

Document of
The World Bank

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Report No: 67470-TJ

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 6.5 MILLION
(US\$10.00 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TAJIKISTAN

FOR A

PRIVATE SECTOR COMPETITIVENESS PROJECT

April 11, 2012

Private and Financial Sector Development Department
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 11, 2012)

Currency Unit = Tajik Somoni (TJS)
US\$1 = TJS 4.76
US\$1 = SDR 0.65

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
ADB	Asian Development Bank
ASM	Artisanal and small scale mining
ATS	Automated Transfer System
BCB	Business Confidence Barometer
BCP	Basel Core Principles
BEEPS	Business Environment and Enterprise Performance Survey
BIS	Bank for International Settlements
CAR	Capital Adequacy Ratio
CFAA	Country Financial Accountability Assessment
CGAC	Country Governance and Anti Corruption
CIS	Commonwealth of Independent States
CEM	Country Economic Memorandum
CPI	Competitiveness Partnerships Initiative
CPS	Country Partnership Strategy
CPSS	Committee on Payment and Settlement Systems
CSD	Central Securities Depository
CSO	Civil Service Organization
DA	Designated Account
DB	Doing Business
DPO	Development Policy Operation
DvP	Delivery versus Payment
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EITI	Extractive Industries Transparency Initiative
EMP	Environmental Management Plan
ESIA	Environmental and Social Impact Assessment
EU	European Union
FGS	Finnish Geological Survey

FIRST	Financial Reform and Strengthening Initiative
FM	Financial Management
FPD	Finance and Private Sector Development
FSAP	Financial Sector Assessment Program
FSD	Financial Sector Development
GDP	Gross Domestic Product
GPF	Governance Partnership Facility
GPN	General Procurement Notice
GIZ	German Agency for International Cooperation
GoT	Government of Tajikistan
ICT	Information and Communications Technology
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
IFR	Interim Un-audited Financial Reports
IMF	International Monetary Fund
IS	Implementation Support
ISP	Internet Service Provider
IT	Information Technology
LCS	Least Cost Selection
MFO	Micro Finance Organization
MoF	Ministry of Finance
M&E	Monitoring and Evaluation
NBT	National Bank of the Republic of Tajikistan
NPC	National Processing Center
NPLs	Non-Performing Loans
OECD	Organization for Economic Cooperation and Development
ORAF	Operational Risk Assessment Framework
OSI	Open Society Institute
OSS	One-stop-shop
PAD	Project Appraisal Document
PCN	Project Concept Note
PDO	Project Development Objective
PDPG	Programmatic Development Policy Grant
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
PMU	Project Management Unit
POM	Project Operations Manual
PRAF	Prompt Remedial Action Framework
PRS	Poverty Reduction Strategy
PRGF	Poverty Reduction Growth Facility
PSC	Project Steering Committee

PSD	Private Sector Development
QCBS	Quality and Cost Based Selection
RTGS	Real Time Gross Settlement
SAI	Supreme Audit Institution
SESA	Strategic Environmental and Social Assessment
SCISPM	State Committee on Investments and State Property Management
SECO	State Secretariat for Economic Affairs
SEGOM	Oil, Gas and Mining unit
SIL	Specific Investment Loan
SME	Small and Medium Enterprises
SOE	Statement of Expenses
TA	Technical Assistance
TORs	Terms of Reference
TTL	Task Team Leader
USAID	United States Agency for International Development
WBG	World Bank Group

Regional Vice President:	Philippe H. Le Houerou
Country Director:	Saroj Kumar Jha
Sector Director:	Gerardo M. Corrochano
Sector Manager:	Sophie Sirtaine
Country Manager:	Marsha Olive
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REPUBLIC OF TAJIKISTAN

PRIVATE SECTOR COMPETITIVENESS PROJECT

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PAD DATA SHEET
Republic of Tajikistan
Private Sector Competitiveness Project (P130091)

