Appraisal of the Report of Ministry of Finance of Republic of Tajikistan on Compliance with Requirements of the First Tranche of EFSD Financial Credit

The Economic Policy Matrix agreed upon with the authorities requires compliance with 21 Targets as conditions for disbursement of the first tranche of the EFSD Financial Credit, of which 8 are Control Targets (CT), and 13 – Indicative Targets (IT). The implementation of the Matrix measures, is aimed at enhancing the stability of the budgetary system of the Republic of Tajikistan through increasing the efficiency of management of state-owned enterprises, which are currently creating serious risks for the budget by generating large-scale contingent liabilities and quasi-fiscal deficits; at optimizing the tax policy and expanding the tax base by repelling inefficient tax benefits; improving the quality of public finance management by way of ensuring a balanced budget and pursuing prudent debt policies; at improving the quality of monetary and exchange rate policies, and at strengthening the banking sector as a tool for diversifying the economy and expanding the tax base.

Regarding the Control Targets, 6 are fully met, 2 Targets were met partially. Partial compliance with Control Target 1.2 on providing liquidity by the NBT to banks, based on certain criteria, is due to the low liquidity of collateral pledged by such banks (usually real estate). As for Control Target 2.1, which requires improved quality of NBT monitoring of banks' compliance with prudential standards and corrective measures taken against non-compliant banks, and which is deemed accomplished by the Tajik authorities, the Manager has a reservation. Since in number of cases the NBT has imposed milder sanctions, than prescribed by the law, the status of compliance with this Target in the Manager's Appraisal is specified as "partial".

As regards the Indicative Targets, 6 of them are fully met, 4 - partially met, 3 Targets are unmet. Among key unmet Indicative Targets, there is one requiring repayment of debts of borrowers of Agroinvestbank in the amount of TJS 500 million, payable to the Ministry of Finance of the Republic of Tajikistan. In accordance with the schedule approved by the MFT, as of the date of the Appraisal of compliance with the requirements of the first tranche, 30% of this amount should have been transferred to the budget, while actual receipt was 1.6%. Given debt collection problems, the Ministry of Finance of the Republic of Tajikistan intends to suggest to the Expert Council to consider removing this Target from the Matrix. The Manager recommends retaining it in the Matrix in order to be able to monitor the progress of execution of the schedule. The Target requirement of eliminating the multiple exchange rate practices. Given the systemic importance of this Indicative Target for improving the stability of the economy of the Republic of Tajikistan, the Manager considers it necessary to upgrade this requirement to the status of a Control Target and brings this question for consideration of the Expert Council.

Based on the Appraisal, the Manager proposes to approve disbursement of the first tranche of the EFSD Financial Credit to the Republic of Tajikistan in amount of US$ 20 million to transfer it to the Republic of Tajikistan upon entry into force of the Agreement on provision of the EFSD Financial Credit between the Eurasian Development Bank and the Republic of Tajikistan, subject to effective compliance with the requirement to eliminate multiple exchange rate practices.

Detailed information on the status of all Targets for the first tranche is given below.

1. Macroeconomic stability.
1.1. CT. Maximum amount of liquidity provided to banks as of September 1st, should not exceed TJS 160 million.
Target is met.

According to the NBT’s balance sheet, as of September 1st, liquidity provided by the NBT to commercial banks amounted to TJS 155 million.

This measure is aimed at optimizing the volume of banks’ liquidity support taking into account inflation target. Loans provided by the NBT to commercial banks may increase money supply through monetary base growth and, thereby, put pressure on prices. Since the Matrix also specifies a ceiling for the monetary base, this tool allows directly affecting its level and the inflation rate.

Tajikistan is a small open economy, heavily dependent on cash remittances and prices for food and raw materials, including oil products. External shocks can have a strong impact on dynamics of all macroeconomic indicators, including inflation. Liquidity management measures will contribute to mitigation impacts of external shocks on inflation and exchange rates, along with providing sufficient liquidity to commercial banks to maintain stability of the national payment system.

