brush disinfection activities. These additional expenses have squeezed resources from education budgets, as little governmental support was provided to educational institutions to address COVID-19 costs. Educational institutions that relied more heavily on anticipated own revenue generation were the most affected by the pandemic

Figure 6.25: Estimated impact on harmonized learning outcome (HLO) scores due to COVID-19 IN Tajikistan.

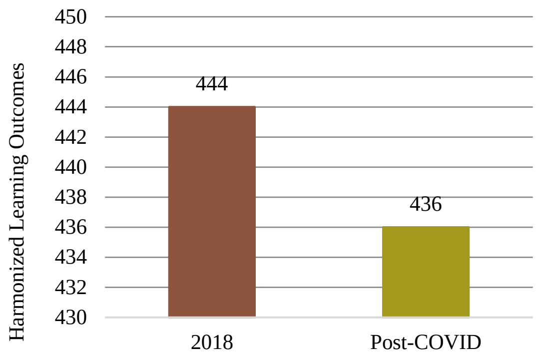
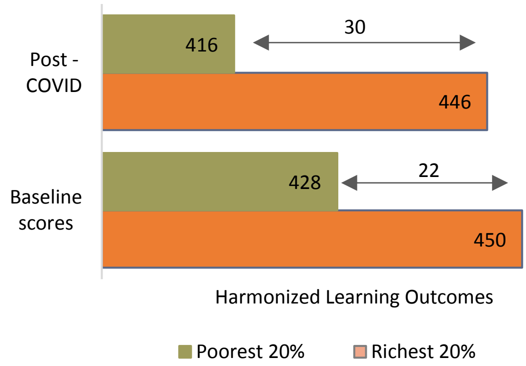


Figure 6.26: Estimated impact of COVID-19 on socio-economic achievement gap in Tajikistan.



Source: Education Management Information System (EMIS). Ministry of Education and Science of the Republic of Tajikistan.

6.59 **COVID-19 impacted the education process, eroding the already low quality of the education system.** In response to emerging health risks, educational institutions were closed from April 27, 2020 until May 10, 2020, and subsequently closed early for summer break. The new academic year recommenced earlier, on August 17, 2020, compared to the regular starting date of September 1st. The country's transition to emergency remote teaching through the use of online platforms and TV-based broadcasts was arguably less effective than the traditional face-to-face education process. Assuming that a student gains 40 harmonized learning outcome (HLO) points of learning in a year, that schools are closed for around four months on average, and that remote teaching in the country is half as effective as face-to-face teaching, Tajikistan experienced an estimated drop of eight HLO points as a result of COVID-19 (Figure 6.26).

6.60 **The differential access and effectiveness of remote teaching is expected to widen learning gaps across student populations.** While remote teaching is likely to be less effective for all students, it is even less effective for students from lower socio-economic quintiles, who might face poor connectivity and limited access to electronic devices. In addition, regardless of income level, families with multiple children face the added challenge of balancing parental and children's needs for connectivity and devices. Students with special needs may similarly face unique challenges accessing remote learning content. Using data from the 2017 Demographic and Health Survey (DHS) on access to learning modalities[192], combined with assumptions[193] on differentiated learning effectiveness (25 percent effective for the poorest, 50 percent effective for the average and 75 percent effective for the richest students), the reading achievement gap between the richest and poorest quintile in Tajikistan is expected to widen by 36 percent, from 22 to 30 HLO points, after only a short-term school closure.

6.61 **In addition to income shocks and a widened achievement gap, the COVID-19 pandemic is expected to increase the school dropout rate, particularly for disadvantaged students.** Students who have weak educational achievements or who fall behind in education will be demotivated to overcome challenges and at a higher risk of dropping out of school. The loss in household incomes due to COVID-19 will also test households' ability to keep students in school, which could both hinder transition to post-secondary education and translate to growing rates of out-of-school youth. In fact, the spillover effect has already been felt in 2020, with 79.1 percent of

[192] Agency for Statistics under the President of the Republic of Tajikistan, Ministry of Health and Social Protection of the Population, and ICF. 2018. *Tajikistan Demographic and Health Survey 2017*. Dushanbe, Tajikistan.
[193] Based on Azevedo, J. et al. 2020. *Simulating the Potential Impacts of COVID-19 School Closures on Schooling and Learning Outcomes. A Set of Global Estimates*. A World Bank Policy Research Working Paper. Washington DC. June 2020.

households who were affected by school closures reported having to increase home-based care for children by forgoing income-earning activities.[194]

Table 6.11: Medium-term public spending for the education sector, MTEF for 2021-2023
(Million somoni)

	2021	2022	2023
Education spending, total	5,597.1	6,070.9	6,460.8
Core budget expenditure	4,260.8	4,684.5	5,127.6
of which: Worker remuneration (wage bill)	2,927.4	2,927.5	2,927.3
of which: Capital expenditure	325.6	358.4	388.1
of which: Other expenditure	1,007.8	1,398.6	1,811.1
Public Investment Program	319.0	338.1	272.9
Special funds (own revenues of budget organizations)	1,017.2	1,048.4	1,060.4
Education spending (in percent of GDP)	6.0	5.9	5.6
Education spending (in percent of government budget; w/o SPs and PIP)	20.2	20.7	20.8

Source: Ministry of Finance of the Republic of Tajikistan; author's calculations.

6.62 **While the education budget is expected to maintain the same share of public spending, it is projected to decline as a share of GDP, raising concerns about the financing of core education services and infrastructure.** Despite the nominal increase in education spending envisaged by the 2021-23 MTEF document, education spending is bound to decline as a share of GDP, from 6 percent in 2021 to 5.6 percent in 2023 (Table 6.11). These projections will not allow any increase in workers' remuneration, improvements in non-salary spending, or restoration of capital expenditures to pre-2020 levels during the medium-term. Such inadequate levels of public spending may negatively affect the education sector's performance across the board and jeopardize the government's reform plans to move to 12-year schooling, expand the coverage of pre-school education, adjust for inflation and internalize demographic changes.

F. Recommendations

6.63 **To achieve its goals for the education sector, the government must minimize its budgetary exposure to future economic shocks and safeguard the implementation of reforms.** The authorities should estimate the cost of the policy changes proposed by the National Strategy for Education Development through 2030 and envisage different financing scenarios for different macro-fiscal outlooks, reform options, and implementation schedules. If the transition to a 12-year education model is confirmed, the government will need to develop a detailed and costed action plan and realistically assess the country's capacity to implement it within the given timeframe. It may not be feasible to implement the transition to a 12-year education model while also achieving a 50 percent increase in preschool enrollment by 2030.

6.64 **Strengthening the link between policy planning and budgeting would help guarantee funding on a per capita basis.** Tying targeted intergovernmental fiscal transfers to normative financing requirements would help lessen the dependence of education spending on the revenue performance of subnational governments. Population growth should be incorporated into budget estimates and infrastructure plans, and per capita spending should grow in line with the wage bill. Conducting a comprehensive performance review of per capita financing in general secondary education could yield insights to inform its gradual expansion in professional educational institutions as part of a new innovative financing mechanism. All special funds of education institutions should

[194] United Nations Development Program (UNDP). 2020. *Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-Sized Enterprises (MSMEs) in Tajikistan*. Dushanbe, September 2020, p.74.

be properly reported and recorded, and the expansion of discretionary non-salary spending from these funds should be authorized. The authorities should evaluate the Textbook Revolving System and consider options to make textbooks more affordable, especially for poor households.

6.65 **Reducing the number of budget allocation administrators would improve governance in the education sector.** Ensuring state co-financing for Child Development Centers and bolstering financial regulation and oversight of those centers would strengthen expenditure planning and fiscal discipline.

6.66 **Publishing data on learning outcomes and education quality would allow for more detailed assessments of public spending and the performance of the education sector**. The monitoring of efficiency indicators, such as dropout, attendance, survival, and repetition rates, student- -*stavka* ratios, should be a routine function of the Ministry of Education and Science.

6.67 **Finally, the government should encourage greater private sector participation in the education sector.**

Chapter 7. Reforming the Pension System

A. Introduction

7.1 Tajikistan allocates a low level of pension expenditures as a share of GDP. This is explained not only by the relatively high share of young population, but also by the low level of pension benefits. A low rate of labor market participation, a large-scale labor migration, a low level of wages, and an informal employment increase further the number of pensioners with incomplete service, minimum pension benefits, and the number of social pensioners. Irregular and inadequate indexation leads to a lag in the rate of pensions increase behind wages and GDP growth. Due to the lack of indexation and the poorly calibrated switch to the new notional defined contributions (NDC) scheme, the pension expenditures decreased from 4.1 percent of GDP in 2014 to 3.3 percent of GDP in 2018–19.

7.2 This chapter provides the first effort in analyzing the pension system as part of the Public Expenditure Reviews conducted for Tajikistan thus far. Pensions take the second largest share of the country's public spending on social programs, and importance of pension expenditures will continuously increase in Tajikistan due to the projected demographic profile. Therefore, the pension system requires thorough analysis by taking a balanced consideration of social and fiscal issues. The assessments and recommendations provided here aim to help the Tajikistan government to improve the pension system outcomes.

7.3 The chapter is organized as follows. Section B provides a brief overview of the evolution and performance of the current pension system since 2015 and draws attention to the main outstanding issues. Section C presents the cross-country comparison of the pension systems in post-Soviet Central and Western Asia countries. Section D discloses fiscal projections of the current system (status quo scenario) for the next five years and discusses fiscal and social implications of the projected results. Section E offers reform recommendations.

B. Pension System organization and financing

7.4 The pension system of Tajikistan is based on the principles of mandatory social insurance. The system covers employees in the formal sector, registered self-employed and members of dehkan (peasant) farms. The pay-as-you-go (PAYG) system provides old age, disability, survivors, and social pension benefits. Social pension is not based on contributions, providing a minimum income guarantee for persons who have an insurance period of less than 60 months. A small supplementary mandatory funded pillar has been in operation for employees of the formal sector since 2009, with a contribution of 1 percent.

7.5 In the past decade, the type of PAYG pension scheme has changed. In January 2010, the reform started by gradually switching from the conventional defined benefit (DB) pension scheme to the NDC scheme. The qualifying conditions for the old age pension under the NDC scheme apply to men born after January 1, 1954, and women born after January 1, 1959[195]. Old age pensions awarded prior to 2017 remain in the "old" DB scheme. Given considerable differences in the rules and conditions, the pensions assigned under the "old" DB scheme are called "labor" pensions, while the pensions awarded under the NDC scheme are called "insurance" pensions. Appendix 4 contains a more detailed description of pension rules and parameters.

[195] "The Law of the Republic of Tajikistan on Insurance and State Pensions," Agency for Social Insurance and Pensions, http://nafaka.tj/ru/qonunho/qonun-12-01-2010-595.

7.6 The number of contributors is growing, but coverage remains low. As of October 1, 2019, the number of insured persons was 1,438,060, and increased by 10.1 percent compared with the same period in 2018[196]. The share of contributors in the total working age population (women ages 15–57 and men ages 15–62) is 26.3 percent, and their share in the total employment is 62.3 percent[197]. Low coverage of pension insurance is related to specifics of economy and employment typical for the entire Central Asia region: predominance of traditional rural communities, a low labor market participation rate, prevalence of informal employment, and labor migration. Almost three fourths of the population live in rural areas. According to the 2016 Labor Force Survey, the labor force participation rate is 42.4 percent, and the employment rate is 39.4 percent of the population ages 15–75. Another 10 percent of the population ages 15–75 are labor migrants, but such migrants work outside the country and do not pay taxes to the state budget. Almost half (45.8 percent) of the employed work in market-oriented agriculture, predominantly on dehkan farms. In the non-agricultural sector, the share of informal employment is 29.4 percent; most of these people work without any social protection and without any entitlement to paid annual leave or sick leave. Currently, the full social tax accounts for only slightly more than one third of employees (34.8 percent)[198].

7.7 The number of pensioners is growing faster than the number of contributors. As of October 1, 2019, the number of pensioners was 697,037 persons, so there are two contributors per pensioner. In the past five years, the number of pensioners has increased by 83,181 persons, or by 13.8 percent (Table 7.1). Their number has risen due to more old age pensioners (+65,302) resulting from demographic changes, and an increase in social pensioners (+40,035), who do not have a qualifying insurance period. Conversely, the number of pensioners receiving disability pensions and the survivor's pension has dropped by 15,531 and 6,589, respectively.

Table 7.1: Number of pensioners in the Republic of Tajikistan by January 1 (persons)

Types of pension	2015	2016	2017	2018	2019
Total	603,628	617,431	642,846	664,824	686,809
Old age	377,330	390,630	410,344	425,139	442,632
Disability	82,692	76,405	74,226	72,042	67,161
Survivor's	37,887	36,084	33,349	32,621	31,298
Long-service	3,863	4,288	4,990	5,305	4,800
Meritorious services	4,004	3,813	3,481	3,245	3,031
Social	97,852	106,211	116,456	126,472	137,887

Source: Agency for Social Insurance and Pensions.

7.8 A low labor market participation rate, large-scale labor migrations, and informal employment are reflected in the structure of pensioners. Pensioners account for 7.6 percent of the country's population; 74 percent of pensioners live in rural areas, which is consistent with the percentage share of rural population. A 6.2 percent share of pensioners continues working, and restricted indexation of pensions applies to such working pensioners. Old age pensioners account for

[196] Meeting of the Collegium of the Agency for Social Insurance and Pensions under the Government of the Republic of Tajikistan, held to discuss performance results for nine months of 2019, Agency for Social Insurance and Pensions. http://nafaka.tj/ru/about/news/item/328-zasedanie-kollegii-agentstva-sotsialnogo-strakhovaniya-i-pensij-pri-pravitelstve-respubliki-tadzhikistan-po-rezultatam-deyatelnosti-za-9-mesyatsev-2019-goda

[197] Calculated based on the data from the statistical yearbooks *Population Size of the Republic of Tajikistan by January 1, 2019* and *The Social and Economic Situation in the Republic of Tajikistan in January–December 2019*, Agency on Statistics under the President of the Republic of Tajikistan. https://www.stat.tj/ru/publications

[198] The Situation in the Labour Market in the Republic of Tajikistan, report prepared based on the Labor Force Survey conducted during the period of July 20–August 20, 2016. Project on Implementation of the National Strategy for Development of Statistics, ECASTAT No. TF017852, Agency on Statistics under the President of the Republic of Tajikistan. Dushanbe, 2017.

64.4 percent of the total number of pensioners and the 84.7 percent of population over the working age (women ages 58+ and men ages 63+). One out of every 10 old age pensioners receive a pension with an incomplete insurance period. One out of every five old age pensioners receive an early retirement pension. In most cases, the early pensioners are women with many children (84,579 persons) and agricultural workers (16,356 persons) because they have such privileges. Long-service pensioners account for less than 1 percent of the total number of pensioners; these are, mostly, education and health workers (4,164 and 502 persons, respectively). Almost half of the social pension beneficiaries are individuals with lifelong disabilities (including disabled children), and a quarter of them are elderly persons who have not accumulated sufficient rights for the insurance pension (predominantly women).

7.9 The average old age pension is lower than the average disability and survivor's pensions, which have higher minimum guarantees. In January 2019, the average monthly old age pension was 328 somoni (Table 7.2), which is 82.2 percent more than the basic/minimum pension (180 somoni) and 65.7 percent above the national poverty line (198 somoni). However, the average old age pension was 26 percent of the average wage in the economy (1,262 somoni in January 2019) and 82 percent of the guaranteed minimum wage (400 somoni). The average amount of the social pension is two times lower than the average old age pension and it is 7 percent lower than the basic/minimum pension. According to the household budget survey data, food products account for the highest share of the pensioners' consumer expenditures (more than 60 percent); for this reason, regarding food security, pensioners are the most vulnerable group[199].

Table 7.2: Average amount of monthly pensions in Tajikistan by January 1
(somoni)

Types of pension	2015	2016	2017	2018	2019
Total	230	228	272	271	310
Old age	237	235	282	283	328
Disability	293	305	365	366	414
Survivors	250	242	305	300	355
Long-service	367	406	552	573	638
Meritorious services	513	523	607	644	706
Social	124	126	146	146	168

Source: Agency for Social Insurance and Pensions.