PROJECT APPRAISAL DOCUMENT

*EUROPE AND CENTRAL ASIA
 ECSPF*

Basic Information			
Date:	11-Apr-2012	Sectors:	Other industry (40%), General industry and trade sector (30%), Payments, settlements, and remittance systems (30%)
Country Director:	Saroj Kumar Jha	Themes:	Other Private Sector Development (100%)
Sector Manager/Director:	Sophie Sirtaine/Gerardo M. Corrochano		
Project ID:	P130091	EA Category:	B - Partial Assessment
Lending Instrument:	Specific Investment Loan		
Team Leader(s):	Karen Grigorian		
Joint IFC: No			
Borrower: Republic of Tajikistan			
Responsible Agency: State Committee for Investment and State Property Management			
Contact:	Manzura Makhamova	Title:	Deputy Chairman
Telephone No.:	927739455	Email:	amcu@gki.tj
Project Implementation Period:	Start Date:	10-May-2012	End Date:
			31-Dec-2016
Expected Effectiveness Date:	07-Sep-2012		
Expected Closing Date:	31-Dec-2016		
Project Financing Data(US\$M)			
<input type="checkbox"/> Loan	<input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Other	
<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee		
For Loans/Credits/Others			
Total Project Cost (US\$M): 10.00			
Total Bank Financing (US\$M): 10.00			

Financing Source						Amount(US\$M)					
BORROWER/RECIPIENT						0.00					
International Development Association (IDA)						10.00					
Total						10.00					
Expected Disbursements (in USD Million)											
Fiscal Year	2013	2014	2015	2016	2017						
Annual	1.00	2.00	3.00	3.00	1.00						
Cumulative	1.00	3.00	6.00	9.00	10.00						
Project Development Objective(s)											
The development objective of the project is to remove key constraints to business development and investment by: (i) simplifying business registration and construction permitting processes; (ii) improving regulations and infrastructure underlying access to financial services; and (iii) encouraging development of the mining industry, where Tajikistan has a competitive advantage.											
Components											
Component Name						Cost (USD Millions)					
Strengthening the Business Environment						6.30					
Encouraging the Development of Mining Industry						3.10					
Project Management						0.60					
Compliance											
Policy											
Does the project depart from the CAS in content or in other significant respects?						Yes	[]	No [X]			
Does the project require any waivers of Bank policies?						Yes	[]	No [X]			
Have these been approved by Bank management?						Yes	[]	No []			
Is approval for any policy waiver sought from the Board?						Yes	[]	No [X]			
Does the project meet the Regional criteria for readiness for implementation?						Yes	[]	No []			

Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Condition of Effectiveness			
Description of Covenant			
The Recipient shall have caused the Project Implementing Entity to adopt the Project Operational Manual, satisfactory to the Association.			
Name	Recurrent	Due Date	Frequency
Condition of Effectiveness			
Description of Covenant			
The Recipient shall have caused the Project Implementing Entity to procure, install, and train the PMU's financial management and disbursement staff on the effective use of, an automated accounting system, satisfactory to the Association, that will be utilized by the PMU for project accounting, budgeting and reporting. The accounting system shall have inbuilt controls to ensure data security, integrity and reliability, and the functionality of automatic generation of interim unaudited financial reports.			
Name	Recurrent	Due Date	Frequency
Condition of Effectiveness			
Description of Covenant			
The Recipient shall have caused the Project Implementing Entity to recruit a full-time paid financial management consultant, satisfactory to the Association, to support the finance staff of the Project Implementing Entity and be responsible for project financial management and disbursement functions.			
Name	Recurrent	Due Date	Frequency
Condition of Effectiveness			
Description of Covenant			

The Recipient shall have established, in form, substance, and organizational criteria satisfactory to the Association, the Project Steering Committee, which shall be comprised of representatives of key stakeholders.