1.2. CT. NBT provides liquidity only to banks whose stability is supported by the capital adequacy compliant with the International Financial Reporting Standards and with the regulatory requirements established by the NBT, and only subject to such banks pledging highly liquid collateral.
Target is met partially.

According to the NBT, loans are provided to only those credit institutions, which have adequate property to secure the requested loan (mainly real estate), a correspondent account with the NBT, comply with prudential regulations and do not have problems with contributions to mandatory reserves.

This requirement is aimed at eliminating the practice of funding problem banks that face acute and persistent liquidity problems, mainly because of their involvement in prescriptive lending. Financing such inefficient banks reduces the effectiveness of the banking system as a whole, since it increases the share of bad loans and contributes to the erosion of capital. In addition, provision of liquidity, by drawing on the NBT resources, without duly addressing the causes that provoked the need for it, is essentially equivalent to money issue that could lead to inflation and put pressure on the exchange rate.

Compliance with this Target was verified on the basis of liquidity provision requirements, prescribed by the Law “On the National Bank”. Full compliance with this Target requirement throughout the entire term of the Credit is expected to improve the efficiency of the banking system, as efficient banks can gain priority access to liquidity loans, and the practice of granting loans by banks to problem borrowers will be terminated.

1.3. IT. Maximum level of monetary reserves must not exceed TJS 6.8 billion
Target is met.

In accordance with the NBT balance, the level of reserve money was equal to TJS 6.8 billion (TJS 6.6 billion at a rate fixed early in 2014).

This measure is geared to enable management of monetary factors of inflation in order to achieve the level of inflation envisaged by the authorities. Amid the external shocks, observed at present, it is important to curb the inflation-devaluation pressures on the economy. It should be indicated that, despite the slowdown in inflation, the monetary base of the Republic of Tajikistan increased substantially in 2015 (12.7% as compared to 8.5% in the corresponding period of the previous year). The slowdown in the current rate of inflation in the context of significant devaluation of TJS (19.3% in January-August of this year) and the growth of the monetary base is largely explained by reduction of global prices and purchasing power of the population due to shrinking of disposable income. However, in order to avoid the delayed impact of the monetary base factors on inflation, the NBT commits to freeze the level of this driver until mid-2016, which is a requirement for the second tranche of the Credit.
1.4. IT. Multiple of exchange rates exchange rate practices abolished (deviation between market and official exchange rates should not exceed 2%).

Target is not met.

According to the NBT statistics, as of 01/09/2015, the difference between the market and official exchange rate was 6.8%.

This requirement is intended to ensure elimination of multiple exchange rates practices in the economy. Availability of several exchange rates amplifies devaluation expectations, increases dollarization level, distorts price signals, creates unequal conditions for actors on the foreign exchange market and makes the economy more vulnerable to external shocks. As a result of the adoption in September by the new management of the NBT of a strategy for gradual elimination of the difference between the official exchange rate and the US$ spot transaction rate, the gap between them decreased from 10-13%, reported in March 2015, to 6.8% as of 01/09/2015 and down to 3.8% at the end of October 2015. By the end of 2015, the NBT is planning to reach a unified exchange rate, which assumes a deviation between market and official exchange rates by not more than +/-2% by end-2015.

At the beginning of November of this year, along with the depreciation of the Russian ruble, there was an increase in the gap between the exchange rates, which casts doubt on the effectiveness of the NBT's policy of gradual elimination of the exchange rate differences. The Manager recommends to the authorities to increase flexibility to the exchange rate by setting the official exchange rate based on the currency exchange trading results, without any correction coefficients to adjust the official exchange rate. Given the systemic significance of the requirement under review, the Manager considers it necessary to upgrade it to the status of a Control Target.

1.5. IT. Balanced budget execution during 9 months 2015 (without PIP expenditures financed by foreign loans and grants).

Target is met.

The budget for January-September was executed with a surplus of 2.3% of GDP.

