Board Meeting of July 30, 1998
Statement by Matthias Meyer

**Tajikistan – Country Assistance Strategy and Structural Adjustment Credit**

Tajikistan has achieved significant progress in macroeconomic and political stabilization since the signing of the peace agreement in June 1997. My Tajik authorities highly value the assistance and quick response provided by the World Bank and the IMF in the post-conflict reconstruction of the country. They would also like to thank sincerely the Bank’s management for organizing the Consultative Group Meeting in Paris in May 1998.

**Progress in the Peace Process**

There are strong indications that the peace process is going solidly forward despite occasional delays and setbacks. One of those was the recent tragic incident where four UN workers got killed. However, this incident has strengthened the resolve of the signatories to keep the peace process on track. A joint statement dated July 28, 1998, by the President of Tajikistan and the leader of the Tajik opposition gives evidence of this view. All leaders of the opposition have returned and are now residing and working in Dushanbe. Many have recently brought their families from neighboring countries. I interpret this as a strong symbol of confidence in the future stability.

Paragraph 3 of the CAS, implies that the civil conflict was based on ethnic tensions, I am convinced that the cause of the recent civil war was rather ideological (vision of the state, culture, religion), where regional and social differences became politicized. Ethnic and linguistic differences seem to have played a minor role.

The following steps were taken by the Government and the opposition to speed up the peace process:

♦ Consensus on the revision of the controversial party law;

♦ Further progress in the power sharing arrangement. 6 representatives of the UTO were appointed to high positions in the government in accordance with the peace agreement. As the joint statement indicates, the two parties agree on the inclusion of further representatives of the opposition to reach the full 30% quota, the goal stated in the peace agreement.
Return of 150 opposition fighters from Afghanistan. Technical and financial difficulties to set up the assembly areas have slowed down the demobilization process, but they should be resolved soon.

Already 600 former members of the opposition’s armed groups were sworn in to become part of the army or law enforcement. This process continues.

Reciprocal commitments to avoid using local and external mass media for mutual accusations on political grounds.

The majority of the participants in the previous conflict were granted amnesty and released from jail. A draft resolution on a general amnesty involving the remaining part of the participants in the conflict was sent to Parliament.

The release of prisoners of war and the return of refugees from the territory of Afghanistan have been fully completed.

Amendments to the Constitution are being prepared to set the stage for future parliamentary elections. If all goes according to expectations, then Tajikistan will have multi-party elections within the next 12 months in the context of an open political climate and a free press.

For the progress on the political front to be consolidated and to be sustainable, it is imperative that progress be made on the economic front, and that the transition from one system to another receives the necessary external support.

Recent Economic Progress

Macroeconomic stability has improved faster than foreseen under the IMF’s post-conflict program. Fiscal and monetary policies were tighter than programmed contributing to a more rapid reduction in inflation. Cumulative inflation from October through April was 14 percent, compared to a program target of 33 percent and inflation has been even negative in May and June. The official nominal exchange rate has remained roughly stable since September.

Strong fiscal adjustment has been key to the improved macroeconomic stability as the fiscal targets for December and March were met with wide margins. Furthermore, the end-March net international reserves, net domestic assets and reserve money targets were observed with substantial margins.

Structural reforms also progressed. Privatization of small enterprises and the conversion of medium and large enterprises to joint stock companies have picked up speed in the first half of 1998 in comparison with 1997, and ambitious privatization targets have been set for the remainder of 1998 and 1999. The banking system is being restructured and strengthened. External diagnostic audits according to international accounting standard have been completed or are underway for each of the five major banks and operational restructuring agreements have been signed.
Institutional reforms have continued with further steps toward developing the treasury system, strengthening of the NBT’s banking supervision capacity, and increasing computerization of Goskomstat. In the area of legal reform a new Law on Banks and Banking was prepared as well as amendments to the laws on Collateral, Joint Stock Companies, the Stock Market, and Bankruptcy. These laws were all approved by the spring 1998 session of Parliament. A new Tax Code was drafted in consultation with the IMF.

This list of accomplishments is not meant to be exhaustive but to illustrate that my Tajik authorities have proven their commitment to the reform process.

Progress in the implementation of the peace agreement and of the economic reforms has started to show results in the real economy. Officially recorded real GDP increased by almost 2 percent in 1997, the first year since independence that real GDP has not fallen. The recovery has continued with real GDP in the first semester of 1998 being 2.6 percent above the same period of 1997 according to the most recent figures.

In this context, I would like to urge IFC to become more active in Tajikistan. There are many promising business opportunities in Tajikistan. The description in paragraph 40 of the CAS is quite superficial and I would appreciate to get further clarifications from IFC. I request that Tajikistan be included in the Extending the Reach Initiative.

At the same time, I am satisfied that EDI has made Tajikistan one of its focus countries (para. 41). Training by EDI will enhance the quality of the reform process.

**Resource Mobilization**

There is a huge need to improve the provision of basic public services in the areas of the social safety net, health and education and to rebuild badly damaged public infrastructure. More urgently there is a need to deal with the consequences of recent natural disasters. The constraints on the budget are further aggravated by the need to finance the peace process. Only a part of the pledges made at the November 1997 Vienna Donor’s Conference has been transformed into commitments.

Demobilization of ex-combatants and their reintegration in the society will be difficult to achieve in a satisfactory way without further external financing. Demobilization is a prerequisite for the consolidation of peace. A convincing program has been worked out, but the complete financing is not yet assured. Therefore, I would like to urge the Bank to foresee additional financing for the demobilization program. Financing the demobilization and reintegration process is a sound investment. It will reduce the risks that a serious setback might occur, thereby making the entire World Bank commitment in Tajikistan less risky.

In light of the successful implementation of the post-conflict programs financed by the World Bank and the strong ownership of the new ESAF program by key policy makers, I believe that the program proposed in the CAS has a good chance of success. Tajikistan has
proven under previous operations that the absorptive capacity exists. I am aware of the risks involved, but I am convinced that it is worthwhile to take them.

It would be very useful to strengthen the resident mission in Dushanbe. The OED study on the World Bank’s experience with post-conflict activities has clearly demonstrated that a competent, well-staffed resident mission raises the chances of success. I hope that management will move on that front as well.

Last but not least, I would like to appeal to my colleagues from bilateral agencies that they put Tajikistan on the map of their aid programs. Together with the World Bank, we can help Tajikistan to strengthen peace and reduce poverty.