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Joseph Paul Formoso	Senior Finance Officer	Senior Finance Officer	CTRLA
Gary Joseph Raymond McMahon	Sr Mining Spec.	Sr Mining Spec.	SEGOM
Nasreen Chudry Bhuller	Program Assistant	Program Assistant	ECSPF
Karen Grigorian	Private Sector Development Spec.	Team Lead	ECSF2
Adam Shayne	Lead Counsel	Lead Counsel	LEGEM
Ignacio Jauregui	Counsel	Counsel	LEGEM
Brett E. Coleman	Sr Financial Sector Spec.	Sr Financial Sector Spec.	ECSF2
Dilshod Karimova	Procurement Analyst	Procurement Analyst	ECSO2
Takhmina Jumaeva	Program Assistant	Program Assistant	ECCTJ
Wolfhart Pohl	Senior Environmental Specialist	Senior Environmental Specialist	ECSS3
Andrea Mario Dall'Olio	Senior Economist	Senior Economist	ECSF1
Valeriya Goffe	Young Professional	Young Professional	ECSF2
Raha Shahidsaless	Private Sector Development Spec.	Private Sector Development Spec.	CICBR
Madina Danaeva	Temporary	Team Assistant	ECCTJ
Damodaran Krishnamurti	Sr Financial Sector Spec.	Sr Financial Sector Spec.	FFSAB
Shodi Nazarov	Financial Management Analyst	Financial Management Analyst	ECSO3
Alina Tourkova	Consultant	Operational Support	ECSPF
Aly Rahim Zulficar	Social Development Specialist	Social Development Specialist	ECSS4
Makhibub Razhabboev	Consultant	Consultant	ECSPF

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments

I. STRATEGIC CONTEXT

A. COUNTRY CONTEXT

- 1. Prior to the 2008-09 global financial crisis, Tajikistan had been enjoying a period of sustained economic growth.** The economy grew at an average of 8 percent per year during 2000-2008. This growth was driven mainly by a favorable external environment. World prices for cotton and aluminum, Tajikistan's main export commodities, soared. Rapid growth in Russia and other trading partners boosted demand for Tajik labor. The resulting growth in remittances fuelled a consumption boom in Tajikistan, which helped to support buoyant growth in GDP during the 2000s.
- 2. However, this period of buoyancy masked the build up of severe macroeconomic imbalances which were unveiled at the end of 2007.** The fiscal position was weakened by an increase in external borrowing from bilateral creditors to finance large infrastructure projects (the fiscal balance shifted from a surplus to a large deficit of 6.2 percent of GDP in 2007), while supply side shocks (a steep rise in global fuel and food prices in the second half of 2007 and first half of 2008) and the growth of aggregate demand (fuelled by expansionary monetary policies) led to a spike in inflation and the widening of the trade and current account deficits. At the end of 2007, the National Bank of Tajikistan's (NBT) international reserves fell below two weeks of imports; the money supply nearly tripled; and inflation accelerated to nearly 20 percent.
- 3. Despite an International Monetary Fund (IMF) economic stabilization program and a temporary improvement in macroeconomic performance in 2008, Tajikistan's economy remained weak and suffered significantly from the 2008-09 global financial crisis.** Under an IMF and a Poverty Reduction Growth Facility (PRGF) program, and the backdrop of increasing commodity prices, the economy grew by 8 percent in 2008, inflation receded to 12 percent by end 2008, and the current account deficit declined to 8.8 percent. However, these successes were short-lived: in 2009, the global financial crisis led to economic stagnation and steep exchange rate depreciation, as a result of a sharp drop in remittance flows¹ and deterioration in terms of trade. This led to an increase in the current account deficit to 12.8 percent of GDP in 2009, and a reduction in foreign direct investment and trade-related finance.
- 4. While Tajikistan's economic prospects have improved after the global financial crisis, severe structural weaknesses continue to depress the country's longer term growth and poverty reduction prospects.** Economic performance began improving gradually in 2010, as demand and trade recovered and the government's anti-crisis action plan was successfully implemented. However, Tajikistan continues to face important structural challenges. Among these is the fact that Tajikistan is one of the least accessible countries in the world. Its remote, landlocked location, together with a deteriorating infrastructure, high input costs, and weak regulation pose barriers to international trade, connectivity, and investment. Tajikistan is also faced with a young and rapidly growing population making job creation a key policy priority. The average annual growth rate of the population was 1.9 percent during 2003-07, and 40