7.10 Switching to the NDC scheme leads to gender gap increase at the old age pensions. Two thirds of old age pensioners are women because of their lower retirement age and longer life expectancy. The average old age pension is of 293 somoni for women and 393 somoni for men. Now the pension gender gap (25 percent) is substantially narrower than the wage gender gap (40 percent) because most pensioners receive labor pensions under the old DB scheme. If a person met the qualifying criteria of the insurance period (20 years for women and 25 years for men), the amount of the DB pension calculated as 55 percent of the wage that the person received for the last two years of work or for any five consecutive years of work, whereby the person could select the period with the highest wage to be counted in the pension formula. This way, the retirement gender gap of five years would be fully addressed, and the impact of women's low wages mitigated. Unified indexation rules and a cap on the maximum pension amount also have an equalizing effect and help address labor pension disparity. For pensions awarded under the new NDC scheme rules, the only factor that makes the gender pension gap narrow is a fixed length of expected benefit period, which is the same 180 months for women and men. It is a substantial privilege for women, considering that the post-retirement pension period for them is on average eight years longer due to the lower retirement age and higher life expectancy. However, even the same denominator in the pension formula cannot

[199] Statistical bulletin No. 4, "Food Security and Poverty," 2019, Agency on Statistics under the President of the Republic of Tajikistan. http://stat.ww.tj/publications/September2019/2-2019__russ.pdf

eliminate the vulnerability of women in the phase of accumulating notional capital, especially when there is no compensation of contributions if time is taken off from work for childcare. When comparing the amount of new old age pensions assigned under the NDC scheme, in 2018, the gender gap widened to 29 percent. In the future, this gap will widen further, along with the increase in the length of the insurance period, after the phase-in of the new rules where the notional capital is assessed based on actual contributions made.

7.11 Switching to the NDC scheme increases the gap between new and old pensioners. Under the DB scheme, newly assigned pensions were on average slightly higher than the average amount of the pension for existing pensioners. This is typical in most DB schemes and countries. The switch to the NDC scheme stretched the old scheme pensions' lead over the new scheme pensions. Old age pensions assigned in 2017 (the first year the new rules were applied) turned out to be on average 18 percent lower. In 2018–20, the average insurance pension (by NDC scheme) was 25 percent lower than the average labor pension (by DB scheme). This caused grievances among the population.

7.12 The budget of the Agency for Social Insurance and Pensions is included in the consolidated state budget as a separate line and a special-purpose fund. The main source of financing for pension benefits are social tax revenues, which account for 99 percent of the revenue part of the Agency budget. Almost 93 percent of the collected social tax is paid by employers from the formal sector. Around 35 percent of the social tax revenues come from state-financed entities. Social tax revenues collected from the self-employed, including dehkan farms, are not significant, because of low income and reduced rates of the social tax for that category. A certain amount of the transfer from the state budget for financing social pensions and other state programs is recorded in the planned budget of the Agency for Social Insurance and Pensions. However, in the past four years, this transfer has not been made, on the grounds that the Agency budget already has a surplus. In case the revenue part of the budget is not fulfilled, the Agency is entitled to use available assets from the mandatory funded pillar as a temporary source to cover the shortage of financing[200].

7.13 Irregular and insufficient indexation leads to a decrease in the level of pension expenditures as a percentage of GDP and increases the risk of poverty for pensioners. In 2019, pension expenditures stood at 2.6 billion somoni, or 3.4 percent of GDP, and 74 percent of total budget spending for social protection in the country (Table 7.3). In the past five years, pension expenditures as a share of GDP have been going down because of the switch to the NDC scheme and because the indexation of the pensions has been lagging behind the dynamics of wages and GDP. A higher share of pension expenditures in the overall structure of social protection spending is in part explained by a higher number of pensioners due to demographic changes; it is also indicative of inadequate financing of other social protection areas.

Table 7.3: Social tax revenues and pension expenditures in Tajikistan (without military pensions)

	2014	2015	2016	2017	2018	2019
Social tax revenues, total:						
In million somoni	2,053.4	2,006.2	2,046.2	2,344.0	2,623.9	2,669.3
As percent of GDP	4.5	4.1	3.8	3.6	3.7	3.5
Pension expenditures, total:						
In million somoni	1,858.9	1,794.0	1,936.9	2,250.6	2,368.5	2,603.4
As percent of GDP	4.1	3.7	3.6	3.5	3.3	3.4
As percent total public social protection expenditures	69	72	71	74	76	74

Source: Authors' calculations based on the state budget implementation reports of the Ministry of Finance. http://minfin.tj/index.php?do=static&page=budget

[200] Tajikistan Government Resolution No. 639, dated December 30, 2019, "On the Measures to Implement the Law of the Republic of Tajikistan On the State Budget of the Republic of Tajikistan for 2020." http://minfin.tj/downloads/postanavlen-2020 percent20faza percent202.pdf

7.14 The mandatory funded Defined Contribution pillar (DC scheme) operates more like a reserve fund of the Agency for Social Insurance and Pensions. In a strict sense, there is no investment and asset management. Contributions made by employees are channeled into the Agency budget, with a small part of this money used to make one-off lump sum payments and the remainder kept in the accounts of the Amonatbank State Saving Bank. The possibility of using pension savings as temporary loans to cover the current deficit in the PAYG system reduces the likelihood that the mandatory funded pillar will be able to ensure regular benefits in the foreseeable future.

7.15 The mandatory funded pillar has not matured either in size or in implementation procedures. According to the data from the National Bank of the Republic of Tajikistan, by the end of 2018, the accumulated assets of the Agency for Social Insurance and Pensions stood at 131.2 million somoni (0.6 percent of total assets of the financial sector); in 2019, this figure was not revised[201].

7.16 The annual revenues of contributions to the mandatory funded pillar have been increasing along with the increase in wages and/or the number of contributors (Table 7.4). However, those contributions as a share of GDP have been slightly decreasing. One-off lump sum payments amounting on average to 125–150 percent of the monthly pension benefit from the PAYG system. The nominal amount of the payments and the number of beneficiaries grow along with the increase in the period after the launch of the system. The share of such payments in the GDP is still very small (0.01 percent of GDP).

Table 7.4: Indicators of the mandatory funded pillar

Current year indicators	2014	2015	2016	2017	2018	2019
Collected contributions:						
In million somoni	69.0	73.7	81.7	88.4	92.8	99.6
As percent of GDP	0.15	0.15	0.15	0.14	0.13	0.13
Amount of one-off lump sum payments:						
In million somoni	4.3	5.3	6.3	6.9	7.7	10.4
As percent of GDP	0.01	0.01	0.01	0.01	0.01	0.01
Number of beneficiaries, persons	14,441	17,230	19,535	23,126	22,635	25,333
Payout per one beneficiary, somoni	298	308	322	298	342	411

Source: Estimates based on news information from the Agency for Social Insurance and Pensions. https://nafaka.tj/tj/about/news?start=12
Note: Estimates for 2018 and 2019 are provided based on data for nine months.

7.17 However, the difference between annual revenues of contributions and payouts has been gradually decreasing: if, in 2014, contribution revenues exceeded the amount of payouts by 16 times, in 2019, this difference was down to 10 times. Currently, around 40 percent of new pensioners are receiving payments from the mandatory funded pillar, and the coverage will be expanded further. As there is no full capitalization of the contributions, the system can soon face a shortage of current contribution revenues to finance payouts.

7.18 Disadvantages in the operation of the mandatory funded component are explained by the overall weakness of the financial infrastructure. More than 95 percent of the financial sector assets are concentrated in the banks, including 40 percent of assets in the state-owned banks. Nonbank institutions are mostly represented by micro-credit organizations/funds and pawnshops. The country does not have any private pension funds. Out of 19 existing insurance companies, only three, including one state-owned company, offer life insurance services.[202]

---

[201] Overview of the financial system, National Bank of the Republic of Tajikistan. https://nbt.tj/tj/suboti-moliyavi/sharhi-rushdi-nizomi-moliyav.php
[202] Single State Register of Professional Participants of the Insurance Market, National Bank of the Republic of Tajikistan. https://nbt.tj/ru/sugurta/fehrist.php

7.19 The National Development Strategy of the Republic of Tajikistan for the period up to 2030 envisions important measures for the development of financial markets and funded pensions. The latter includes the implementation of risk-based supervision and public-private partnership in the infrastructure development[203]. Institutional support of the process is necessary; however, it is not possible to create the pension funds market through the pension reform alone. The role of economic reforms and employment policies will be crucial.

C. CROSS-COUNTRY COMPARISON

7.20 All post-Soviet countries in Central and Western Asia have introduced major reforms of their pension systems. Like Tajikistan, some countries have transitioned to the NDC scheme, though with different ways to assess notional capital for the pre-reform work records (Table 3.5). Kyrgyzstan retained the DB scheme rules for the work record before implementation of the personified pension records (1996). Therefore, the insurance part of the pension consists of two components—DB and NDC—with the share of the DB scheme gradually decreasing as it was replaced by the NDC scheme over time. Azerbaijan applied rules similar to those used by Tajikistan, including allocating a fixed contribution amount for each full year of the work record before the launch of the NDC scheme (2006). The difference is that not only are the contributions notionally assessed for this period, but also a certain number of years in the work record is imputed to all members. A work record of 25 years was imputed for the period before 2006 for pensioners who retired in 2019 and 2020. The imputed work record will be reduced progressively by one year for those who will retire in 2021 and thereafter. If a person can provide documentation confirming that his/her work record before 2006 was longer, the number of qualifying years for that person will be higher[204]. In this way, policymakers are trying to streamline the transition to the new system.

7.21 To alleviate financial losses for the population caused by structural reforms, some countries have introduced a basic pension as a separate component of the pension system financed by the state budget. Kazakhstan and Kyrgyzstan link the amount of the basic pension to the length of the insurance period, trying not to undermine incentives for employment and participation in the social insurance system. In Armenia, the amount of the basic pension depends on the insurance component of the pension; together, these two components must ensure that the pension benefit is not below the guaranteed minimum (this condition has been effective since 2019; the earlier basic pension was a fixed amount). In Georgia, the universal state pension is, so far, the only mechanism for pension benefits, pending full rollout of the new Defined Contribution system; therefore, the amount of the pension is set regardless of the work record and other income.

7.22 Most countries have introduced mandatory funded components of various scale. Like Tajikistan, Kyrgyzstan and Uzbekistan have also introduced mandatory funded pensions (FDC scheme) as a small complementary pillar to which employees make small contributions, with employers' contributions still channeled to the PAYG system. In these countries, and also in Azerbaijan and Turkmenistan, where the NDC scheme is the only pillar of the pension system, employers make insurance contributions (or taxes identical to contributions) at rates similar to those in Tajikistan. In contrast, Georgia and Kazakhstan decided to implement a large-scale mandatory funded pillar with large contributions, and to switch to a PAYG system that is financed fully from the state budget. In Kazakhstan, the contributions to the new FDC scheme have been collected since 1998, and the currently funded pillar is already providing programmatic pension benefits. In Armenia

[203] National Development Strategy of the Republic of Tajikistan for the period up to 2030 approved by Resolution No. 636, dated December 1, 2016, issued by the Assembly of Representatives of the Supreme Assembly of the Republic of Tajikistan, Dushanbe. https://nafaka.tj/images/zakoni/new/strategiya_2030_ru.pdf
[204] Law of the Republic of Azerbaijan No. 54-IIIQ, dated February 7, 2006, "On Labor Pensions" (as amended on April 23, 2019). http://www.e-qanun.az/framework/11566

and Georgia, the funded pillar was implemented with a large time lag. Armenia switched the PAYG system to state budget financing in 2008, while the contributions to the funded pillar began to be collected in 2014. In Georgia, the lag between these milestones is even longer, as universal state pensions replaced the insurance PAYG pension in 2006, while contributions to the funded pillar were first made in 2019.

7.23 With the exception of Uzbekistan, all countries in the region increased the retirement age by two to three years from the "Soviet" standard of 55 years for women and 60 years for men. During the second wave of retirement age increases, which began in the 2010s, the countries focused on a gradual increase in the retirement age for women in line with men. Armenia has completed this process, while Kazakhstan is still in the course of increasing the retirement age for women to 63. Azerbaijan has advanced even further, planning to increase the retirement age for men and women to 65. As these countries use funded or notional defined contribution schemes, it is important to be aware of the risks of gender discrimination in case of retirement age asymmetry between men and women. This task is also relevant for Tajikistan, due to the NDC scheme switch.

7.24 Among countries of the region, Tajikistan has the lowest pension expenditures as a percentage share of GDP (Table 7.5). It is explained not only by its youngest population and the smallest share of pensioners in the total population, but also by low pension benefits. As for the pension-to-wage rate, Azerbaijan and Kazakhstan have the highest indicators (40 percent), and Kyrgyzstan is slightly behind (38 percent). The lowest indicators are in Georgia (18 percent) and Armenia (23 percent), evidence of the vulnerability of pensioners in systems where the state budget is the only source for financing pensions. Recent implementation of mandatory funded schemes in these countries does not address the issue of exceptionally low pensions received by the current pensioners and pensioners who will retire in the near future, as the accumulation of savings to finance funded pensions takes a long time.

7.25 Contribution of the state budget to the pension system has become a widespread practice. In 2019, only Tajikistan and Uzbekistan financed pensions fully from the insurance contributions to the PAYG system, with practically zero transfers from the state budgets. From 2019, Uzbekistan implemented a tax reform that abolished employee contributions to the PAYG system and mandatory payments by enterprises as a percentage of sales; a reduced contribution rate was set for employers in the private sector, and some other privileges were provided to small businesses. In 2019, the Off-Budget Pension Fund of Uzbekistan managed to avoid a deficit due to the accumulated surplus of earlier periods; however, this resource will soon be exhausted. Uzbekistan's 2020 state budget provides a transfer to the pension fund of 8,000 billion somoni, which is 25 percent of the planned annual revenues of the Pension Fund[205].

[205] Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2020," Adolat National Center for Legal Information under the Ministry of Justice of the Republic of Uzbekistan. https://www.lex.uz/pdfs/4635018

Table 7.5: Pension indicators in the countries of Central and Western Asia, 2019

Countries	Structure of the Pension System	Pension Contribution Rate		Retirement Age (years)		Number of Pensioners			Pension as a Percent of Wage	Pension Expenditures (percent of GDP)	
		PAYG (NDC, BP, DB Summed Up)	FDC	Men	Women	1,000 Persons	Per 1,000 of the Population	Per 1,000 of Employed		Total	State Budget Expenditures
Armenia	BP+DB FDC	Without contributions	5 percent: enrolled person + 5 percent: state budget	63	63	463	156	510	23	3.9	3.9
Azerbaijan	NDC	23 percent	-	64.5 (↑65)	61.5 (↑65)	1,295	130	265	40	4.8	1.6
Georgia	BP FDC	Without contributions	2 percent: enrolled person + 2 percent: employer + 2 percent: state budget	65	60	894	200	441	18	4.1	4.1
Kazakhstan	BP DB+FDC	Without contributions	10 percent: enrolled person	63	59 (↑63)	2,874	157	331	40	4.1	3.8
Kyrgyzstan	BP+DB+NDC FDC	23 percent	2 percent: enrolled person	63	58	784	124	329	38	8.3	3.6
Tajikistan	**NDC FDC**	**22.5 percent**	**1 percent: enrolled person**	**63**	**58**	**687**	**76**	**283**	**26**	**3.4**	**0.0**
Turkmenistan	NDC	20 percent	-	62	57	n/a	n/a	n/a	n/a	n/a	n/a
Uzbekistan	DB FDC	24.8 percent (11.8 percent private sector)	0.1 percent: enrolled person	60	55	3,690	111	278	33	5.1	0.1

Sources: National legislation, pension agencies, and statistical services.
"Population, Employment and Living Conditions in the Commonwealth of Independent States," Statistical Yearbook, 2018. Intergovernmental Statistical Committee of the CIS countries, Moscow, 2019, http://www.cisstat.com/rus/sb_population2018.pdf
World Social Protection Report, 2017–19. "Universal Social Protection to Achieve the Sustainable Development Goals," statistical annexes, https://www.social-protection.org/gimi/gess/ShowWiki.action?id=594#tabs-3
Note: For Georgia and Kazakhstan, the number of pensioners and pension expenditures include social disability benefits and survivor's benefits.
Payouts from the mandatory funded pillar have been taken into account only for Kazakhstan; in other countries, regular payouts have not yet begun. For Armenia and Georgia, pension expenditures do not include contributions from the state budget to the FDC scheme.NDC = notional defined contribution scheme; BP = basic/state pensions; DB = defined benefit pension scheme; FDC = mandatory funded scheme.

7.26 The issue of reducing fiscal burden on businesses is also raised periodically in Tajikistan. For instance, it is proposed to reduce the social tax rate for employers from the current 25 percent to 20 percent[206]. Regional experience shows: if the country reduces substantially or completely eliminates contribution rates to the PAYG system, current pension benefits have to be financed from the state budget, in part or in full.

7.27 Regardless of the financing source, pension liabilities will not decrease; rather, they will increase due to demographic pressure. If losses caused by the reduced social tax rate are not compensated with adequate transfers from the state budget, there will inevitably be a higher risk of poverty for pensioners. The focus of the reform only on reducing social tax and other tax rates is not enough. The World Bank studies of taxation issues demonstrate that lower administrative burdens on business—in particular, simplification of tax procedures, reduction in the cost of paying taxes, and a decrease in the time to complete tax procedures, as well as taxpayer education and widespread use of IT technologies—are equally important for creating incentives for development[207] [208].