Inclusion of this target in the Matrix is stipulated by the need to increase the sustainability of RTs public finances given the low level of budget deposits, which do not exceed two months' expenditure requirement, and a high level of external debt with unfavorable forecasts of economic slowdown in Tajikistan because of the slow recovery in the region and shrinking remittances of Tajik labor migrants.

The budget surplus for 9 months of the current year slightly exceeded the level of the corresponding period of 2014 (2.2% of GDP), due to the mobilization of domestic taxes and non-tax proceeds, whose share in GDP increased from 18.8% to 20.5%, as if in response to the drop in external taxes from 9.2% GDP to 7.6% of GDP in the context of reduction in imports, while maintaining the expenditures at the level of January-September 2014 (25.9% of GDP, as compared to 25.8% of GDP). The growth of domestic taxes on goods and services, as well as non-tax proceeds was due to the growth in almost all sectors of the economy, as well as due to the strengthening of tax administration systems, including expansion of the number of inspections of business entities and imposed penalties. The Ministry of Finance of the Republic of Tajikistan expects that at the end of 2015 the budget will be executed with a zero balance, because all the surplus accumulated over the past period, will be used to finance expenses due to the anticipated shortfall of revenue in Q4 in an amount equivalent to US$ 100 million, which is due to depletion of the administrative leverage and the absence of drivers to increase effective demand for imports.

1.6. CT. No overdue arrears of the state budget for payment of wages and pensions

Target is met.

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1 The level of dollar deposits in the economy of RT as of 01/09/15 is equal to 62.7%.
As of 01/09/2015, no state budget arrears for payment of wages and pensions are observed, as corroborated by the data provided by the regional departments of finance and the central treasury.

In Tajikistan, where wages and pensions are considered as instruments of social protection, compliance with this requirement is aimed at preventing the growth of poverty in the short term, especially in the context of reduced remittances and diminished real disposable incomes of the population. Until 2014, the Republic of Tajikistan experienced positive trends in reducing poverty - from 45% in 2010 to 32% in 2014\(^2\), but the current situation may lead to deterioration in poverty indicators.

1.7. CT. Non-concessional external borrowing is not attracted.
*Target is met.*

Foreign borrowings by RT are implemented based on the Public Debt Management Strategy for 2015-2017, which assumes attracting loans with grant element of at least 35%. In the current year, the Government signed 8 credit agreements in amount of US$ 244 million. The average maturity of these loans is 26 years, their average interest rate is 1.6%, and the grant element on average exceeds 35%.

The importance of this requirement for RT stems from high vulnerability of its economy and budget revenues to external shocks given its weak financial safety cushion. The GIR is equivalent to 1.2 months of imports. Increase in the gross external debt during the first half of the current year by US$ 285 million, along with the devaluation of the TJS, raised its ratio to GDP from 47.7% of GDP to 53.2% of GDP. The limited export proceeds (about 10% of GDP) and a significant reduction of the growth rate of remittances in the medium term, will also generate risks for debt sustainability. If at the beginning of 2015, the level of external debt was 9% lower than the revenue from exports and remittances, by the end of the first six months it was 4.3% higher. Despite the fact that the size of the external public debt remains at an acceptable level, equal to 22.5% of GDP (given the present threshold of 40%), the expected deterioration in the external debt indicators requires implementation of prudent fiscal and debt service policies. Therefore, the Manager supports the proposal of the IMF to the Government of Tajikistan to borrow funds only on concessional terms with a substantial grant-element (at least 35%).

1.9. CT. No overdue arrears on external public debt service.
*Target is met.*

The external public debt is serviced on time, without delays, strictly in accordance with the repayment schedule.

The importance of timely external debt service gains particular importance in the context of deterioration of debt indicators and volatility of budget revenue in times of unfavorable external environment. External debt service expenditures at the end of 2014 amounted to 6.1% of budget revenue and 13.1% of exports proceeds, while by the end of 9 months of 2015 these indicators increased to 7% and 16%, respectively.