¹ The drop in the remittance cash flows was primarily due to Russia's recession and the consequent depreciation of the ruble

percent of the population is under the age of 17. Limited employment opportunities in Tajikistan have encouraged a large number of workers (up to 40 percent of the working population) to seek better job prospects overseas. It has also led to a high incidence of poverty (Tajikistan is the poorest country in Eastern Europe and Central Asia (ECA), with an annual per capita income at US\$730 in 2010 and 47 percent of the population in poverty) and food security concerns.

5. The Tajik government has set an ambitious target of doubling GDP in a decade in its Poverty Reduction Strategy Paper for 2010–12. To do so, the government has implemented a number of recent reforms aimed at enabling the country to benefit from a growing global and regional economy (see later), although recognizing that Tajikistan still has a significant unfinished reform agenda. With a less favorable external environment than in the years prior to the global financial crisis, it has become critical for the government to accelerate reforms to meet its ambitious growth target.

6. Tajikistan needs to improve its productive capacity and develop the private sector to sustain the post crisis recovery and support long term economic growth and poverty reduction. The 2010 Country Economic Memorandum (CEM) for Tajikistan indeed notes that Tajikistan's biggest challenge in the coming years will be lifting its low rates of private investment. Tajikistan needs to better capitalize on its natural resources to enhance its competitiveness. At the same time, Tajikistan needs to diversify its economy to decrease its reliance on imports and its dependency on commodity prices. Developing the private sector would also contribute to job creation and poverty reduction. However, the CEM notes that to achieve this, a better investment climate is required.

B. SECTORAL AND INSTITUTIONAL CONTEXT

Private Sector Development Challenges

7. At present, Tajikistan experiences a low level of private sector activity: the private sector constitutes a relatively low share of national output and employment, even by regional standards. In 2008, Tajikistan's private sector contributed 48 percent of total GDP, relative to 75 percent in Kyrgyzstan and 77 percent in Kazakhstan². The private sector's contribution to total employment the same year was even lower (at 31.4 percent), despite consistent growth since 2000. Total investment, dominated by public investment, has hovered at around 20 percent of GDP, while private investment has stagnated at around 5 percent of GDP, the lowest rate in the ECA region³. Gross fixed private capital formation in Tajikistan was 4 percent of GDP in 2009, compared to the average of 15.8 and 17.2 percent in low-income countries and the ECA region, respectively⁴. The limited economic contribution of the private sector in Tajikistan reflects, inter alia, the wide range of remaining obstacles in the investment climate that continue to prevent enterprise investment and growth.

² The most recent data available on the private sector contribution to GDP and employment is from 2008. No statistics were calculated since then, and therefore the team found it appropriate to use this most recent data in the analysis

³ Tajikistan's 2010 CEM

⁴ The World Bank- Private Sector at a Glance

8. The World Bank and other donors have undertaken a number of studies and surveys of the private sector in Tajikistan, analyzing the business environment and the main constraints faced by enterprises. Some of these sources include the World Bank/EBRD Business Environment and Enterprise Performance Survey (BEEPS), the World Bank/IFC Doing Business, the World Bank Business Confidence Barometer (BCB), the World Bank Financial Access report, and The IFC Small and Medium Enterprise (SME) Survey. A detailed description of these studies is presented in Annex 6.