7.28 In designing the tax reform, it is also necessary to take into account that direct taxes, and the progressive tax on individual income in particular, are better aligned with the policy objectives of eradicating poverty and promoting employment in the formal sector [209]. Considering the aforesaid, any changes in the social tax rates should be discussed together with the measures for improving fiscal administration and enhancing the role of progressive taxes.

D. Fiscal Projection of the Existing System

Sources of Data and Assumptions

7.29 The projection horizon is 2020–25. The projection of the pension system indicators in Tajikistan is based on the aggregate information received from the Agency for Social Insurance and Pensions, available official materials of the central executive agencies in Tajikistan, and international organizations. Given the limited availability of data, special tools of pension modeling, such as PROST or a microdata-based model, cannot be used. The forecast has been prepared only for the main PAYG system without military pensions and mandatory funded pillar. Assumptions are built on changes in actual data in the period 2015–19, approved planned budget indicators for 2020, as well as projected macroeconomic and demographic indicators (Table 7.6).

[206] Asia-Plus website, independent media group of the Republic of Tajikistan. https://asiaplustj.info/ru/news/tajikistan/economic/20200319/v-tadzhikistane-planiruyut-snizit-stavku-nds-s-18-do-15

[207] The study of business costs associated with compliance with mandatory requirements of tax legislation in the Republic of Tajikistan. International Finance Corporation and World Bank, December 2017. http://documents.banquemondiale.org/curated/fr/731511520931130697/pdf/124199-WP-TJ-RUSSIAN-Tax-Compliance-PUBLIC.pdf

[208] *Paying Taxes*, 2019. World Bank Group and PricewaterhouseCoopers, November 20, 2018. https://www.doingbusiness.org/en/reports/thematic-reports/paying-taxes-2019

[209] Dalmacio, F.B., W. Seitz, J. Jellema, and M. Goldman, "The Effects of Fiscal Policy on Poverty and Inequality in Tajikistan," 2019. International Monetary Fund and World Bank.

Table 7.6: Sources of data

Data Type	Sources
Actual data	
Number of pensioners and average benefits by type of pension, number of contributors, budget indicators of pension expenditures	Agency for Social Insurance and Pensions
Reporting and planned indicators of the Agency for Social Insurance and Pensions budget, including social tax revenues	Ministry of Finance
Size and age composition of the population, size and composition of labor force and employed population, nominal GDP, inflation, wage	Agency on Statistics under the President of the Republic of Tajikistan
Assumptions	
Forecast of population by gender and single age	World Population Prospects 2019, United Nations, Department of Economic and Social Affairs, Population Division[210]
Forecast of real GDP growth and inflation	Tajikistan Macro Poverty Outlook, World Bank's Spring 2020 Economic Update[211]

Implications of Demographic Changes

7.30 According to UN projections, within the next five years the population of Tajikistan is expected to grow by 1 million (by 11 percent) to 10.6 million people (Table 7.7). In absolute terms, the working age population will demonstrate the highest growth (0.5 million). But in terms of growth rates, the fastest growing group is the pension age population (expected to increase by one third). This will inevitably lead to significant changes in the population's age composition, even within such a short period. In 2020, there were 10 working age people per one pension age person, with this ratio to decline to eight by 2025.

Table 7.7: Projected population by age composition by July 1

	Population (1,000 persons)						Increase in the period	
Age groups	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**1000**	**percent**
Total	9,538	9,750	9,957	10,162	10,363	10,563	1,026	11
Children (0-14)	3,555	3,642	3,719	3,785	3,841	3,887	332	9
Working age (women 15–57 / men 15–62)	5,446	5,537	5,632	5,735	5,844	5,962	515	9
Pension age (women 58+ / men 63+)	537	571	606	642	678	715	178	33
Potential support ratio	10.1	9.7	9.3	8.9	8.6	8.3	x	x

Source: Authors' estimates based on the medium-variant projection of the United Nations, Department of Economic and Social Affairs, Population Division (2019). *World Population Prospects 2019,* Online Edition. Rev. 1.
Note: The potential support ratio (PSR) is the number of working age people per one pension age person.

[210] *World Population Prospects 2019,* United Nations, Department of Economic and Social Affairs, Population Division Online Edition. Rev. 1. https://population.un.org/wpp/Download/Files/1_Indicators percent20(Standard)/EXCEL_FILES/5_Interpolated/WPP2019_INT_F03_2_POPULATION_BY_AGE_ANNUAL_MALE.xlsx
https://population.un.org/wpp/Download/Files/1_Indicators percent20(Standard)/EXCEL_FILES/5_Interpolated/WPP2019_INT_F03_3_POPULATION_BY_AGE_ANNUAL_FEMALE.xlsx

[211] *Tajikistan Macro Poverty Outlook*, World Bank Spring 2020 Economic Update, April 27, 2020. http://pubdocs.worldbank.org/en/636741492011112521/mpo-tjk.pdf

7.31 If the retirement age, requirements to service period, and other qualifying criteria don't change, dynamics of the number of pensioners are basically a function of natural demographic processes. The number of labor pension beneficiaries from the "old" DB scheme has been declining due to attrition, while the number of beneficiaries of the insurance pension from the NDC scheme will be increasing because of new pensioners. Based on the analysis of the recent years' trend, it is assumed that the probability of pre-retirement age persons retiring upon reaching the retirement age and the mortality rate among "old" pensioners will remain stable.

Table 7.8: Projected number of pensioners

Types of pensions	Average annual number of pensioners (1,000 persons)						Increase in the period	
	2020	2021	2022	2023	2024	2025	1 000	percent
Total number of pensioners								
Total	738.0	789.7	842.5	896.2	950.8	1,006.2	268.1	36
Labor pension	422.4	411.9	401.6	391.5	381.7	372.2	-50.2	-12
Insurance pension	158.8	202.5	246.9	291.9	337.5	383.7	224.9	by 2.4 times
Social pension	156.5	175.1	193.8	212.5	231.3	250.1	93.5	60
Out of total number, new pensioners (pensions assigned in the current calendar year)								
Total	64.6	66.2	67.6	68.9	70.1	71.3	6.6	10
Old age pension	38.5	39.5	40.3	41.1	41.8	42.5	4.0	10
Social pension	21.2	21.7	22.2	22.6	23.0	23.4	2.2	10

Source: Authors' calculations.

7.32 Within the next five years, the total number of pensioners will grow by 268,100 persons (36 percent) to reach 1 million (Table 7.8). The number of insurance pension beneficiaries under the NDC scheme will grow by 2.4 times and will exceed the number of pension beneficiaries under the DB scheme. The transition from the old DB scheme to the new NDC scheme will continue for the medium term; for this reason, it is important to introduce a mature and clear indexation policy to avoid greater inequality between generations of pensioners.

7.33 The number of social pension beneficiaries is projected to grow by 60 percent. The increase in this category is partly due to demographic reasons: the birth rate remains high, the population is growing, and, given the stable disability rate, the number of disabled children and persons with lifelong disabilities (these two categories account for half of the pensioners receiving social benefits) will grow in proportion. Insufficient service will be another, and possibly the main, factor that will contribute to the increase in the number of social pension beneficiaries, as the role of the "Soviet" work record will gradually decrease. The "Soviet" period of labor activity was characterized by mandatory and stable official employment. However, starting from the 1990s, the nature of employment changed dramatically, and it became problematic to add years to the insurance period, especially in rural areas, where three fourths of the population lived. It will be increasingly difficult for new pensioners to have a sufficient qualifying period to claim the insurance pension, which will lead to a higher number of beneficiaries of the old age social pension.

Expected Average Pension Benefit

7.34 The growth of pensions is determined by the rate of their indexation. Based on the norms of legislation and practice of recent years, the projection has the following assumptions regarding pension indexation:

- Pensions are indexed starting from September 1, every two years (in 2020, 2022, 2024).
- Insurance pensions (NDC scheme) are indexed to the inflation rate of the previous year.
- The amount of the basic pension increases by 15 percent.
- Labor pensions (old DB scheme) are increased by 15 percent of the basic pension[212].
- Social pensions are increased proportionally to the increase in the basic pension.
- Social pensions for children with a disability and some other categories are increased by 50 percent of the basic pension in 2020; therefore, around 30,000 pensioners start receiving a much higher social benefit[213].
- Notional capital in the NDC scheme is indexed based on the same rules as insurance pensions, and the amount of the new NDC pensions are expected to be close to the indexed amount of the earlier assigned pensions.

7.35 **Nominal pensions will grow at different rates depending on their type.** The amount of the basic pension is expected to increase to be the following: 207 somoni (September 1, 2020), 238 somoni (September 1, 2022), and 274 somoni (September 1, 2024). Within the next five years, the average pension is expected to increase by 80 somoni (25 percent) to 394 somoni (Table 7.9). The highest increases will be in the social pension (108 somoni, or 58 percent). The labor pensions under the DB scheme will increase by 97 somoni (26 percent), and the insurance pensions under the NDC scheme will increase by 102 somoni (36 percent). The ratio of the NDC pension to the DB pension will increase from 76 percent in 2020 to 82 percent in 2025. However, the gap between pensions under the new NDC and old DB schemes will be narrowed due to cuts in the indexation of old pensions. In 2016 and 2018, labor pensions were increased by 30 percent of the basic/minimum pension, but the 2020 COVID-19 crisis pushed the indexation of labor pensions down to 15 percent of the basic pension.

Table 7.9: Projected average pension benefit

Types of pensions	Average monthly pension (somoni)						Increase in the period	
	2020	2021	2022	2023	2024	2025	Somoni	Percent
Average (all types)	314	332	339	358	369	394	80	25
Labor pension	374	394	406	430	444	471	97	26
Insurance pension	282	303	315	338	353	385	102	36
Social pension	186	219	231	254	267	294	108	58

Source: Authors' calculations.

7.36 **The rate of indexation of labor and insurance pensions will be much lower than inflation and wage growth**. As a result, labor pensions will lose 20 percent and insurance pensions will lose 12 percent of their purchasing power in the forecast period (Table 7.10). Only the social

212 Decree of the President of the Republic of Tajikistan, No. 1580, dated August 4, 2020, "On Measures to Strengthen the Level of Social Protection Population and an Increase in the Current Salaries of Civil Servants, Employees of the Budget Organizations and Institutions, the Amount of Pensions and Scholarships." http://www.prezident.tj/ru/node/23486

213 Address of the President of the Republic of Tajikistan, Leader of the Nation, Esteemed Emomali Rahmon to Majlisi Oli (the Supreme Assembly) December 26, 2019, http://www.president.tj/ru/node/21977

pension will have real growth, due to higher indexation rates. Under the assumption that wages will grow at the same rate as GDP, the pension-to-wage ratio will decrease from 22 percent in 2020 to 16 percent in 2025. The replacement rate of labor pensions will decrease from 27 percent to 19 percent, and of insurance pensions from 20 percent to 15 percent. The projection results show that the current indexation rules do not provide the replacement rate of pensions and entail a high risk of poverty for pensioners.

Table 7.10: Projected real pension growth and replacement rates

Types of pensiona	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Real pension growth, 2019 = 100 percent						
Average (all types)	-7	-9	-14	-16	-20	-20
Labor pension	-7	-9	-13	-15	-18	-20
Insurance pension	-5	-6	-10	-10	-13	-12
Social pension	0	9	6	8	5	7
Average monthly pension as percentage to average wage						
Average (all types)	22	21	19	18	17	16
Labor pension	27	25	23	22	20	19
Insurance pension	20	19	18	17	16	15
Social pension	13	14	13	13	12	12

Source: Authors' calculations.

Estimate of Pension Expenditures

7.37 **Nominal expenditures will grow by all types of pensions.** Pension expenditures are estimated as the sum of multiplications of average pension amounts and the number of pensioners by types of pensions for 12 months, plus funeral benefits for deceased pensioners and banking costs for pension delivery (Table 7.11).

Table 7.11: Projected pension expenditures

Type of Expenditure	Annual Pension Expenditures (somoni million)						Increase in the Period	
	2020	2021	2022	2023	2024	2025	Million Somoni	Percent
Total	2,823	3,192	3,476	3,904	4,262	4,819	1,996	71
Labor pension	1,893	1,948	1,957	2,020	2,032	2,104	210	11
Insurance pension	538	737	933	1,183	1,431	1,771	1,234	by 3.3 times
Social pension	350	460	536	647	742	882	533	by 2.5 times
Other pensions	3	3	3	3	3	4	1	29
Funeral benefit	26	28	29	31	33	35	9	36
Banking services	14	17	18	21	23	26	12	84

Source: Authors' calculations.

7.38 **In the forecast period, the total pension expenditures are expected to grow from 2.8 billion to 4.8 billion somoni (by 2.0 billion somoni, or 71 percent).** The increase in insurance pension expenditures will be the highest (by 3.3 times, or 62 percent of the total increase), primarily because of the rapid increase in the number of beneficiaries in this category, as all new old age pensions, disability pensions, and survivor's pensions are assigned under the NDC scheme. However, labor pensions will be the largest expenditure item (44 percent of all expenditures in 2025), because the attrition of the number of DB pensioners is very gradual and the amount of such pensions remains significantly higher than the pensions under the NDC scheme. Expenditures on social pensions are expected to grow by 2.5 times, while their share in the structure of all pension expenditures is expected to increase from 12 percent to 18 percent. Their amount will be a benchmark for preparing an equitable pension transfer from the state budget.

Projected Revenues of the Agency for Social Insurance and Pensions

7.39 Collection of the social tax is the main revenue item of the agency budget. According to the available data, social tax revenues are estimated by multiplying the number of the insured contributors by the average amount of the paid tax amount per worker. The projection has the following assumptions regarding revenues:

- The number of contributors is estimated based on the balancing method, taking into account the death rate of registered contributors and the inflow of new contributors for the given year.
- The number of new contributors grows proportionally to the size of the working age population, because these dynamics are determined primarily by young generations.
- The average contribution per contributor is projected proportional to the nominal GDP growth, using actual budget data for the first six months of 2020[214].
- Besides overall social tax revenues, the part designated specifically to cover pension expenditures is separated out. Two options were projected: (1) with the current social tax rate of 25 percent, of which 22.5 percent goes to pensions; and (2) from 2021, the social tax rate will be reduced to 20 percent, of which 18 percent goes to pensions.
- Other own revenues in the agency budget are small and are projected as a stable percent of the social tax revenues.
- Considering the practice of recent years, the transfer from the state budget to finance social pensions is not included in the revenue part of the agency budget (Table 7.12).

7.40 Due to demographic growth, the number of contributors is expected to increase from 1.5 million to 1.8 million persons (by 20 percent). This indicator may increase faster depending on the situation in the national economy that determines the labor market's absorption capacity and quality of employment.

7.41 In 2020, the pandemic and quarantine restrictions slowed the dynamics of the economy and earnings. Government support measures, including tax holidays for the most vulnerable sectors, also contributed to the reduction in social tax revenues. Taking this into account, the state budget for 2020 was revised, and the budget of the Agency for Social Insurance and Pensions was cut from 3,218,703 to 2,946,094 thousand somoni (by 272,609 thousand somoni,

[214] Results of the activities of the Agency for Social Insurance and Pensions under the Government of the Republic of Tajikistan in the first half of 2020 and tasks for the development of social insurance and pensions for the second half of 2020, Agency for Social Insurance and Pensions. https://nafaka.tj/ru/about/news/item/412-itogi-deyatelnosti-agentstva-sotsialnogo-strakhovaniya-i-pensii-pri-pravitelstve-respubliki-tadzhikistan-v-pervom-polugodie-2020-goda-i-zadachi-po-razvitiyu-sotsialnogo-strakhovaniya-i-pensij-na-vtorom-polugodie-2020-goda

or 8.5 percent)[215]. In the first half of 2020, actual budget revenues of the agency were 5 percent lower than in the same period in 2019[216]. Taking into account stabilization of the situation in the second half of 2020, the total budget revenues of the Agency are concluded to be the same as in 2019, namely 2.8 billion somoni. Under this scenario, the Agency's budget deficit would be almost 10 percent of the pension expenditure in 2020.