1.10. CT. Minimum amounts of social spending as provided in the adopted Law “On State Budget” for 2015 should not be below 50% of the total budget expenditures.
*Target is met.*

In the adopted Law "On State Budget" for 2015, the share of expenditures for financing social sectors is equal to at least 50% of total expenditures (net of PIP). Budget social spending per capita in Tajikistan (in particular, for education and healthcare) is lower than in most countries in the region with similar income level. Their further decline may cause significant deterioration of the quality of human resources and jeopardize prospects for long-term growth of the country. The establishment of minimum levels of spending on social sectors helps prevent reduction in the share of expenditures on these sectors in the budget. At the same time, improved effectiveness of these expenditures should be enabled through more vigorous implementation of reforms in education and healthcare aimed at ensuring a higher quality of services and increased access of the population to these services. Improved targeting of social protection is also an important condition for expansion of coverage of those in need with relevant programs given the limited resources.

\(^2\) According to national statistics.
At the end of 9 months, the share of social expenditures was equal to 48%. According to the next tranche conditions, the share of actual social expenditures in 2015 should be at least 50%.

1.11. CT. No new issues of shares of JSC "Rogun HPP" for physical persons, residents of the Republic of Tajikistan.

Target is met.

According to the Agency on Securities of the Ministry of Finance of the Republic of Tajikistan, no new shares of JSC "Rogun HPP" for private individuals were issued in 2015.

Compliance with this requirement is necessary because of the need to prevent negative practices of using payroll funds of SOEs in the Republic of Tajikistan for buying-out stocks of OJSC "Rogun HPP" to fund its construction. In the course of operating per such schemes, salaries due were paid to government employees in the form of shares. During the campaign of public sale of stock of the Rogun HPP project in early 2010s, the population and businesses thus acquired shares in amount of more than TJS 800 million (about US$ 200 million or 0.8% of GDP).

The construction of the Rogun HPP is the most important state strategic priority for Tajikistan, which suffers acute shortage of power supply in winter, especially after the deterioration of trade relations with Uzbekistan. The cost of construction of the dam is US$ 6 billion (66% of GDP in 2014), of which up to US$ 3 billion is expected to be invested before 2022 (US$ 300 million annually, or 3.3% of GDP in 2014). In the context of limited budget resources, the Government of the Republic of Tajikistan faces a challenge of finding sources to finance this project without generating additional risks of deterioration of the external debt indicators and damaging social sectors, currently funded poorer as compared to other countries in the region with comparable income levels. Formation and development of the securities market in the country and enabling generation of "long" money, as well as setting up public-private partnerships are options to consider for generating such sources.

1.12. IT. Regular publication of data on the overall external debt status of the economy broken down by sectors, on public debt of the Government (including government-backed debts) and NBT, on a quarterly basis.

Target is not met.

As of 20/11/2015, on the NBT website, there was no publication of information on the gross external debt of RT or any archived materials on the subject. The Ministry of Finance of the Republic of Tajikistan posted on its website data on external public debt (including government guaranteed debt) for 3 quarters of 2015 only in the second half of November 2015, whereas by then only annual information was provided.

Implementation of this measure is explained by the need to improve transparency of external debt management and adequate risk assessment. According to the information provided by the NBT, failure to meet this measure relates to ongoing process of moving to external debt statistics guidelines contained in the Balance of Payments Manual of IMF (BPM6). According to the assurances of the NBT, data on the gross external debt will be published on the NBT website upon completion of calculations as required by the new guidelines, and adoption of the relevant amendments to the Law on the National Bank, describing this transition. The NBT provided no specific dates of publication.

The Manager suggests the NBT to proceed with the publication of the external debt data as soon as possible because this will strengthen the credibility of its policy.

2. Banking sector

2.1. CT. Improve the quality of monitoring by the NBT on compliance with prudential standards by commercial banks and take effective corrective actions against non-compliant banks.

Target is met partially.

The Manager believes that the amount of some of the penalties imposed by the NBT on banks, which failed to comply with prudential standards in January-September 2015, did not meet the requirements of the relevant legislation. Yet, the NBT considers that this Target fully met.