9. As evidenced by the results of these studies, firms in the formal sector find it difficult to compete with those in the informal sector due to high transaction costs from operating legally. Constraints include the number and complexity of taxes and administrative barriers to business registration, permits and licenses, each of which increases opportunities for rent-seeking by officials. Weaknesses in the banking sector encourage cash-based operations and discourage new business development and growth due to high lending rates and the absence of infrastructure for secured transactions and electronic payments. The secured transactions and debt resolution framework in Tajikistan faces a number of challenges, which further raises transaction costs for enterprises. Constraints in the business environment prevent the emergence of a thriving private sector, even in sectors where Tajikistan has a competitive advantage, such as mining. Although Tajikistan has a rich geological potential, the mining sector has not yet taken off, rendering its mineral sector potential largely untapped. The sector is currently dominated by small operators and artisanal miners that are not well positioned to take advantage of the global mining investment boom.

10. Tajik laws and regulations that control business activities are a great hindrance to entrepreneurs in the mineral sector. Drafting of the legislation has been dominated by outdated Soviet philosophy which provides for significant government control and makes Tajikistan uncompetitive relative to other exploration expenditure destinations. The competition comes from emerging countries in South America, Southeast Asia and Africa which have business regulations much more favorable for entrepreneurs. In addition to constraints arising from shortcomings in general business regulations, the mining sector faces other constraints due to the specific nature of the sector. For instance, there is no law specific to minerals and the legal and regulatory responsibilities pertaining to the sector are spread over a large number of agencies, resulting in long time lags between requests by the private sector to advance on mineral projects and the time when all the necessary approvals come through. In addition, geological data are very difficult to access, greatly dissuading new entrants to the sector. Due to these challenges, Tajikistan is presently not well positioned to take advantage of the global mining investment boom without a significant transformation of the operation of its mining sector.

Government Reform Program and World Bank Involvement

11. The Government's strategy has made removing binding constraints to private sector development a key priority to foster economic growth. In late 2006, the government of Tajikistan (GoT) established the State Committee on Investments and State Property Management (SCISPM). Key functions of the SCISPM include supporting the development of the private sector and attracting foreign direct investments. Moreover, it has the mandate to develop and implement private sector development strategies. In addition, in December 2007, the President of the Republic of Tajikistan created a Consultative Investment Council under the

President to improve the investment climate. The aim of the Investment Council is to organize continuous dialogue and consultations between government structures and private sector representatives with the aim to determine priority areas for improving the business environment and investment climate. More recently, in February 2010, the government formally approved its Third Poverty Reduction Strategy (PRS 3) for 2010–2012. One of the main pillars of the strategy includes improving the investment climate by lowering barriers to and reducing the costs of operating a business through reforms to reduce the regulatory burden.

12. In September 2010, the President of Tajikistan mandated the establishment of a mining technical working group led by SCISPM that aims to make the mining sector more attractive and open to investors. The President reaffirmed the commitment to mining sector reforms in early 2011 in his annual address. A number of reforms are envisioned, including a mining strategy, changes to the mining law to bring it to international standards, and improvements to the country's mineral licensing regime.

13. The World Bank has provided assistance to the government of Tajikistan (GoT) in implementing reforms of the business environment since 2008⁵. The World Bank has undertaken various diagnostics to support the government in improving its business environment in several areas, including starting a business, protecting investors, and dealing with construction permits. Assistance was also provided in the area of strengthening the financial sector, including improving access to finance by Tajik enterprises and strengthening the payment system.

14. The Government has already started working with the World Bank on mining sector reform and requested the World Bank's assistance in the minerals sector and the implementation of the Extractive Industries Transparency Initiative (EITI)⁶. The World Bank undertook several studies in the mining sector, supported by the recently completed Institutional Development Fund (IDF) grant⁷. With support from the World Bank and the Open Society Institute (OSI), the GoT organized a launch workshop to express its commitment to (EITI). A stand-alone political economy of mining study has also been launched under the overall governance agenda and a first draft was completed in February 2012.