Table 7.12: Projected budget of the Agency for Social Insurance and Pensions

Indicators	Revenue Generation						Increase in the Period	
	2020	2021	2022	2023	2024	2025	Somoni Million	Percent
Number of contributors (1,000 persons)								
Total	1,497	1,556	1,615	1,675	1,735	1,796	299	20
Including new joining	102	104	106	108	110	113	11	10
Average monthly contribution per contributor								
Somoni	155	174	193	213	232	252	97	63
Revenues with the current social tax rate (somoni million)								
Total social tax (25 percent)	2,788	3,246	3,744	4,274	4,823	5,439	2,650	95
Pension part (22.5 percent)	2,510	2,922	3,370	3,846	4,341	4,895	2,385	95
Other own revenues	37	43	50	57	64	72	35	95
Total revenues	2,825	3,289	3,794	4,330	4,887	5,511	2,685	95
Revenues with the reduced social tax rate (somoni million)								
Total social tax (20 percent)	2,788	2,597	2,995	3,419	3,859	4,351	1,562	56
Pension part (18 percent)	2,510	2,337	2,696	3,077	3,473	3,916	1,406	56
Other own revenues	37	43	50	57	64	72	35	95
Total revenues	2,825	2,640	3,045	3,476	3,923	4,423	1,598	57
Expenditures (somoni million)								
Total expenditures	3,078	3,479	3,788	4,255	4,646	5,253	2,176	71
Pension part	2,823	3,192	3,476	3,904	4,262	4,819	1,996	71
Budget balance with the current social tax rate (somoni million)								
Total balance	-196	-126	75	154	327	354	x	x
Pension part	-281	-232	-61	-6	136	140	x	x
Budget balance with the reduced social tax rate (somoni million)								
Total balance	-196	-775	-674	-701	-638	-734	x	x
Pension part	-281	-816	-735	-775	-732	-839	x	x

Source: Authors' calculations.

7.42 **In the next five years, social tax and total revenues are expected to grow due to increases in the number of contributors and in the nominal size of the average contribution per capita, thus the pension system can quickly recover from a deficit**. If the decision to reduce

[215] Laws of the Republic of Tajikistan On Changes to the Law of the Republic of Tajikistan and On the State Budget of the Republic of Tajikistan for 2020, dated July 4, 2020, No. 1692, and On Amendments to the Law of the Republic of Tajikistan and On the State Budget of the Republic of Tajikistan for 2020, dated July 4, 2020, No. 1693, newspaper of the Government of the Republic of Tajikistan. http://www.narodnaya.tj/index.php?option=com_content&view=article&id=11653:2020-07-09-06-47-59&catid=69:zakoni&Itemid=171

[216] Results of the activities of the Agency for Social Insurance and Pensions under the Government of the Republic of Tajikistan in the first half of 2020 and tasks for the development of social insurance and pensions for the second half of 2020, Agency for Social Insurance and Pensions. https://nafaka.tj/ru/about/news/item/412-itogi-deyatelnosti-agentstva-sotsialnogo-strakhovaniya-i-pensii-pri-pravitelstve-respubliki-tadzhikistan-v-pervom-polugodie-2020-goda-i-zadachi-po-razvitiyu-sotsialnogo-strakhovaniya-i-pensij-na-vtorom-polugodie-2020-goda

the social tax rate from 25 percent to 20 percent is made, the agency budget will lose a fifth of its revenues and the pension system will run a chronic budget deficit. The extremely low level of pensions and their inadequate indexation hinder the possibility of reducing the social tax rate. A high fertility rate and a growing population with a young age composition are not sufficient for the pension system of Tajikistan to address its problems. If no structural changes take place in the economy and in the labor market in the short term, the country may face a chronic deficit of the pension system, which will put at risk an already low pensioner income.

E. Recommendations

7.43 Indexing pensions annually and establishing clear rules for determining the minimum indexation coefficient would prevent the erosion of benefits and stabilize pension spending in real terms. The most appropriate indexation method would be the proportional combination of price and wage growth rates. Labor and insurance pensions should be indexed according to the same rules.

7.44 Conduct in-depth analysis to determine why pensions awarded under the new NDC scheme are significantly lower than those awarded under the old DB scheme. Based on this analysis, the authorities should revise the valorization procedure for conditional capital in individual NDC accounts. Ideally, the valorization should be at 100 percent of nominal wage growth. The government should also seek to provide compensation for special periods without payment of insurance contributions, such as childcare leave or compulsory military service.

7.45 Improve the coverage of social pensions among eligible beneficiaries who do not currently claim their social pensions due to lack of awareness, lack of trust, inadequate documents, or similar challenges. These efforts should focus on people with disabilities and the elderly. Coordination between the relevant agencies and local authorities will be necessary to identify and reach vulnerable and excluded households.

7.46 Consider the possibility of introducing a universal basic/state pension as an alternative to social pensions to strengthen adequacy and coverage of pension benefits. Examples of Kyrgyz Republic and Kazakhstan indicate that it would help address the issue of coverage and adequacy of pension benefits. If the reduction in the social tax rate is adopted, that would offer an opportunity to convert deficit financing of the insurance program to a programmatic financing of a new supplementary program, which would have better optics and political accountability. For greater flexibility, the basic pension should be treated as the first element in the general pension formula, which would also include the current insurance benefit. Integrating the basic pension into the general pension formula would provide an opportunity to reliably provide the minimum retirement income for the broadest range of elderly people and people with disabilities, addressing critical social policy gap.

7.47 Improve pension administration by consolidating pension records in a centralized database and introducing an electronic data exchange with other public information systems.

7.48 Establish the practice of regular actuarial analysis of the pension system overall and for each of its components as a tool to guide financial and budget planning in the medium and long run and inform the needs of potential reforms.

Chapter 8. Improving Intergovernmental Fiscal Relations

A. Introduction

8.1 Tajikistan is a unitary state with a multitier administrative-territorial structure. The government structure consists of the central and subnational governments (SNG), divided into three layers[217]: (1) the capital city administration and oblast administrations, the first and highest tier of SNGs; (2) rayon and city administrations, the second and middle tier; and (3) jamoats, the third and lowest layer of SNGs. There are three oblasts in Tajikistan, consisting of 45 cities and rayons and 370 jamoats, and 13 cities and rayons of the central subordination consisting of 101 jamoats[218]. In the Tajik setting, intergovernmental fiscal relations refer to budget arrangements between different tiers of government—between the central and oblast governments, between the central government and governments of cities and rayons of the central subordination, between oblast governments and governments of cities and rayons of oblast subordination, between the city and rayon governments and jamoat administrations.

8.2 Since Tajikistan's independence in 1991, the administrative-territorial structure has experienced only a small transformation with poorly defined functional responsibilities of SNGs. The first two tiers of the current SNG structure, oblasts, cities and rayons, were inherited from the Soviet past; only the third tier—jamoats—was created after independence.[219] The current administrative-territorial structure is not homogeneous. Most of the rayons and cities nest within oblast administrations. However, there are rayons and cities that are directly subordinate to the central government. This complicated structure—with overlapping mandates and unclear delineation and definition of various government functions—poses serious challenges for the budget system in terms of assigning clear spending responsibilities and revenue sources to different levels of the government.

8.3 Subnational governments play a significant role in funding public programs in social sectors; however, public service delivery suffers from the absence of rules-based regulations. The latter refers to ad-hoc revenue-sharing arrangements between the central and subnational governments, which significantly lowers the quality and predictability of budgets at a SNG level. It also refers to nontransparent arrangements on intergovernmental transfers, which adds to complexities in intergovernmental fiscal relations, lowers the efficiency of public spending, and prevents the application of uniform rules for all SNGs. Almost 70 percent of funding for education and 75 percent of funding for healthcare is channeled through subnational governments. Therefore, it is critical to make sure that sectoral policies that are set universally at the national level via per capita financing norms are executed at all subnational governments—regardless of their geographic location or administrative subordination.

[217] Here "oblast" is used in the meaning of a region or a province (a larger territorial jurisdiction), and "rayon" – in the meaning of a district (a smaller territorial jurisdiction). Oblast is comprised of a number of rayons and cities.
[218] Регионы Таджикистана (Regions of Tajikistan), Statistical Yearbook, Tajikistan Statistical Agency, 2017.
[219] Despite the established legal framework, jamoats are not yet mature local self-governing bodies.

8.4 Budget execution outcomes show that quite several SNGs do not meet budgeted expenditures in both health and education sectors. Despite identical policy intentions endorsed by funding norms, the sectors are not backed by targeted transfers from the central government. Due to the high dependence of SNGs on tax revenue (including shared CIT and VAT, which are volatile and hard to project), the per capita norms come at the risk of underfunding: over the last years more than 30 percent of SNGs failed to execute expenditures in education and healthcare in line with budgeted norms.[220]

8.5 The need to improve public financial management at the subnational level is emphasized by the government's strategic documents. The National Development Strategy 2030, the Concept of Local Development 2030, and the Public Finance Management Strategy until 2030 acknowledge the existing mismatch between responsibilities and financial resources assigned to subnational governments. These strategic policy documents suggest revisions to and clarifications of functions, responsibilities, and revenue bases of SNGs, as well as ways to enhance cooperation between different agencies at the central and subnational levels, to improve policy coordination, to increase the transparency of resource allocation, and to boost the efficient use of public financial resources.

8.6 Improvements in intergovernmental fiscal relations imply modernization of the administrative-territorial structure of the country and further horizontal reforms in public financial management. This report focuses mostly on the fiscal aspect of intergovernmental relations, but assumes a follow-up public administration reform, to lead to sustainable outcomes. Fiscal system reforms should center on introducing transparent rules of revenue assignment, clarifying expenditure responsibilities, and introducing a rules-based transfer allocation mechanism across different tiers of government.

8.7 The rest of the chapter is organized as follows. Section B describes categories of subnational governments in Tajikistan and tiers of the budgetary system in the country with an overview of legislative regulations and practical evidence of revenue allocation across the tiers of government. Section C presents forms of intergovernmental fiscal transfers and their distribution across SN governments. Section D outlines the shortcomings of the national legislation in defining expenditure delineation. Section E presents and discusses budgeting for subnational governments, interactions between subnational authorities and the Ministry of Finance and focuses on equity issues during the actual implementation of these programs on a per capita basis across SN governments. Section F concludes with a list of possible policy options to establish more transparent intergovernmental fiscal relations in Tajikistan.

220 Except for self-government bodies, all other types of SNGs are referred to as "SN (local) governments.

B. Categories of Subnational Governments and Tiers of the Budgetary System

Public Administration System

8.8 The general government in Tajikistan consists of higher and lower layers of governments. The higher layer consists of three oblasts[221] and the city of Dushanbe.[222] Each of these governments is subdivided into rayons and cities, which form a lower layer of intermediate government. A few rayons and cities report directly to the central government for lack of a higher, intermediate layer (oblast). It has led to the central government dealing directly with rayons that sometimes comprise as few as 20,000 inhabitants (for example, Sangvor rayon). The total number of entities directly subordinate to the central government is 17, of which three are oblasts and one is the capital city, along with 13 ordinary cities and rayons. All the aforementioned entities are regulated by the Constitutional Law of the Republic of Tajikistan on Local Government.

8.9 Subnational governments consist of executive (Hukumat) and representative (Majilis) bodies and both are headed by the same chair (rais). Despite the unitary nature of the state prescribed in the Constitution, the Parliament of the Republic of Tajikistan (Majlisi Oli) consists of two chambers: the House of Representatives (Majlisi Namoyandagon), which is elected on the basis of universal, equal, and direct suffrage, and the Senate (Majlisi Milli), in which GBAO,[223] Sughd, and Khatlon oblasts, the city of Dushanbe, as well as cities and rayons of the central subordination have an equal number of representatives. According to legislation, the chairs of all SNGs are appointed and can be dismissed by the President. The chair is accountable both to the superior executive authority and to the corresponding representative body. Thus, SNGs in Tajikistan are subordinate to an upper tier of government and their representative bodies. The Constitution of Tajikistan has established one more tier of SNGs: self-government bodies in jamoats. These publicly elected administrations in settlements and villages formally enjoy more autonomy from the central government, though currently they're not fully empowered to be budget holders.

8.10 The government structure of Tajikistan consists of six types of subnational governments (Chart 1): (1) capital city government (Dushanbe); (2) governments of intracity rayons in Dushanbe; (3) oblast governments (GBAO, Sughd and Khatlon oblasts); (4) governments of cities and rayons of the central subordination[224]; (5) governments of cities and rayons of oblast subordination; and (6) self-government bodies (jamoats).

---

[221] One of the oblasts, the Gorno-Badakhshan Autonomous Oblast (GBAO), has an autonomous status according to Article 7 of the Constitution.

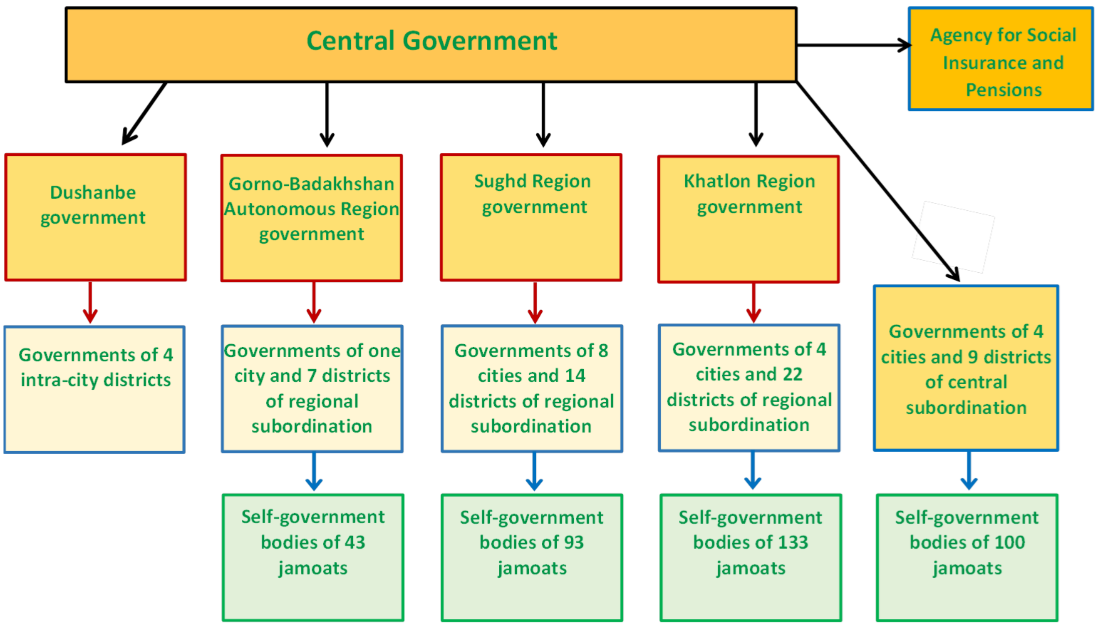
[222] The status of the capital city of Dushanbe is equivalent to an oblast level. Its special status is granted by the Law on the Status of the Capital of the Republic of Tajikistan. Dushanbe has four lower rayons in its jurisdiction. It has some overarching functions (for example, on capital spending) unlike oblasts where those stay with the central government.

[223] The official legal status of GBAO as an autonomous oblast is only slightly different from the status of other oblast governments.

[224] Cities: Hissor, Roghun, Tursunzoda, and Vahdat. Rayons: Fayzobod, Lahsh, Nurobod, Rasht, Rudaki, Sangvor, Shahrinav, Tojikobod, and Varzob.

8.11 The government sector in Tajikistan features several layers of political and administrative entities for public service delivery. In addition to the national government vested in the powers of the President, two parliamentary chambers, and the central (republican) government, there are various intermediate and local tiers of government. In addition, there are community-based organizations at the local level (Figure 8.1).

Figure 8.1: The multitier structure of public governance in Tajikistan



Source: Authors' compilation based on national legislation

8.12 While there is a serious legislative gap in defining the specific functions of oblasts and cities/rayons, legislative provisions for functions of jamoats are clearer and more concise.[225] These represent more concise provisions for functions assigned to self-government bodies that go beyond technical and procedural rights, defined in Article 10 of the Law on Self-Governance in Town and Village Governments. Indeed, Articles 11 through 13 of this law convey authority to jamoats in the areas of economics and finances, the rule of law, public order, and even defense, as well as social protection, civic beautification, municipal services (such as maintaining and improving roads, streets, squares, cultural entities, water supply sources, and local markets and maintaining cemeteries and keeping neighborhoods clean and free from garbage) and protecting the environment. Moreover, Article 14 lists a number of functions that might be delegated to jamoats by state authorities in accordance with law or on the basis of a contract between the parties concerned. In addition, as a traditional feature of Tajik society, there are community-based,

[225] Provided by the Law on Self-Governance of Town and Village Governments, approved in 2009.

grassroots organizations, such as street associations, apartment block committees, and other groups, however they are not mentioned in legislation.

8.13 Alas, these more specific policy areas assigned to jamoats suffer from three types of shortcomings:

(i) Authority is not always full and exclusive in these areas, because it could conflict with similar authorities assigned to higher levels of government. In addition, a pure role in planning may be irrelevant where the objectives are not in line with the upper-level government priorities.