Improving the quality of supervision over compliance with the prudential standards constitutes one of the most important responsibilities of the NBT, focused on ensuring stability and efficiency of the banking system of the Republic of Tajikistan, especially in the context of deteriorating financial
condition of banks observed in recent years. At the end of 2014, the aggregate capital adequacy ratio of the banking system of Tajikistan declined to 14.7%, compared to 22.1% in 2013 and the minimum regulatory requirement of 12%, the return on assets and the stated return on equity for the year-end in 2014 were negative and equal to 4.4% and 29.2%, respectively, which largely reflects the performance of one of the largest banks in the country - Agroinvestbank, involved in directed lending schemes. In 2015, the share of non-performing loans in the portfolio of banks rose substantially - up to 29.3%, as compared to 27.2% in 2014, which was mainly due to the reduction in lending to the economy, as well as a decline in the solvency of the economic actors.

In 2015, 10 banks out of 17 failed to comply with the regulatory requirements on maximum risk per single borrower or group of borrowers, on a maximum size of long foreign exchange exposure and a maximum size of short open foreign exchange position. In general, the penalties, imposed by the NBT on non-compliant banks, are in line with the regulatory requirements of the current legislation; however, in some cases, softer penalties were applied, other than those, prescribed by law. The Manager urges the NBT corrective actions to fully comply with the legislation. Strengthening of banking supervision function should also help to discourage the practice of directed lending since the banks involved in such schemes often breach prudential standards.

2.2. IT. Improve transparency and access to information on operations of OJSCs, including the banking sector.

Target is met partially.

The Securities Agency of the Ministry of Finance of the Republic of Tajikistan posted information on the websites of the Agency and of the Ministry of Finance on major shareholders of all joint-stock companies, including commercial banks, as well as information on affiliated entities. The public has been informed about the availability of such information through a special notice, published in the newspaper "Jumhuriyat". Relevant information on commercial banks in the Republic of Tajikistan is currently missing from the NBT website.

The requirement of transparency in respect of the operations of joint-stock companies is stipulated by the need for creation of a more favorable environment for attracting investors, ensuring the rights of shareholders and exercising government control over financial transactions in the country. Expansion of the list information on joint-stock companies, including the most important shareholders, is indispensable both for revitalizing the domestic investment climate, and for the formation of the securities market in Tajikistan, which is currently at an extremely low level of development.

3. Public sector

3.1 IT. The debt repayment schedule of AIB borrowers to pay off the amount of TJS 500 million in favor of the MFT must be approved and executed in full.

Target is not met.

As of the date of appraisal of compliance with the first tranche conditions, borrowers repaid only 1.6% instead of 30% of the total amount payable to the Ministry of Finance of the Republic of Tajikistan, according to the approved schedule.

The measure aims at improving payment discipline, reducing fiscal risks and eliminating directed lending. Directed lending, at the expense of commercial banks, in addition to crowding out private lending and increasing non-performing loans, also contributes to increase of budget spending and/or increase of domestic debt of the Government due to the need for recapitalization of banks. In 2012, on expense of increase of domestic debt by TJS 700 million (2% of GDP), recapitalization and bailout were carried out in Agroinvestbank, one of the country's largest banks, actively involved in directed lending. In compliance with the Matrix, the authorities of the Republic of Tajikistan committed to ensure repayment of the outstanding debts by the borrowers of AIB in the amount of TJS 500 million\(^3\) by the end of 2016. The repaid amount will be used for encashment of promissory notes of the Government, which are currently held by the National Bank of the Republic of Tajikistan.