15. The GoT undertook the first step towards opening up Tajikistan's mining sector and becoming a world-class mining destination when it decided to put the Konimansur silver deposit out for tender and selected the IFC as its transaction advisor. The tender process has been moving ahead, and, if successful, will bring Tajikistan on the global mining map as a key player. The process is expected to be completed in December 2012.

Priorities for Private Sector Development

16. Despite the considerable accomplishments in the private sector development described above, significant progress remains to be achieved in a number of areas. As mentioned, Tajikistan's overall business environment remains very unfavorable despite the reforms

⁵ A detailed description of all the government's initiatives and the World Bank involvement is provided in Annex 6.

⁶ Letter from May 10, 2011, signed by H.E. Akilov, the Prime Minister

⁷ P108167- Private Sector Development (approved 12/13/07 and closed 2/16/11)

implemented so far. According to the findings of the Tajikistan BCB, business people had a neutral or negative perception of the impact of the reforms of the business environment initiated at the national and regional levels between mid-2010 and mid-2011. In the mining sector, despite the reforms implemented to date, the current system is still very unattractive to the junior exploration companies, that are crucial for changing mineral resources into economically feasible deposits and identifying new deposits. Furthermore, without deeper and more structured policy and institutional reform of the mining sector, the Konimansur development may be the exception rather than the rule.

17. In light of the above, it becomes critical not only to continue reforms, but more importantly, to make them work in practice, particularly in those areas which have been cited by Tajik enterprises as significant constraints to doing business. The success of the reforms will require investments in the supporting infrastructure, aimed in particular at unifying the land and building registry, strengthening the design and IT platform of the one-stop shop, and enhancing the pledge registries. Significant capacity building efforts of the implementation agencies are required to ensure they are aware of the new procedures and regulations, and are trained in their implementation.

18. Many necessary reforms for private sector development are beyond the scope of this project. Some of these are supported by the World Bank Group (WBG) and other partners. For example, tax reform is supported by the International Monetary Fund (IMF), IFC and Asian Development Bank (ADB) while IDA is preparing a tax administration project for approval by the Board in fall 2012. Essential improvements in trade and customs are assisted by the German Agency for International Cooperation (GIZ) and the Swiss Government. The WBG and the Soros Foundation are supporting the Government's bid to join the EITI. Please refer to Annex 6 for more information on donor activities.

19. Therefore, this project will focus on reforms and investments in certain key areas which remain out of the scope of other donors and will likely have significant immediate impact. This project will focus on laying out the foundation for new business development and investment by: (i) simplifying procedures for business registration and obtaining construction permits, (ii) improving financial infrastructure, and (iii) encouraging the development of the mining industry where Tajikistan has a competitive advantage. Joint implementation of these activities will improve the business environment, provide an incentive for enterprise creation and private sector investments, including in the potentially highly competitive mining sector, contribute to reducing the cost of doing business, reduce opportunities for rent-seeking by officials, one of the major constraints cited by businesses, and establish a strong foundation for further reforms.

20. Partnership with the International Development Association (IDA) will enable the Government to initiate implementation of its strategic vision for private sector development. Over the longer term the Government aims to increase the share of private sector activity in growth and employment by improving the business environment and attracting higher levels of domestic and foreign investment. Despite considerable on-going technical assistance (TA) from the Bank and other partners for private sector development, leading to adoption of key laws and policies, much of the benefits are not reaching firms and entrepreneurs. This is partly

because traditional TA does not finance core business and financial infrastructure; so many reforms remain partially implemented. More significantly, stand-alone interventions do not link private and financial sector services with opportunities for growth in the real economy. By devoting scarce IDA resources to private sector development, the Government chose to take a more strategic approach by strengthening the coherence of policy advice, increasing implementation of improved services, and testing these in a sector with potential for private investment.