(ii) The policy impact is hampered by the fact that jamoats do not control their own budgets but have to rely on designated resources provided to them, conceivably, through city or rayon budgets. For instance, jamoats have the right to "support initiatives on the socio-economic development of a town or a township," but in practice, this support must be sterile without a budget.

(iii) The resources assigned to jamoat functions are abysmally low and there are no transparent rules for provision of intergovernmental transfers to jamoats.

8.14 One important feature of the law is, however, the right of jamoats to establish "small enterprises, cooperatives, handicraft workshops and other kinds of organizations in accordance with law." It allows jamoats not only to engage in certain economic activities within their jurisdiction, but also to establish a shadow budget in the form of a public enterprise. However, for lack of its own budget, a jamoat cannot transfer profits acquired by the public enterprise to the local authority.

The Budget System

8.15 The budget system in Tajikistan corresponds to its multitier government structure. Besides the central and sub-national level, the general government includes the Agency for Social Insurance and Pensions. Each subnational government in each tier develops and executes its own budget in accordance with the assigned revenue sources and expenditure obligations. Subnational budgets are approved by the respective representative body of the SNG.

8.16 The Law on the Annual State Budget approves the general government budget by the functional classification. It includes total spending of the SNGs. The law allocates tax sharing rates and approves also total revenues and expenditures of three oblasts, the city of Dushanbe, and cities and rayons of the central subordination.

8.17 The Tajik legislation doesn't provide a clear definition of functions and responsibilities of different tiers of subnational governments. Except for self-government bodies,[226] all other types of SNGs are referred to as "subnational (local) governments." The current legislation assigns them the same revenue sources, functions and authorities. However,

[226] Defined by the Law on Self-Government Bodies in Settlements and Villages.

different types of subnational governments de facto perform different functions and therefore should be assigned different expenditure responsibilities and revenue sources.

8.18 Besides those of self-government bodies, financial departments of all subnational administrations in Tajikistan are an integral part of the central MoF structure. This vertical subordination of territorial units to the central government bodies was inherited from the Soviet past. The staff of these administrative divisions is composed of civil servants and is listed in the payroll of the respective ministry. Yet, financial departments of the subnational governments are also accountable to the relevant SN administrations. Some other central government bodies also have divisions at the oblast and city/rayon level.

Legal Provisions and Practical Evidence of Revenue Assignments

Figure 8.2: Dynamics of tax revenue at a central and SNG level, 2015–19

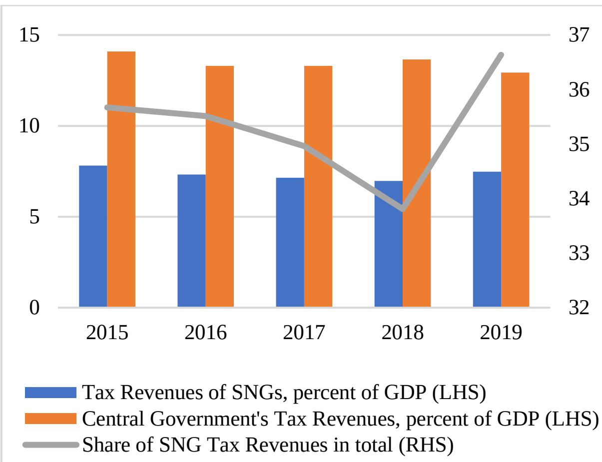
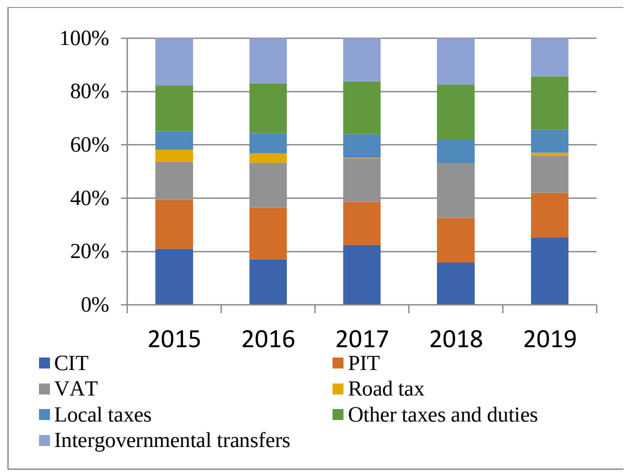


Figure 8.3: Dynamics of SNG revenues, 2015–19



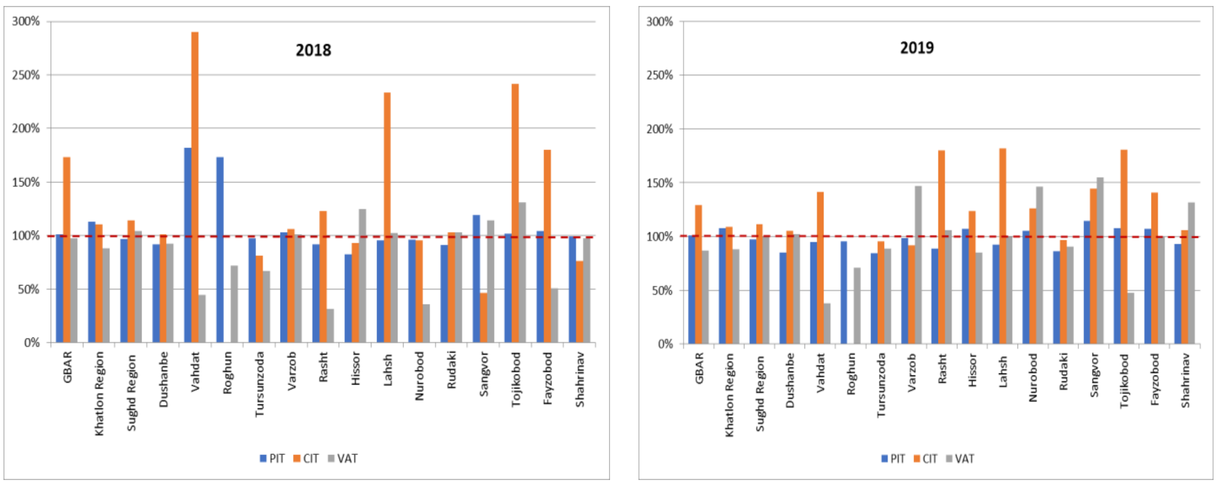
Source: Author's estimates based on MoF data.

8.19 About 35 percent of total public resources in Tajikistan are channeled through and managed by subnational governments (Figure 8.2). Revenues collected and disposed of by SNGs accounted for about 7–8 percent of GDP in the past five years. They consist of: (1) shared tax revenues (VAT, CIT, PIT, and road user tax); (2) permanently assigned taxes (mostly from simplified tax[227] and domestic excise tax); (3) local taxes (land and property taxes, vehicle tax); (4) permanently assigned non-tax revenues (lease payment, fees, fines and penalties); and (5) intergovernmental transfers. These sources are prescribed by the Tax Code only in the part of local taxes. The final say on SNGs budget resources for the next fiscal year stays with the Law on the Annual State Budget. The composition of SNG revenues has not evolved significantly during the past five years (Figure 8.3).

[227] Small business taxes refer to taxes under the special regime of taxation, namely to taxation of individuals engaged in entrepreneurial activity on the basis of patents and/or certificates, a simplified taxation regime for small businesses, a simplified taxation regime for agricultural producers (single tax), and a special tax regime for gambling business entities.

8.20 More than 80 percent of SNGs revenues are contributed by the central government either in the form of shared taxes or by intergovernmental transfers. They account for more than 70 percent and 14 percent of SNG revenues, respectively. However, despite this importance, the Law on Public Finance does not envisage permanent arrangements for tax revenue sharing or for intergovernmental transfers. Instead, the law stipulates that specific arrangements should be determined each year by the Law on the Annual State Budget. The latter, envisaging allocations for these two major sources of revenue for SNGs, usually is endorsed by the Parliament in late November, leaving a very short budgeting timeframe for SNGs before the new fiscal year.

Figure 8.4: Inaccuracy of subnational revenue forecasting (percent of collected taxes, actual to planned)



Source: Author's estimates based on MoF data.

8.21 In addition, the territorial fragmentation of VAT and CIT leads to serious challenges in the administration of these taxes, which in turn results in inaccuracies of SNG budget projections (Figure 8.4). In the context of small settings such as a city or rayon, the volatility and sensitivity of shared taxes to economic shocks complicates the accuracy of revenue projection. The latter is true especially for VAT and CIT, which account for the large part of shared taxes. The inherent volatile nature of shared taxes combined with the instability of proportions to be assigned to each level of SNG may create difficulties in meeting spending commitments at the SNG level, especially in the education and healthcare sectors, which are mostly funded at the subnational level. Local taxes are easier to predict, but as noted above, they constitute only a small share of subnational budgets.

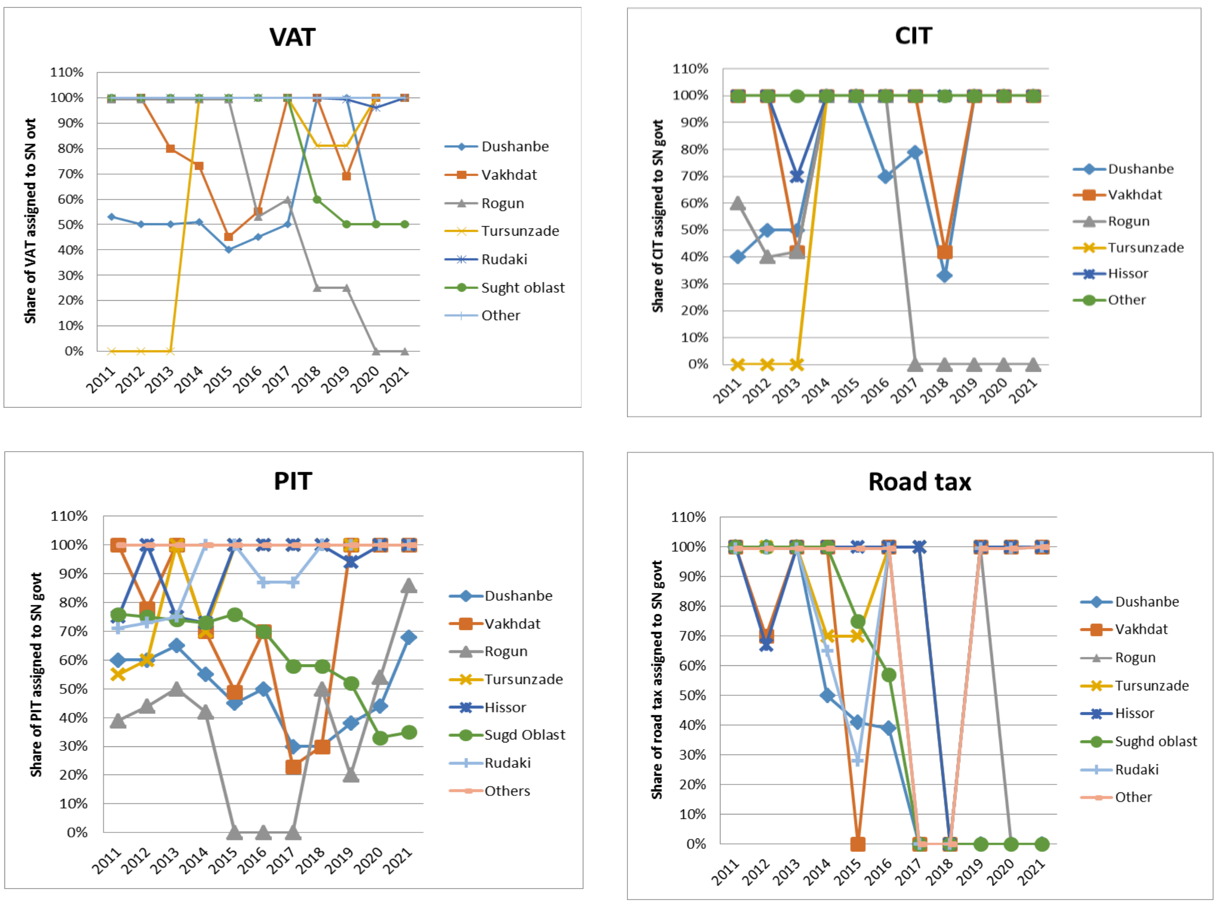
8.22 Shares of national taxes to be assigned to each SNG are set by the Ministry of Finance every year. Based on its revenue forecast, the MoF determines the percentage of each shared tax for each SNG; however, there is no transparent methodology for guiding the process.[228] The amount of intergovernmental cash transfers is a residual between the estimated or negotiated expenditure needs of a subnational government and the revenues forecast by the MoF from more

[228] The law on the Annual State Budget sets shared rates for consolidated oblast budgets and budgets for each city and rayon of central subordination.

or less permanently assigned taxes and tax shares. On average, cash transfers constitute less than 15 percent of total subnational revenue, which is quite a modest amount in an international context.

8.23 Stipulating specific percentages of shared taxes in generic laws would lead to the increased transparency and predictability of public finances at the subnational level. Figure 8.5 illustrates the degree of tax sharing rates volatility approved by the Law on the Annual State Budget during the past decade. Most SNGs retain 100 percent of national taxes generated in their territories, and only seven better-off SNGs are assigned a less than 100 percent share of these taxes. They are Dushanbe city, Sughd oblast, and Hissor, Rogun, Rudaki, Tursunzoda, and Vakhdat rayons.

Figure 8.5: Rates of shared (regulating) taxes set by the Law on the Annual State Budget for SNGs, 2011–21

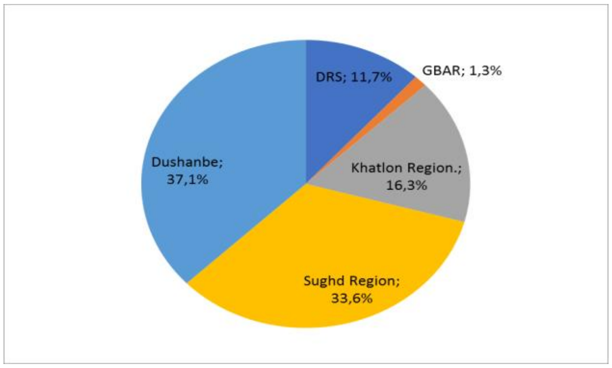


Source: The law on the Annual State Budgets for 2011–21.

8.24 The tax base is concentrated mostly in Dushanbe city and Sughd oblast, which have the highest economic density and together generate more than 70 percent of total tax revenues in Tajikistan. The third largest contributor is Khatlon oblast, which accounts for 16.3 percent of total tax collection (Figure 8.6). Consequently, Dushanbe and Sughd oblast are the largest net contributors of shared taxes to the central government. But in per capita terms, Rogun city makes the largest revenue transfer to the center. These are the main revenue "donors," while the rest are mostly recipients of shared taxes and intergovernmental transfers.

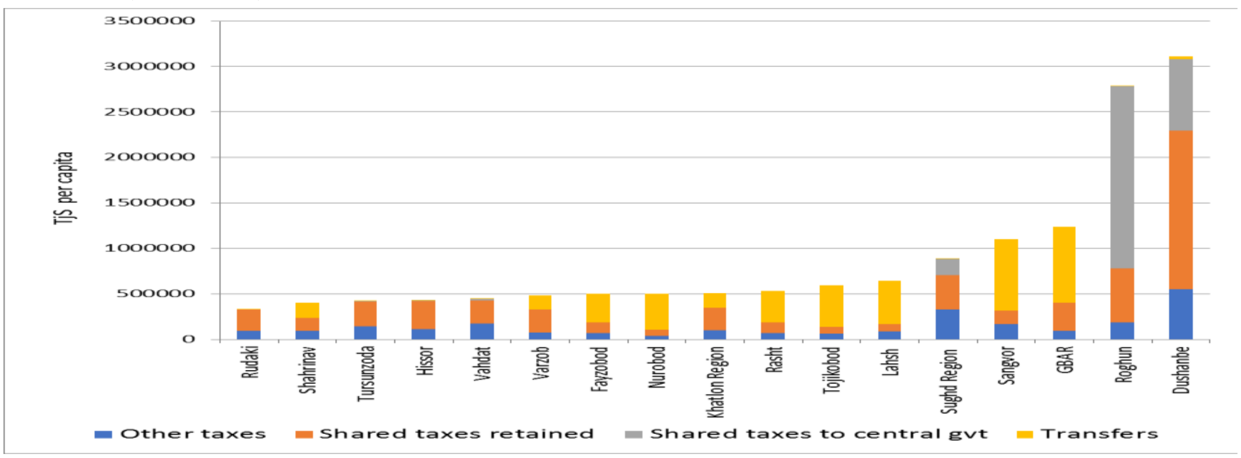
8.25 Shared taxes and intergovernmental fiscal transfers significantly reduce the per capita income gap between different SNGs of the same tier; however, more redistribution is needed to resolve the persistent disparities (Figure 8.7). Horizontal disparities of per capita tax revenues across subnational jurisdictions before shared taxes and intergovernmental fiscal transfers are significant. Per capita tax revenues generated in Dushanbe surpass the revenues in Nurobod rayon by a factor of 30, suggesting a Gini coefficient of 0.43.[229] Tax sharing helps to partially mitigate the large initial inequality, but even so, disparities between different SNGs remain substantial—by a factor of 22, with a Gini coefficient of 0.36. Intergovernmental transfers help to further reduce the per capita revenue gap; however, the remaining sevenfold difference suggests that more resources should be redistributed through the intergovernmental transfers in order to increase the resources of the poorer SNGs so that they can "catch up" with their peers.

