Board Meeting of July 23, 1998
Statement by Juan L. Cariaga

TAJIKISTAN – Country Assistance Strategy
And Structural Adjustment Credit

**Introduction**

We would first of all express our appreciation to staff for this very well prepared CAS describing developments in Tajikistan during recent years and its current situation, as well as the remaining challenges ahead. As importantly, we welcome the clear assessment of the obstacles Tajikistan faces in recovering from civil conflict. This is extremely valuable in view of the difficult situation described and allows us to more adequately address the issues raised and the risks of dealing with a post-conflict situation, as we seek to fulfill our responsibilities for “reconstruction and development.”

As noted in the report, the political and social events in Tajikistan described by the CAS have delayed reform and contributed to increase the level of poverty. Because of this, the role of the international community has become crucial in providing humanitarian assistance to alleviate poverty. The June 1997 peace agreement and the efforts at national reconciliation now give some hope for the future.

We endorse the Bank’s overall strategy, focusing on promoting growth, maintaining macroeconomic stability and reducing poverty via interventions targeted mainly on the largest groups of the poor. The composition of the lending program -- with operations for adjustment, the agricultural and social sectors, infrastructure development and technical assistance and institutional strengthening -- and its focus on poverty reduction is appropriate for this strategy. We also support the Structural Adjustment Credit being considered along with this CAS and find it supports overall CAS objectives.

**Economic Considerations**

One of the most important and promising developments since implementation of the peace agreement in mid-1997 has been the commitment by Tajikistan authorities to deepen reform efforts through concentration on macroeconomic stability and structural reform. As a result, substantial improvement has occurred in the last year. While there are many measures that can contribute to enhancing long term economic growth and poverty alleviation, macroeconomic stability and
structural reform are clearly among the most important, if not necessary conditions.

Progress since mid-1997 has therefore been very encouraging. Inflation dropped to 1.3 percent for the first quarter of 1998 and the exchange rate has been stable. The fiscal deficit went from 10 percent of GDP in June 1997 to 1.6 percent during the same quarter this year. As a result, Tajikistan has been able to return to some growth, albeit only a modest two percent, for the first time since independence FSU in 1991.

Although still weak in terms of poverty alleviation, this growth is an important achievement that creates both serious challenges and cautious optimism for the near future. The Bank and IMF have recognized this, the Bank through two post-conflict operations and the Fund with a post-conflict facility and more recently a three-year ESAF. Risks and challenges however remain serious with both the economic recovery and the peace process still weak.

The Bank’s proposed program supports the government’s strategy of pursuing structural reform through an emphasis on private sector development, financial sector reform and restructuring of the agricultural and social sectors. The emphasis placed on privatization in both the industrial and agricultural sectors is important and encouraging, as is the progress that is expected to be made by 2001. The reform process has to be maintained and accelerated in order to create the necessary environment for the attraction of foreign direct investments.

However, we wonder why so-called “strategic” industries (utilities, natural monopolies) are seemingly exempt. In the past categorization as “strategic” has often served as a classic argument (or perhaps more accurately pretext) used to avoid privatization. Can staff clarify what reasons might exist for this in Tajikistan?

Clearly, also, there is much more that can be attempted in the creation of an enabling environment for private agricultural enterprises. We look forward to considering the projects that are being prepared to address farm restructuring and agricultural support services. In general, however, we agree with the focus on the agricultural and rural sectors. This is especially true given the extent of poverty in the country and the importance of the agricultural sector.

The strategies which IFC and EDI intend to pursue are appropriate. However, we understand that assistance from other potential donors and agencies has been less than hoped. We would appreciate it if staff could comment on any reasons that might explain this and whether the government envisages efforts to seek additional support?

Conclusions

The risks described are serious and described candidly. Yet the Bank apparently has a major role and opportunity to contribute to development and poverty alleviation because of the favorable relation with the government it has established. This privileged position brings with it additional responsibility and the peace agreement provides an opportunity to pursue economic reform. Conversely,
economic reform and development will contribute to this fragile process and it is right that the Bank Group is participating.

Finally, we would again like to recognize the government’s efforts in restoring peace and national reconciliation and wish the government and people of Tajikistan success with its expansion and the implementation of this essential program assisting those efforts.