According to the information of the Ministry of Finance of the Republic of Tajikistan, in most cases, AIB pursues enforced collection of debts through court system, which is time-consuming and labor-

\(^3\) Amount equivalent to 22% of government deposits at the end of 2014, and 1% of GDP in 2014.
intensive process. In view of the above, the Ministry of Finance of the Republic of Tajikistan is not sure of its ability to execute the approved schedule and ensure full collection of debts by the date of the second tranche and intends to request the Fund Council to consider removing this requirement from the Matrix. At the same time, according to the information received from the management of the AIB, which is also dealing with bad debts, by the end of Q1 of 2016, significant progress may be expected in repayment of the above amount following proposed sale of the borrowers’ assets to Chinese investors. AIB expressed its readiness to prepare, jointly with the Ministry of Finance of the Republic of Tajikistan, a new debt repayment schedule, based on the above arrangement with investors, and ensure its execution by concerted efforts. The Ministry of Finance of the RT does not favor this initiative, pointing out the need for repealing the current schedule and the high risks of failure to get the borrowers to sign the new schedule, which will completely relieve them from responsibility for meeting their debt obligations.

3.2. IT. Streamline the system of tax and customs benefits through increasing transparency of information on their cost and repealing the ineffective preferences.

Target is met.

The Government reviewed and endorsed the Terms of Reference for assessment of the tax and customs preferences system, prepared by the Manager and approved the consultant for the implementation of this assessment program, suggested by the Manager. The tax and customs authorities confirmed their willingness to provide the consultant with all available information that may be required for such an assessment.

Revision of tax and customs benefits aims at enhancing fiscal stability of Tajikistan by expanding of the tax base. Tax revenue in Tajikistan is one of the lowest among countries in the region with similar income levels. Apart from the narrow tax base, which stems from inadequate diversification of the economy and the large share of agriculture (the least taxable sector) in the formation of Tajikistan’s GDP, this fact is largely influenced by a large-scale system of tax and customs benefits whose effectiveness requires further study. According to the authorities, the total cost of these benefits in 2013 was estimated at about TJS 4 billion, which was equivalent to half of the amount of taxes collected this year. The Manager acknowledges that a certain portion of this amount is budget-neutral (i.e., it reduces budget expenses by a similar amount), yet, an additional cost-benefit analysis is required to evaluate opportunity cost for the budget. Tax benefits are provided both by the Tax Code and by the annual State Budget Law, which grants benefits on an individual basis, which is clearly contradicts international practice of offering equal opportunities for all businesses.

According to the terms of the Matrix, by the date of appraisal for the second tranche the Government will prepare, on the basis of the consultant’s report, draft amendments for the tax legislation on repealing ineffective benefits, and will submit them to the Parliament, which should lead to improved budget revenue performance in the medium term.

3.3. IT Improve the quality of quasi-fiscal risk management system of the Government.

Target is met partially.

The first tranche conditions is posting the report of the Ministry of Finance of the Republic of Tajikistan on quasi-fiscal risks for 2013 on the website of the Ministry of Finance, and preparing of a draft Strategy on reducing quasi-fiscal risks.

The report on quasi-fiscal risks is posted on the website of the Ministry of Finance of the Republic of Tajikistan: http://minfin.tj/index.php?do=static&page=bua. Preparation of the draft Strategy to reduce quasi-fiscal risks is not completed. The first draft of the document will be ready by the end of this year.

This measures aims at improving the stability of the budget system of the Republic of Tajikistan by resolving the problem of high quasi-fiscal risks generated by state-owned enterprises of the Republic of Tajikistan. According to the report of the Department of Monitoring of fiscal risks of the largest state-

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4 At the end of 2014, net of social expenditures, taxes in the RT accounted for 19.9% of GDP, compared to 20.8% of GDP in the Kyrgyz Republic and 14.6% in the Republic of Armenia.