Figure 8.6: Territorial breakdown of subnational revenues, 2019



Source: Author's estimates based on MoF data.

Figure 8.7: Per capita revenue across SNGs before and after shared taxes and intergovernmental transfers (TJS, 2019)[230]



Source: Author's estimates based on MoF data.

The current practice of taxpayer mapping leads to unnecessary fragmentation of the tax base between different layers of the budget system. The Law on the Annual State Budget not only stipulates specific arrangements for shared revenues, but also: (i) endorses the list of taxpayers who are required to pay certain taxes in full to the central budget. A similar practice is also exercised at the subnational tier, where oblast governments determine which taxpayers contribute

[229] The Gini coefficient here measures the disparity of subnational budget revenue in per capita terms. The higher value of the Gini coefficient indicates the higher disparity of per capita budget revenue across SNGs.

[230] Excludes larger taxpayers

in full to the oblast budget; and (ii) maintains a list of organizations and categories of individuals who receive exemptions on taxes assigned to SNGs. Taxpayer mapping leads to uncertainties in tax revenue projections at all levels of government, as it implies frequent changes of tax bases for central as well as SNGs.

8.26 The current revenue sharing arrangement does not motivate subnational governments to encourage tax compliance and improve tax collection. Over-collection of taxes often leads to a reduction of intergovernmental transfers by the central government in the next fiscal year or even during the same fiscal year.

8.27 The practiced budget processes call for clarifications and streamlining at the lowest level of subnational government, too. As indicated, self-government bodies are not assigned their own revenues. However, amendments to the Law on Self-government Bodies in 2017 stipulated that local self-government bodies, jamoats, can retain a portion of real estate tax. However, the law did not specify the exact portion of the tax. A government resolution approved in 2017 did assign portions of 25 to 50 percent of the paid services of the registry offices located and operating in the territory of jamoats.[231] These provisions, though, have not been enacted properly. Instead, jamoats' spending plans are reflected in and facilitated as subaccounts within the relevant rayon budget and served through the rayon budget account within the State Treasury account. Self-government bodies do not have their own accounts with the State Treasury, and consequently, there is no systematic reporting on or analysis of jamoats' budget execution.

C. Intergovernmental Fiscal Transfers

8.28 In addition to shared taxes, the government allocates intergovernmental fiscal transfers to balance revenues and expenditures of SNGs on an annual basis. Intergovernmental fiscal transfers are the last resort for balancing subnational budgets; however, there is no formalized methodology for transparent and unbiased allocation of such transfers. Specific amounts are established in the course of negotiations between the central MoF and SNGs. The amount represents a residual between the agreed volume of expenditure and the agreed level of projected tax collections of the local and shared taxes.

8.29 The Law on Public Finance defines the following five types of intergovernmental fiscal transfers in Tajikistan: (i) dotations or general-purpose grants; (ii) subventions or targeted/earmarked grants; (iii) subsidies or matching grants; (iv) mutual settlements—not defined in legislation, but in practice these serve as transfers of funds between tiers of government in addition to transfers envisaged by the Law on the Annual State Budget; and (v) individual grant to Dushanbe as the capital city.

8.30 Until 2016, the Law on the Annual State Budget adopted only one kind of transfer: subventions with the objective "to balance revenue and expenditure of SNGs." Starting 2017, the government allocated subventions for wage payments and dotations, as general-purpose or balancing transfers. Still, on the revenue side, the budget classification reflects only two lines for treasury operations on the transfer of funds from one tier of government to another—"subventions" and "mutual settlements"—and one line on the expenditure side to reflect general-purpose

[231] The percentage was linked to the number of people living in jamoates

transfers—"dotations." Both subventions, on the revenue side, and general-purpose transfers, on the expenditure side, consolidate those two without further breakdown. Also, it is not clear why the targeted for wages subventions in most cases quite differ from the budgeted by SNGs wage payments.

8.31 Out of the total 17, 10–12 subnational governments were able to secure intergovernmental fiscal transfers during the past decade. The dominant share of transfers is in the form of subventions, followed by mutual settlements and dotations, which constitute a negligible amount. As mentioned, intergovernmental transfers are not clearly specified in the budget reports. The volume of intergovernmental budget transfers to each SNG is estimated based on a common approach by weighing expenditure needs against the agreed projections on local tax collections and shared taxes and deriving the difference as the volume of a transfer.

Box 8.1: Shared taxes and grants in the Eurasia countries

A majority of subnational resources in Eurasia countries rely on shared taxes and intergovernmental transfers (grants). Shared taxes constitute up to 20–36 percent of total subnational revenues in Ukraine; 40–50 percent in Georgia and Russia; and 60–80 percent in Belarus, Kyrgyzstan, Tajikistan, and Uzbekistan. In Georgia, Kazakhstan, Russia, and Ukraine, each tier of SNGs receives a fixed part of national shared taxes, established by national legislation.[232] In other countries, sharing rates may differ from year to year, which makes subnational budgeting unpredictable and intergovernmental fiscal relations non-transparent. The most popular shared tax is PIT. However, in Belarus, Tajikistan, and Uzbekistan, SNGs also receive shares of CIT and VAT. Equalizing grants are the second most important source of SNG revenue after shared taxes. Eurasia countries receive two major types of grants: equalizing (or general purpose) and targeted (or special purpose). A lower ratio of grants in Belarus, Tajikistan, and Uzbekistan is substituted by a larger ratio of shared taxes. Armenia, Georgia, Kazakhstan, Russia, and Ukraine allocate equalizing grants to SNGs in accordance with the nationally approved and publicly available equalization formula. Kazakhstan also is the only country where nominal amounts of equalizing grants are being established for each SNG for three consecutive years by law. On the contrary, in Belarus, Tajikistan, and Uzbekistan, grants for balancing subnational expenditures and revenues are negotiated between subnational authorities and the MoF. Targeted grants in Armenia, Georgia, and Russia and some other countries provide funding for delegated responsibilities. Special purpose transfers can also be provided in case of emergency (natural, environmental and other disasters, military actions, epidemics, and other emergencies) or other unforeseen subnational needs. Targeted grants might also co-finance particular subnational programs (Azerbaijan, Russia). Capital transfers provide earmarked funding for selected subnational investment projects.

Source: Kurlyandskaya, G., Polyakova Y. *Fifth Global Report on Decentralization and Local Democracy*, Chapter 3, Eurasia, UCLG, 2019.

8.32 The case of Rudaki rayon illustrates the complicated nature of the *fiscal equalization* process. According to budget reports, Rudaki rayon (the rayon of the central subordination) appears to be the "richest" rayon in terms of absolute amount of tax revenue, though the "poorest" one in per capita terms. In spite of its location in a densely populated valley next to Dushanbe, its per capita revenue capacity is not very high, because the large part of its population is employed in Dushanbe and pays taxes into the Dushanbe budget. On the other hand, Rudaki expenditure needs are rather high, because the rayon possesses an extensive network of social institutions and players: the largest number of secondary schools (161) among cities and rayons (including Dushanbe); the largest number of teachers (about 4,900); the second largest number of schoolchildren after Dushanbe; and the largest numbers of hospitals and doctors among cities and

232 Such national legislations refer to the Budget Code or the Law on Public Finance, which define those shares for long-term perspectives.

rayons. However, starting in 2008, the central government every year withdrew particular shares of regulated taxes from Rudaki, and until 2021 did not allocate any amount of cash transfers to its budget.

Delineation of Expenditure between Tiers of Government: Legislative Regulation

8.33 The Law on Public Finance, the law on SNGs, and the law on Self-government Bodies[233] prescribe expenditure responsibilities of the government. Additional responsibilities are stipulated by laws pertaining to different public sectors (civil administration, defense, law and order, education, healthcare, social protection, housing and utilities, and so on). However, the Tajik legislation does not clearly delineate spending responsibilities between tiers of the government. This refers to both funding arrangements and the provision of public goods and services.

8.34 The Law on Public Finance specifies expenditure obligations for the central government in Article 16. Article 18 of the same law lists SNGs' expenditure obligations without specifying obligations of various types of SNGs, while Article 19 refers to "joint expenditure obligations" without specifying how these obligations should be shared by different tiers of the government. Sectoral laws do not provide clarification on these issues either. Major deficiencies of legislation regarding delineation of expenditure responsibilities are:

- **Funding for and delivery of government functions are assigned simultaneously to the central and SN governments**. In accordance with Tajik legislation,[234] the term "state" refers both to central and SN governments. In most cases, the legislation attributes delivery and spending responsibility to the "state government" and "state budget." Accordingly, the same profile institutions are in some cases subordinate to and funded by the central government and in other cases are subordinate to and funded by SNGs. As a result, there is no government body accountable for the provision of the public good as a whole. Also, funding for this public good and its delivery may be easily shifted ad hoc from one tier of government to another.
- **Expenditure responsibilities of oblast, city/rayon governments of oblast subordination and city/rayon governments of central subordination are not identified separately.** As mentioned earlier, a different status of these SNGs is not recognized anywhere in legislation. All regulations regarding SNGs apply simultaneously to government bodies of Dushanbe, oblasts, cities and rayons of the central subordination, and cities and rayons of the oblast subordination. This leads to the non-transparent practice of intergovernmental fiscal relations between the central and SNGs, including the assignment of revenue sources, estimation of expenditure needs, and the allocation of cash transfers. This also makes cities and rayons of oblast subordination completely dependent fiscally on oblast governments.

[233] This refers to the Law on Local Government Bodies, the Law on Mountainous Regions of the Republic of Tajikistan, the Law on the Status of the Capital of the Republic of Tajikistan, the Law on Gorno-Badakhshan Autonomous Oblast, and the Law on Self-Government Bodies of Settlements and Villages.
[234] The Law on the System of State Governance Bodies of the Republic of Tajikistan.

- **Often, the central government assigns SNGs specific requirements regarding funding and public goods delivery**. However, these spending mandates are not backed with adequate resources, and therefore often are underfunded.

D. The Role of Subnational Governments in Financing Public Programs in Social Sectors

8.35 More than 30 percent of total public spending and a dominant share of social programs in Tajikistan are financed through subnational budgets (Figures 8.8 and 8.9). Subnational governments are responsible for executing 80 percent of total wage bills in the public sector, but the composition of public spending by function significantly differs across SNGs. The largest public program in Dushanbe is in the housing and utility sector, which accounts for 35 percent of total spending in the capital city. Other SNGs allocate major amounts of funding to the education and healthcare sectors, based on per capita norms approved by the central government.

Figure 8.8: Share of major subnational expenditure in total general government expenditure

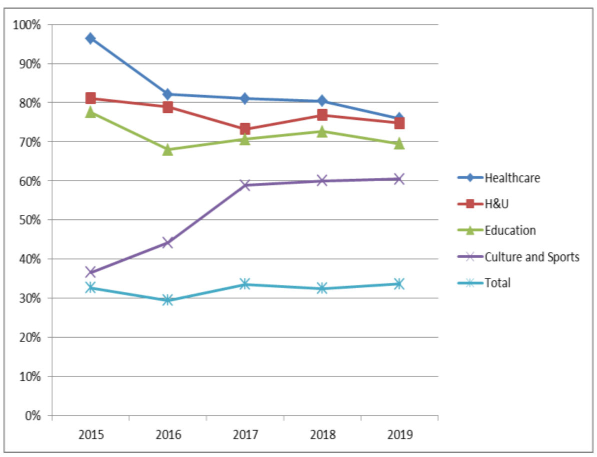
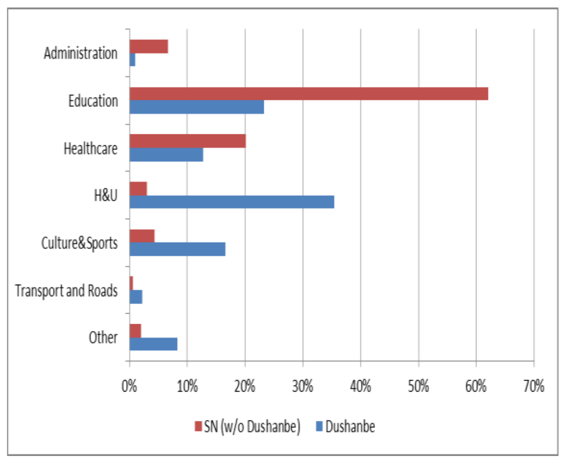


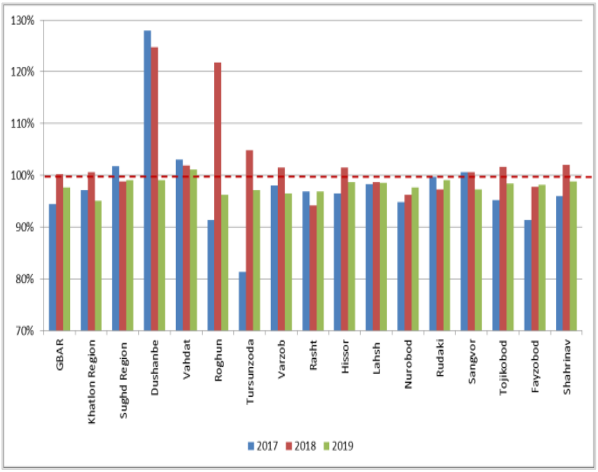
Figure 8.9: Composition of subnational spending by function, 2019



Sources: MoF and World Bank staff calculations.

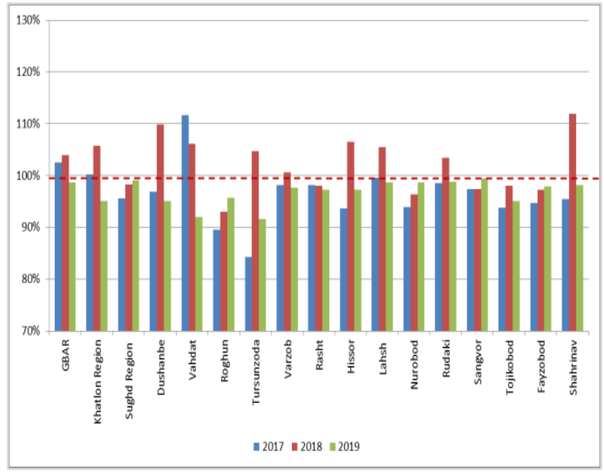
8.36 Despite the approved per capita financing norms for social sectors, SNGs face major challenges in identifying adequate resources for commensurate financing. The central government does not allocate targeted funds to SNGs to meet these norms. As indicated above, most SNGs rely heavily on shared taxes and on intergovernmental fiscal transfers to meet their spending obligations. Many SNGs have not been able to meet targeted spending amounts, particularly in education and healthcare, because of unrealistic projections and/or under-execution of tax collections (Figures 8.10 and 8.11).

Figure 8.10: Execution of subnational expenditure in education, 2017–19



Sources: MoF and World Bank staff calculations.

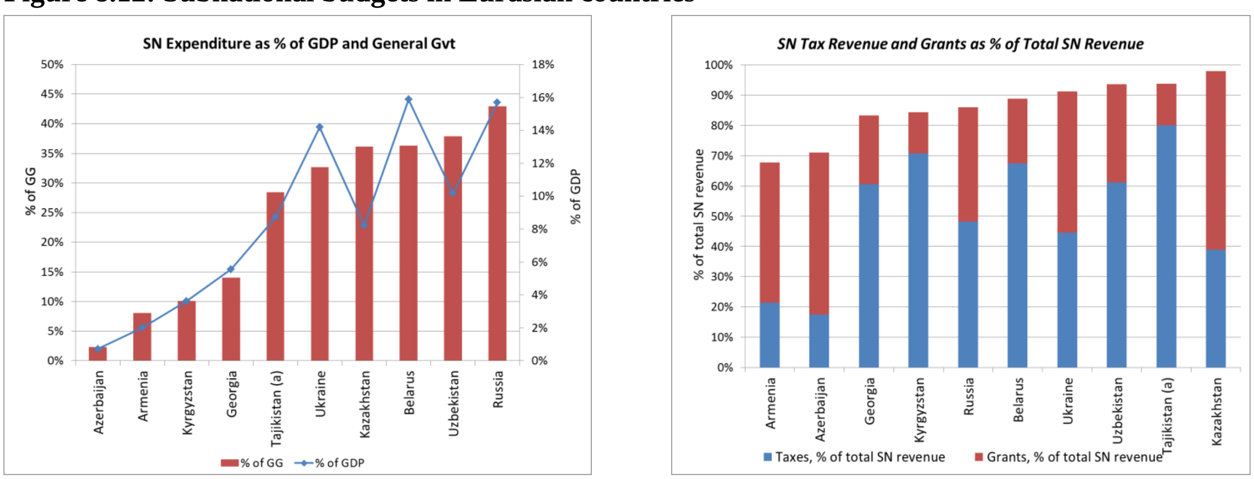
Figure 8.11: Execution of subnational expenditure in healthcare, 2017–19



Sources: MoF and World Bank staff calculations.

8.37 Sectoral policies stipulated by per capita financing norms could be implemented properly if the government introduces targeted transfers to ensure full financing of per capita norms for education and healthcare. Intergovernmental budget transfers currently are targeting mostly wage payments. However, the transfers (subventions) allocated for this purpose either significantly exceeded (up to 25 percent) budgeted wage bills (in five out of 10 SNGs eligible for transfers) or fell short by a factor of two (in three SNGs). Transfers are still helpful in meeting essential needs, as over 80 percent of expenditures in education and healthcare consists of wage payments.

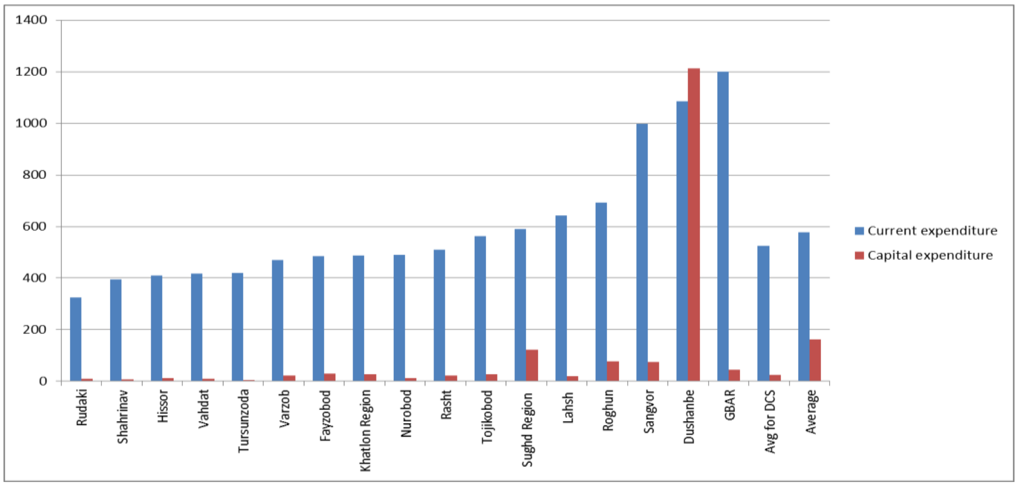
Figure 8.12: Subnational budgets in Eurasian countries



Source: IMF Government Finance Statistics, https://data.imf.org/?sk=89418059-d5c0-4330-8c41-dbc2d8f90f46&sId=1435762628665.

8.38 Regional disparities are moderate when measured by the differential of per capita current expenditures but deteriorate significantly when measured by capital spending (Figure 8.13). The Gini coefficient, 0.17 in 2019, showed a 3.7 times' difference in per capita current spending between GBAO and Rudaki rayon. But the Gini coefficient for capital expenditures reaches as high as 0.73. Thus, the main source of per capita expenditure disparity comes from the capital budget. The reason is that only Dushanbe makes investments out of its own resources. In the rest of the country, investments to subnational infrastructure, including roads, are funded out of central governments funds. These funds are managed and disbursed by central government agencies. The centralized investments assume future increased recurrent spending by subnational governments for maintenance and operation of the created assets. This may further increase the SNGs' demand on fiscal assistance from the central government. Subnational governments are not motivated by public investments, as construction does not contribute to SNG tax revenues, because contractors pay taxes exclusively to the central government.

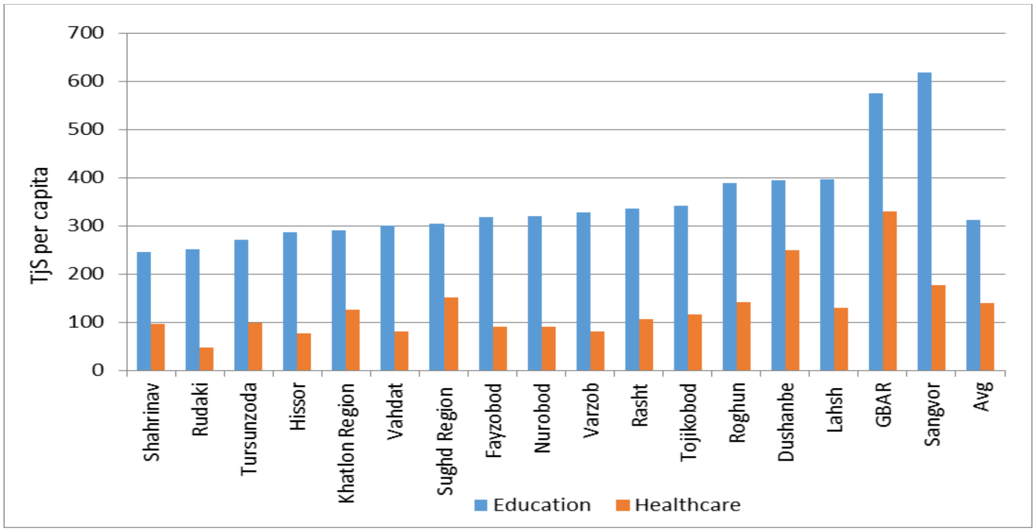
Figure 8.13: Per capita current and capital expenditures, 2019 (TJS)



Source: WB staff calculations based on MoF and Tajstat data

8.39 The disparity of per capita current expenditures on education and primary healthcare has been lower than that of total current expenditures (Figure 8.14). In education, the Gini coefficient dropped to a negligible 0.07 or the ratio of richest to poorest SNG of only 2.5-fold in 2019. The Gini coefficient in healthcare, although it decreased over time, remained more substantial, at 0.19 or the ratio of richest to poorest SNG of sevenfold. This is explained by the fact that the portion of per capita-funded primary healthcare in total healthcare expenditure constitutes only 35 percent, while per capita-funded general education amounts to 83 percent of total expenditure on education.

Figure 8.14: Per capita subnational spending in education and healthcare, 2019 (TJS)



Source: Author's estimate based on MoF and Statistical Agency data.

8.40 **The lower per capita disparity in general education and primary healthcare is the result of introduced per capita-funding norms**. Dushanbe not being the exemption, its per capita spending does not differ a lot from the average for SNGs. Remarkably, Rudaki, in per capita terms, remains the poorest both in education and healthcare (Figure 8.14). The disparity of other expenditures is more significant.

E. Budgeting for Subnational Governments

Interaction of subnational authorities with the Ministry of Finance in the process of assessing their spending needs and revenue mobilization capacity

8.41 **A number of strategic documents reveal the government's intention to reform intergovernmental fiscal relations**: (1) National Development Strategy (2016) calls for "delineation of functions and powers between tiers of government based on the principles of decentralization"; (2) Local Development Concept (2015) recognizes the need for "developing an optimal model of intergovernmental fiscal relations by means of a phased delineation of powers, functions and sources of funding between central and SNGs"; and (3) Public Finance Management Strategy (2020) sets the task of introducing **"**amendments to the current legislation aimed at a clear delineation of expenditure powers between tiers of the budget system and assignment of revenue sources to SNGs on a long-term basis." It also plans for "development and implementation of a methodology for calculating intergovernmental transfers to SNGs based on a formula approach." All these provisions are aligned with intergovernmental fiscal relations best practice, and if enacted, would drastically improve the functioning of the budget system in Tajikistan.

8.42 **Thus far, sufficient regulations and action plans have not been developed to ensure adequate implementation of the envisaged reforms**. The most recent Medium-Term Development Strategy for 2021–25 and the recently adopted Action Plan for PFM Strategy Implementation envisage fixing sharing rates of national taxes for a period of three years.

Implementation would be an important first step toward improving intergovernmental fiscal relations and stabilizing revenue allocation arrangements. It would permit both the central and SN governments to make medium-term projections of their revenues and thus avoid annual negotiations over revenue sharing between the MoF and SNGs.

8.43 Despite the highly significant role of SNGs in funding for social services, their representatives do not participate in developing sectoral budgetary programs that embrace subnational expenditures. They are not provided with performance indicators of national budgetary programs, where they inevitably play an important role. Interactions of subnational authorities with the central government are arranged in a rather non-transparent manner and represent a mix of centralization, concentration, and decentralization features.

8.44 Social sector spending accounts for the dominant share of subnational budgets. The central government imposes strict costing norms on SNGs regarding specific spending items, such as per capita norms in general education and primary healthcare, wage rates for government employees, and so on. Estimates suggest that the share of public spending regulated by the central government accounts for about two thirds of subnational budgets, thus leaving only one third at the discretion of SNGs. On the revenue side, as mentioned earlier, about 80 percent of subnational revenues rely on the discretion of the central government and are reconsidered and confirmed on an annual basis.

8.45 SNGs submit their budget bids to the Ministry of Finance at the beginning of each budget cycle, as envisaged by the Law on Public Finance and MoF regulations. SNGs defend their projections in negotiations with the MoF, and the agreed-upon spending level serves as a basis for revenue allocation via shared taxes and cash transfers, as described earlier. In general education and primary healthcare, where the central government has defined per capita funding norms, expenditures of SNGs are calculated according to these norms multiplied by the number of service recipients. However, total estimated SNG spending based on norms should not exceed expenditure ceilings established for the respective sector at the first stage of the budgeting process (according to the Medium-Term Expenditure Framework—MTEF). Per capita norms in social sectors are suggested by the respective line ministries and are subject to annual adjustments to reflect wage increases and inflation rates. They also tentatively allocate total spending amounts across SNGs, including cities and rayons of oblast subordination. However, the final decision on per capita funding norms is upon the MoF.

8.46 SNGs follow an incremental budgeting process, as a significant part of their spending is predetermined by per capita norms.[235] The rest of the expenditure is estimated for each SNG[236] based on past experience, adjusted for centrally mandated wage increases and inflation coefficients. The MoF is also using mandatory staff numbers for each subnational administration and higher wage coefficients, which are applicable to remote and mountain territories.

[235] In 2019, 45 percent of total expenditure and 54 percent of current expenditure of SNGs were defined based on per capita norms.
[236] The three oblast governments, Dushanbe, and 13 cities and rayons of the central subordination.

8.47 Linkages between SNGs and line ministries are weak in the budgeting process. SNGs only provide necessary data on government institutions, staff, and recipients of public services during the first stage of the budgeting process.

8.48 Over time, the practice of estimating SN expenditure needs has evolved and became more transparent. The same observation cannot be said about the revenue part of subnational budgets. As indicated earlier, SNGs neither receive targeted transfers to provide funding for centrally mandated spending norms, nor are they, at the least, assigned stable shares of national taxes. Furthermore, revenue projections for subnational budgets are of poor quality, and often the amount of taxes collected falls short. As a result, SNGs are permanently running the risk of under-spending. Soft budget constraints in relations between the central and SNGs leave a window for escape. After SN budgets are adopted, there is still the possibility for SNGs to apply for and receive additional funds from the central government. The justification for such a request is wage arrears, as a rule.

8.49 After discussions and agreement with the MoF, SNG expenditures and revenues are added to the draft annual state budget. Also, the budget law assigns shares of national taxes to the central and SN governments, stipulates the amount of intergovernmental fiscal transfers to each SNG, and finally, adopts the total amount of SN revenues, including transfers, and expenditures. While the Law on Public Finance deprives SNGs of borrowing rights, the Law on the Annual State Budget envisages balanced budgets only for the recurrent budgets of SNGs and prescribes that deficits of SNGs, not to exceed 2 percent of total revenues, should be covered by the over-collection of tax revenues.[237]

8.50 Once the Law on the Annual State Budget is endorsed by the Parliament, SNGs finalize their own budgets and submit them for approval by their representative bodies. According to the Law on Public Finance, SNGs have 10 days to complete and adopt their budgets.

8.51 Budget execution by SNGs is facilitated by the Treasury single account, while payments are made through branches of the State Amonatbank. SNGs are not permitted to hold accounts in commercial banks.

Shortcomings in inter-governmental fiscal relations

8.52 Legal norms relating to SNGs refer to both oblast and city/rayon governments, and the legislation does not provide a clear distinction of revenue sources and expenditure obligations between those two layers. The budget system of Tajikistan covers different types of SNGs, which are located in different parts of the country. As described above, there are six types of SNGs belonging to three tiers of government: (1) the capital city and oblasts, (2) cities and rayons, and (3) jamoats. Tajikistan legislation treats all of them as “local governments”, though each layer of SNGs carries particular features and should not be assigned with the same functions.

8.53 SNGs of cities and rayons, depending on their geographical position, are subordinates of different higher tiers of government (oblast or the central government), which leads to a complicated budgetary structure. The latter makes it difficult to introduce formalized uniform

[237] This article of the Law on the Annual State Budget should be revisited and adjusted to match the provision of the Law on Public Finance. Over-collection of tax revenues cannot be considered a source of deficit financing.

rules for intergovernmental fiscal relations regarding both revenue and expenditure delineation and intergovernmental fiscal transfer allocation.

8.54 The other cause of change for the budgetary system is the dual tier structure of Dushanbe's city government. The fragmentation of city administration across four intracity rayons (each of which was mandated to raise revenues to fund major social commitments in education, healthcare, and housing and utilities) seems leading to excessive administrative costs and the duplication of functions in a city with less than 1 million people and prevents economies of scale and efficiencies in spending programs.

8.55 The current practice of policy planning, budgeting, and execution is institutionally fragmented between SNGs and central line ministries. This fragmentation leads to silos, poor coordination outcomes, and diffusion of accountability. Relations between SNGs and line ministries should be enhanced at different stages of the budget cycle. Line ministries are usually proactive in developing strategic plans and drafting budgetary norms for their respective sectors, however, have no say in providing adequate spending for public programs at subnational level. There is little evidence of SNGs involvement in the MTEF process. In contrast, line ministries exercise insufficient control and oversight functions during budget execution and reporting to ensure efficiency of funds spent by SNGs, and to achieve results envisaged by sectoral strategic plans and MTEFs. Annual modifications in the proportions of shared national taxes lead to instability and unpredictability of the revenue base for both the central and SN governments.

8.56 There is mismatch between the significant role played by SNGs in funding social services and the degree of (un)predictability of revenues assigned to SNGs, which leads to a high risk of under-funding of these services. Per capita norms in education and primary healthcare are introduced by the central government as mandates without allocation of adequate targeted funds. The central government strictly prescribes other subnational spending parameters (number of government staff, salary rates, utilities consumption, and so on) as well. These norms play an important role in the allocation of funds across SNGs. However, the excessive regulatory centralization does not take into account some factors of cost increase that are relevant and known only to particular SNGs (for example, higher costs in institutions serving remote areas with low population density).

8.57 Unclear delineation of spending powers between tiers of government in legislation gives way to ad hoc decisions on the reallocation of spending between the central government and SNGs. The analysis suggests that some of the functions (such as military recruitment, secondary vocational education, specialized medical and social centers, national sports events, and so on) are being funded only by selected SNGs. This does not allow for a uniform approach to fiscal equalization of SN budget resources. The expenditure-needs estimate represents the major component of the fiscal equalization formula in a country where SN expenditure is founded on central regulations. The lack of the clear legal assignment of expenditure obligations leaves the central MoF with one option: individual negotiations with each SNG based on "direct calculation." The "asymmetry" of multitier budgetary structure adds to the sophistication of a problem. Per capita norms in education and healthcare demonstrate an important step toward formula-based expenditure-needs estimation. However, this step has not been followed by a sequence of further actions, which should have included a mechanism for the delivery of appropriate funds to SNGs.

8.58 There is insufficient correlation between public investment programs implemented by the central government and the SNG capacity to finance further maintenance and operation costs for the created physical infrastructure. Central budget financing of investment projects for local infrastructure facilities leads to inconsistencies between investment expenditures of the central government and future consecutive current expenditures of SNGs.

8.59 It is advisable to task the Presidential Administration to oversee the process of intergovernmental fiscal reforms as the latter involves various stakeholders both at the central and sub-national governments' level. Moving toward more transparent, rules-based, and predictable intergovernmental fiscal relationships could help address challenges in service delivery and advance Tajikistan's strategic development objectives. The Inter-ministerial Working Group on Intergovernmental Fiscal Relations, established in 2015 under the auspices of the Office of the President, has significantly contributed to the new PFM Strategy by developing the goals and tasks of intergovernmental reform. Now there is a need to set up institutional arrangements for monitoring the implementation of these tasks.