5 Despite privatization efforts carried out in the years following its independence, the public sector in Tajikistan is still a very important economic component: the state-owned enterprises employ about one third of the total
owned enterprises of the MFT, in 2013, 13 out of 24 largest state-owned enterprises, reported profits in the year-end result, whereas others were loss-making. **The total debt of these enterprises amounted to more than US$ 2.5 billion, or almost one-third of the GDP for the relevant year**. The main factors of losses of state-owned enterprises are distortions in pricing of their products and services; inefficient costs due to poor structure of enterprises and social and charity-related responsibilities imposed on them; as well as mismanagement problems. The volatile financial condition of state-owned enterprises significantly increases the burden on the Ministry of Finance of the Republic of Tajikistan through servicing the external debt of the largest enterprises and reduction in the revenue base due to high tax liabilities of state-owned enterprises. According to the results of 2013, 53% of the total amount of tax arrears due to the budget (TJS 885 million) was attributed to 24 observed state-owned enterprises. The risks of conversion of the Government's contingent liabilities, generated by SOEs, into direct liabilities, are also very high.

Based on the experience accumulated by the Ministry of Finance of the Republic of Tajikistan in analyzing the fundamental causes of the unsatisfactory financial condition of SOEs, the Ministry, intends to prepare, in conjunction with an international consultant, a Strategy for quasi-fiscal risk management, which will lay the ground for a comprehensive action plan of the Government aimed at rehabilitation of state-owned enterprises. Implementation of this action plan in the medium term should improve the stability of the budget of the Republic of Tajikistan through increase of taxes paid by state-owned enterprises, as well as reduction of the risks for the Government from materialization of direct and contingent liabilities generated by these enterprises.

**3.6. IT. Implement a system of public sector contract monitoring.**

*Target is met.*

A system of public sector contract monitoring has been implemented.

The implementation of this requirement is explained by the need to terminate the practice of untimely and/or incomplete payment by the Treasury the obligations of budgetary organizations to suppliers for goods and services produced and supplied. The main cause of the emergence of such accounts payable in budget organizations was lack of control by the Treasury over the amounts of bids of budget organizations for the supply of goods, works and services and practices of budget organizations of contracting in amounts that exceed budgeted resources for specific line items.

The implementation of the new Government Finance Management Information System (GFMIS) proved allowed eliminating such payables by means of a mechanism which requires prior approval by the Treasury of all bids for supply of goods and services before the selection and contracting process. Such prior approval by the Treasury is issued only for bids, which quote proposed contract prices that do not exceed the approved amount for the relevant expense item for this organization.

The implementation of this module allowed improving budget expenditure discipline, including mandatory timely and full payment to contractors for supplied goods, works, and services.
3.7. IT. Computerize management system for salary accounting and payments in public sector enterprises

Target is met.

The implementation of the system for the first tranche required reviewing of the existing management processes for salary accounting payments in public sector enterprises for design of an appropriate module in the GFMI system. The review was completed by the consultants of the Ministry of Finance of the Republic of Tajikistan. Currently, three versions of the proposed computerized information system for human resources and payroll management are developed and submitted for consideration of the Ministry of Finance of the Republic of Tajikistan.

Currently, the Ministry of Finance of the Republic of Tajikistan faces a challenge to determine an appropriate amount of resources to finance wages in the public sector in the process of budget preparation, which reflects in persistent failures to meet the plan on this line item with no overdue arrears in salaries and wages. The roots of this problem lie in the poor quality of statistics on the numbers of employed, mobility and vacancies in the staffing table of budget organizations. Computerized process of salary accounting as a component of the automated human resources management information system will permit to centralize and streamline procedures for more accurate payroll records of public sector organizations, and to increase accuracy and efficiency of salary accounting, as well as improve quality of budget preparation and budget execution through an interface between the HRMIS and GFMS. Implementation of this measure will result in savings of budget funds, both by increasing the accuracy of assignments, and by reducing the cost of accounting in budget organizations.

3.8. IT. Expand the scope of applications of PFM electronic systems

Target is met.

In support of the deployment of PFM computer systems in Tajikistan, as required for the first tranche, at least 50 workplaces should be created in budget organizations for online connection to the GFMI. To date, about 1200 organizations, funded from of the republican and local budgets, are connected to the system, of which about 200 budget organizations are connected online directly from their workplaces.