F. RECOMMENDATIONS

8.60 Harmonizing the hierarchic structure of SNGs would help to streamline inter-governmental fiscal relations and improve budgeting. The districts of oblast subordination should have the same budgetary status as the districts of republican subordination. This reform would streamline the budgeting process while also reducing the number of civil servants involved in subnational administration, which would yield significant budgetary savings.

8.61 The authorities should introduce legislative amendments to define distinct functions, expenditure obligations, and tax bases to SNGs at each budgetary tier. The amendment process should begin with the Law on Public Finance, and all other legislation should be harmonized with it. The Law on Public Finance and the Tax Code should also permanently assign specific taxes to each SNG level, along with shares of revenue from national taxes such as VAT and CIT.

8.62 The central government should either provide targeted transfers to SNGs to fund the education and healthcare sectors in accordance with centrally established per capita norms or reassign social spending responsibilities to the central government and fund them directly from the central budget. Either measure would imply changes to the revenue-sharing arrangements for national taxes in the central budget. Meanwhile, targeted capital transfers should be used to provide SNGs with funding for investment in local infrastructure.

8.63 Introducing a transparent formula for allocating intergovernmental transfers to SNGs would make the budget process clearer and more predictable. The formula should be based on objective and realistic revenue projections and estimates of expenditure needs. The government should also update budget classifications to accurately reflect different types of intergovernmental transfer (e.g., general purpose and targeted) and track them separately.

REFERENCES

Tait, *Value Added Tax: International Practice and Problems,* International Monetary Fund, 2016.

Ahmed, Tashrik, Aneesa Arur, Damien de Walque, and Gil Shapira. 2019. "Incentivizing Quantity and Quality of Care: Evidence from an Impact Evaluation of Performance-Based Financing in the Health Sector in Tajikistan." Policy Research Working Paper 8951.

Amouzou, Agbessi, Hannah Hogan Leslie, Malathi Ram, Monica Fox, Safia S Jiwani, Jennifer Requejo, Tanya Marchant, Melinda Kay Munos, et al. 2019. "Advances in the measurement of coverage for RMNCH and nutrition: from contact to effective coverage." BMJ global health 4 (Suppl 4):e001297

"Analysis of the effectiveness of incentives provided for entrepreneurs and investors", the State Committee on Investment and State Property Management of the Republic of Tajikistan, 2018.

Arur, Aneesa, Jeanette Walldorf, Damien BCM De Walque, and Gil Shapira. 2017. Baseline study for the impact evaluation of a Performance Based Financing (PBF) pilot in Tajikistan. The World Bank.

Barros, Aluisio JD, Ties Boerma, Ahmad R Hosseinpoor, María C Restrepo-Méndez, Kerry LM Wong, and Cesar G Victora. 2015. "Estimating family planning coverage from contraceptive prevalence using national household surveys." Global health action 8 (1):29735.

Benjamin. Posner, 2018. "Tax Expenditures and Accountability: The Case of the Ambivalent Principals," Journal of Public Research and Theory, 28, 569-82.

Boerma, Ties, Carla AbouZahr, David Evans, and Tim Evans. 2014. "Monitoring intervention coverage in the context of universal health coverage." PLoS Med 11 (9):e1001728.

Cohen, A.J., Brauer, M., Burnett, R., Anderson, H.R., Frostad, J., Estep, K., Balakrishnan, K., Brunekreef, B., Dandona, L., Dandona, R. and Feigin, V., 2017. Estimates and 25-year trends of the global burden of disease attributable to ambient air pollution: an analysis of data from the Global Burden of Diseases Study 2015. *The Lancet*, *389*(10082), pp.1907-1918.

Cotlear, Daniel, Somil Nagpal, Owen Smith, Ajay Tandon, and Rafael Cortez. 2015. Going universal: how 24 developing countries are implementing universal health coverage from the bottom up: The World Bank.

Dominis, Sarah, Abdo S. Yazbeck, and Lauren Alecci Hartel. 2018. "Keys to Health System Strengthening Success: Lessons from 25 Years of Health System Reforms and External Technical Support in Central Asia." Health Systems & Reform 4 (2):160-169. doi: 10.1080/23288604.2018.1440348.

Donadel, Morgane, Gulzira Karimova, Ruslan Nabiev, and Kaspar Wyss. 2016. "Drug prescribing patterns at primary health care level and related out-of-pocket expenditures in Tajikistan." BMC health services research 16 (1):556.

Ebrill Liam et al "The Modern Vat", chapters 2 and 8, International Monetary Fund, 2001.

Eric Toder, "What is Tax Gap", Tax Notes October 2007.

Gaudin, Syvestre, and Abdo S Yazbeck. 2014. Health Sector Policy Challenges in Low- and Middle-Income Countries: Learning from Public Expenditure Reviews. In Health, Nutrition and Population (HNP) Discussion Paper. Washington, DC: The World Bank.

Giuffrida, Antonio, Wezi Marianne Msisha, and Sarvinos Barfieva. 2013. Review of public expenditures on health. The World Bank.

Grantham-McGregor, Sally, Yin Bun Cheung, Santiago Cueto, Paul Glewwe, Linda Richter, Barbara Strupp, and International Child Development Steering Group. 2007. "Developmental potential in the first 5 years for children in developing countries." The lancet 369 (9555):60-70.

Hogan, Daniel R., Gretchen A. Stevens, Ahmad Reza Hosseinpoor, and Ties Boerma. 2018. "Monitoring universal health coverage within the Sustainable Development Goals: development and baseline data for an index of essential health services." The Lancet Global Health 6 (2):e152-e168. doi: 10.1016/S2214-109X(17)30472-2.

Hughes, David, and Songkramchai Leethongdee. 2007. "Universal coverage in the land of smiles: lessons from Thailand's 30 Baht health reforms." Health Affairs 26 (4):999-1008.

IFC, World Bank Group in Tajikistan. Dushanbe, 2018; Investment incentives in Tajikistan. Draft methodology note.

Institute for Health Metrics and Evaluation. 2020. "Tajikistan profile." Institute for Health Metrics and Evaluation, University of Washington, accessed November 25. http://www.healthdata.org/tajikistan.

Jacobs, Eelco. 2019. "The politics of the basic benefit package health reforms in Tajikistan." Global health research and policy 4 (1):14.

James, S. (2018). "Tax and non-tax incentives and investment: Evidence and Policy Implications," Investment Climate Advisory Services. World Bank Group.

Kaae, Susanne, Lilit Ghazaryan, Karaman Pagava, Irma Korinteli, Larissa Makalkina, Gaukhar Zhetimkarinova, Ainur Ikhambayeva, Elizaveta Tentiuc, et al. 2020. "The antibiotic knowledge, attitudes and behaviors of patients, doctors and pharmacists in the WHO Eastern European region– a qualitative, comparative analysis of the culture of antibiotic use in Armenia, Georgia, Kazakhstan, Moldova, Russia and Tajikistan." Research in Social and Administrative Pharmacy 16 (2):238-248.

Kazakhstan's Tax Framework, Ministry of Finance Kazakhstan, 2016.

Khodjamurodov, Ghafur, Dilorom Sodiqova, Baktygul Akkazieva, and Bernd Rechel. 2016. "Tajikistan: health system review."

Kraay, Aart. 2018. Methodology for a World Bank human capital index: The World Bank.

Kruk, Margaret E, Anna D Gage, Naima T Joseph, Goodarz Danaei, Sebastián García-Saisó, and Joshua A Salomon. 2018. "Mortality due to low-quality health systems in the universal health coverage era: a systematic analysis of amenable deaths in 137 countries." The Lancet 392 (10160):2203-2212.

Lagarde, Mylene, and Natasha Palmer. 2008. "The impact of user fees on health service utilization in low- and middle-income countries: how strong is the evidence?" Bulletin of the World Health Organization 86:839-848C.

Lagarde, Mylène, and Natasha Palmer. 2011. "The impact of user fees on access to health services in low- and middle-income countries." Cochrane Database of Systematic Reviews (4).

Lavigne, E., Yasseen III, A.S., Stieb, D.M., Hystad, P., Van Donkelaar, A., Martin, R.V., Brook, J.R., Crouse, D.L., Burnett, R.T., Chen, H. and Weichenthal, S., 2016. Ambient air pollution and adverse birth outcomes: differences by maternal comorbidities. *Environmental research*, *148*, pp.457-466.UNECE, 2017. Environmental Performance Reviews, Tajikistan. Third Review. UN, New York and Geneva, 2017

Limwattananon, Supon, Sven Neelsen, Owen O'Donnell, Phusit Prakongsai, Viroj Tangcharoensathien, Eddy Van Doorslaer, and Vuthiphan Vongmongkol. 2015. "Universal coverage with supply-side reform: The impact on medical expenditure risk and utilization in Thailand." Journal of Public Economics 121:79-94.

Lozano, Rafael, Nancy Fullman, John Everett Mumford, Megan Knight, Celine M. Barthelemy, Cristiana Abbafati, Hedayat Abbastabar, Foad Abd-Allah, et al. 2020. "Measuring universal health coverage based on an index of effective coverage of health services in 204 countries and territories, 1990–2019: a systematic analysis for the Global Burden of Disease Study 2019." The Lancet 396 (10258):1250-1284. doi: 10.1016/S0140-6736(20)30750-9.

McCarthy, Mary. 2016. "Sustainable general practice: looking across Europe." The British Journal of General Practice 66 (642):36.

McIntyre, D., F. Meheus, and J. A. Røttingen. 2017. "What level of domestic government health expenditure should we aspire to for universal health coverage?" Health Econ Policy Law 12 (2):125-137. doi: 10.1017/s1744133116000414.

McIntyre, Diane, Bertha Garshong, Gemini Mtei, Filip Meheus, Michael Thiede, James Akazili, Mariam Ally, Moses Aikins, et al. 2008. "Beyond fragmentation and towards universal coverage: insights from Ghana, South Africa and the United Republic of Tanzania." Bulletin of the World health Organization 86:871-876.

McIntyre, Diane, Joseph Kutzin, and World Health Organization. 2016. Health financing country diagnostic: a foundation for national strategy development. World Health Organization.

Ministry of Health and Social Protection of the Population of the Republic of Tajikistan, 2019. Report on the Joint Annual Review of the Implementation of the National Health Strategy for 2010-20. 2019.

Mirzoev, Tolib N, Andrew Green, and Ricky Van Kalliecharan. 2015. "Framework for assessing the capacity of a health ministry to conduct health policy processes—a case study from Tajikistan." The International journal of health planning and management 30 (2):173-185.

Naghavi, Mohsen, Amanuel Alemu Abajobir, Cristiana Abbafati, Kaja M Abbas, Foad Abd-Allah, Semaw Ferede Abera, Victor Aboyans, Olatunji Adetokunboh, et al. 2017. "Global, regional, and national age-sex specific mortality for 264 causes of death, 1980–2016: a systematic analysis for the Global Burden of Disease Study 2016." The Lancet 390 (10100):1151-1210

Narain, U. and Sall, C., 2016. *Methodology for valuing the health impacts of air pollution: discussion of challenges and proposed solutions*. World Bank.

Neelsen, Sven. 2021. Public Expenditure Review in Health for the Republic of Tajikistan. In Unpublished manuscript. Washington, DC: World Bank.

Neelsen, Sven, and Owen O'Donnell. 2017. "Progressive universalism? The impact of targeted coverage on health care access and expenditures in Peru." Health economics 26 (12):e179-e203.

Nguyen, Ha Thi Hong, and Tihomir Strizrep. 2019. Toward a More Pro-Poor and Explicit Health Benefit Package in the Kyrgyz Republic: A Critical Review of the State Guaranteed Benefit Package and Options for Its Revision. World Bank.

OECD, 2010. Tax Expenditures in OECD Countries.

Roberton, Timothy, Emily D Carter, Victoria B Chou, Angela R Stegmuller, Bianca D Jackson, Yvonne Tam, Talata Sawadogo-Lewis, and Neff Walker. 2020. "Early estimates of the indirect effects of the COVID-19 pandemic on maternal and child mortality in low-income and middle-income countries: a modelling study." The Lancet Global Health.

Stobbelaar, Frans, and Alisher Machmudov. 2018a. Centralized Procurement and Supply of Medicines. edited by Technical Assistance to the Ministry of Health and Social Protection of Tajikistan: GFA Consulting Group GmbH.

Stobbelaar, Frans, and Alisher Machmudov. 2018b. Survey on the Availability, Prices, and Affordability of Medicines from the Essential Drug List of Tajikistan. In Technical Assistance to the Ministry of Health and Social Protection of Tajikistan: GFA Consulting Group GmbH.

Tangcharoensathien, Viroj, Supon Limwattananon, Walaiporn Patcharanarumol, Jadej Thammatacharee, Pongpisut Jongudomsuk, and Supakit Sirilak. 2015. "Achieving universal health coverage goals in Thailand: the vital role of strategic purchasing." Health policy and planning 30 (9):1152-1161.

TajStat 2019. Agency of Statistics under the President of the Republic of Tajikistan

"Tax gap in the global economy", Journal of Money Laundering Control, Vol. 21 Issue: 4, pp.567-583, https://doi.org/10.1108/JMLC-12-2017-0072. In USA, the tax gap in 2018 was 3.8 percent of GDP, Great Britain 3.2 percent and Japan 4.3 Percent.

Versporten, Ann, Ganna Bolokhovets, Lilit Ghazaryan, Vafa Abilova, Galina Pyshnik, Tijana Spasojevic, Irma Korinteli, Lul Raka, et al. 2014. "Antibiotic use in eastern Europe: a cross-national database study in coordination with the WHO Regional Office for Europe." The Lancet infectious diseases 14 (5):381-387.

Vos, Theo, Stephen S. Lim, Cristiana Abbafati, Kaja M. Abbas, Mohammad Abbasi, Mitra Abbasifard, Mohsen Abbasi-Kangevari, Hedayat Abbastabar, and others. 2020. "Global burden of 369 diseases and injuries in 204 countries and territories, 1990–2019: a systematic analysis for the Global Burden of Disease Study 2019." The Lancet 396 (10258):1204-1222. doi: 10.1016/S0140-6736(20)30925-9.

Wagstaff, Adam, and Sven Neelsen. 2020. "A comprehensive assessment of universal health coverage in 111 countries: a retrospective observational study." The Lancet Global Health 8 (1):e39-e49. doi: 10.1016/S2214-109X(19)30463-2.

Watkins, David A, Jinyuan Qi, Yoshito Kawakatsu, Sarah J Pickersgill, Susan E Horton, and Dean T Jamison. 2020. "Resource requirements for essential universal health coverage: a modelling study based on findings from Disease Control Priorities." The Lancet Global Health 8 (6): e829-e839.

World Bank Group, "Tax gap analysis: An assessment of value added tax and corporate income tax", April 2020.

World Bank. 2005. Tajikistan: Public Expenditure and Institutional Review. Washington, DC: World Bank.

World Bank. 2008. Tajikistan Second Programmatic Public Expenditure Review (In Four Volumes). Volume IV: Public Expenditure Tracking Survey (PETS) Health Sector. Washington, DC: Poverty Reduction and Economic Management Unit Europe and Central Asia Region. The World Bank.

World Bank & IHME, 2016. The Cost of Air Pollution. Strengthening the Economic Cost of Action. Washington DC.

World Bank. 2019a. Tajikistan Country Economic Memorandum; Chapter 3 "Tax System Assessment".

World Bank. 2019b. Tajikistan: Overview of Tobacco Use, Tobacco Control Legislation, and Taxation. Washington, DC: World Bank Group Global Tobacco Control Program. World Bank.

World Bank. World Development Indicators (WDI), 2020.

World Bank. 2020a. The Human Capital Index 2020 Update: Human Capital in the Time of COVID-19. World Bank.

World Bank. 2020b. "Poverty in Tajikistan 2020." accessed December 18. https://www.worldbank.org/en/news/infographic/2020/10/15/poverty-in-tajikistan-2020.

World Health Organization. 2016. Health workforce requirements for universal health coverage and the Sustainable Development Goals. In Human Resources for Health Observer, 17. Geneva: World Health Organization.

Yazbeck, Abdo S, William D Savedoff, William C Hsiao, Joe Kutzin, Agnès Soucat, Ajay Tandon, Adam Wagstaff, and Winnie Chi-Man Yip. 2020. "The Case Against Labor-Tax-Financed Social Health Insurance for Low-And Low-Middle-Income Countries: A summary of recent research into labor-tax financing of social health insurance in low-and low-middle-income countries." Health Affairs 39 (5):892-897.