Implementation of this requirement constitutes the next step in automation of government finance management process, aimed at increasing transparency and efficiency of operations of both budget organizations and of the Treasury of the Ministry of Finance of the Republic of Tajikistan. Access to the FMIS enables budget organizations to file online requests for funding, based on the monitored funds, available on the Treasury accounts, and also increases the speed of generation of reports on spending of budget funds. The automated budget execution process enables the Treasury to proceed with optimizing the in-house functions in order to improve the quality of budget execution, including streamlining of the Treasury accounting system, development of functions for analysis and cash forecasting, as well as monitoring of contractual obligations of budget organizations.

1. Reform of energy sector

4.2. IT. Decommission all worn down and obsolete plant and equipment, which are beyond repair or further operation.

Target is met partially.

As of the contral date of appraisal for the first tranche, the open joint-stock holding company (OJSHC) “Barki Tojik” (BT) had prepared, together with a consultant, a list of worn down and obsolete fixed assets for the proposed decommissioning. At present, the list consists of 8,215 facilities for a total worth of TJS 12.5 million (US$2.6 million), with due account of the revaluation completed on 31 December 2013. The list is currently being considered by the State Investment Committee. The actual date of decommissioning is not given in the report of the MFT.

This activity is undertaken as part of the Plan of restructuring BT for 2011-2018, the main purpose of which is financial recovery of the company. The company is consistently unprofitable because of inefficient management, including the lack of proper metering and records of power supplied
and the associated large commercial losses, low tariffs that do not cover the cost of power generation, significant arrears in payments by consumers of electricity, including state-owned enterprises⁷, and other operational and technical problems. According to the report of the Ministry of Finance of the Republic of Tajikistan at the year end of 2013,⁸ the total amount of debt of BT is equivalent to 15% of GDP, which is ultimately indicative of the size of the Government's contingent liabilities. In fact, BT is the largest debtor to the budget in tax payments, and the company's quasi-fiscal deficit, determined as the difference between the cost of production and the current low tariffs, is equal to about 2% of GDP per annum.

The proposed decommissioning of the worn down and obsolete plant and equipment will enable BT to clean up its books, thereby eliminating the need to accrue depreciation charges and cutting down property taxes and will improve the company's profitability. However, positive profitability performance requires more comprehensive reforms, including the adoption of self-supporting tariffs (including the investment component), addressing the problem of non-payments and improving the quality of corporate management.

4.3. Identification of uncollectable receivables and payables of OSHC "Barki Tojik" and their write-off in due procedure.

Target is met partially.

The international consulting company Grant Thornton conducted a stocktaking of BT arrears and identified bad debts that do not have sources of funding. Currently, the stocktaking report on the inventory has been submitted to relevant ministries and departments for review and approval, and the final decision will be made by the supervisory board of BT, headed by the Prime Minister of the country, at the end of November.

This operation is undertaken with a view to ensuring a cleanup of BT’s books.

The size of the problem is evidenced by the amount of debt BT: at the moment the receivables are equal to TJS 1,200 million, or US$ 185.8 million at the current exchange rate (2% of GDP), while the payables amount to TJS 1,800 million, or US$ 278.6 million (3% of GDP). The amount of the bad receivables of BT was equal to TJS 400 million, or US$ 61.9 million (0.7% of GDP), bad payables - TJS 150 million, or US$ 23.2 million (0.3% of GDP). The main causes of the debts, as already mentioned above, are ineffective corporate management, the level of tariffs that do not cover generation costs, and poor payment discipline of electricity consumers.

Implementation of this requirement, reinforced by BT's efforts to prevent further growth of bad debts (including the development of a new tariff pricing model, restructuring of BT, aimed at increasing the transparency of in-house accounts), will lead to improvement in BT's financial performance.

⁷ The largest debtors to BT are the state unitary enterprise Talco (aluminum company), and the pumping stations of the Agency for land reclamation and irrigation of the Republic of Tajikistan.
⁸ National statistical service does not publish data on the real sector financial performance results. The only source of information on profitability of state-owned enterprises are reports of the Ministry of Finance of the Republic of Tajikistan, published with a significant delay.