21. This first private sector operation in Tajikistan is expected to demonstrate tangible impacts from foundational reforms and infrastructure. The project objectives are relatively modest in aiming to strengthen the legal and regulatory framework and build capacity in core business and financial infrastructure, thereby lowering transaction costs. The project is expected to demonstrate that implementation of reforms can result in higher levels of new business registration, construction permits, electronic payments for wholesale and retail purchases, as well as faster processing of mining licenses. This is anticipated to lay the basis for more challenging reforms, to be addressed in subsequent operations, that will require greater political will and a longer horizon for implementation

22. Business environment reforms implemented under this project are expected to be particularly powerful in sectors where Tajikistan has a competitive advantage, such as mining. Given the global mining boom and Tajikistan's large unexploited potential in this sector, enabling private sector initiatives and investments in the sector would generate large payoffs for Tajikistan in terms of jobs, exports, tax revenues, and economic growth. With global commodity prices steadily rising, and investor interest peaking around the globe, central Asia stands to be the next frontier for mining exploration and exploitation, and Tajikistan could position itself to benefit from a surge in mining investment.

23. To complement the general business reforms envisaged under the project, deeper and more structured policy and institutional reform of the mining sector will be supported in order to make developments like Konimansur the rule rather than the exception. Finally, global experience demonstrates clearly that development of the mining sector without adequate benefit sharing -both at the impacted community level and the country as a whole- will usually end up in legal or fiscal conflicts. Given the nascent state of its mining sector, Tajikistan is not yet prepared to take advantage of the potential linkages and other benefits that modern mining developments, with their large demands for goods and services, can offer. The project will address regulatory and capacity shortcomings in the mining sector to encourage the development of this industry as well as the support industries that could provide many of the goods and services demanded by industrial mining operations.

C. HIGHER LEVEL OBJECTIVES TO WHICH THE PROJECT CONTRIBUTES

24. The proposed Project contributes to the higher level objective of fostering the development of the private sector in Tajikistan. The project supports Strategic Objective II of the Tajikistan Country Partnership Strategy (CPS) for FY10-13 (report no. 50769-TJ), which contained actions to remove institutional barriers to economic growth and envisaged the development of a highly competitive investment climate as the compensating factor for the extreme isolation of the country. The strategic/higher order country level outcome under this

objective involves improvement of the investment climate and development of the private sector and entrepreneurship, and some of the challenges to be addressed include excessive administrative barriers to business start-up and operation, as well as an underdeveloped and inefficient financial system with an inadequate legal framework and weak capacity. The project will contribute significantly to the alleviation of a number of obstacles to private sector development by improving and simplifying business regulations and providing for their adequate implementation. Regulatory simplification is expected to provide an incentive for the private sector to invest, thereby generating new private sector activity. The project also supports the modernization of financial infrastructure and reforms in the legal, regulatory, and supervisory framework for the financial sector, which aim to strengthen the independence, responsiveness, and capacity of the banking supervision function.

25. In line with the guidance of the Tajikistan Governance Checklist, this operation is designed to contribute to improving the governance environment in Tajikistan. A better business regulatory environment is also expected to contribute to a reduction in corruption. The project also seeks to improve governance and transparency in banks. For the mining sector, the project will aim to strengthen the responsiveness and ability of GoT mining agencies to support the development of private sector mining operations while improving their capacity to transparently and effectively regulate the sector.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

26. The development objective of the project is to remove key constraints to business development and investment by: (i) simplifying business registration and construction permitting processes; (ii) improving regulations and infrastructure underlying access to financial services; and (iii) encouraging development of the mining industry, where Tajikistan has a competitive advantage.

B. PROJECT BENEFICIARIES

27. The direct project beneficiaries are both existing and future entrepreneurs conducting business in Tajikistan and residents of mining development communities. Entrepreneurs will primarily benefit from the project as they will be able to register a new business, obtain construction permits, and conduct other business-related operations more effectively. They will also benefit from accessing financial services at lower costs. Entrepreneurs operating in the mining sector, or as suppliers to mining operators, will benefit from the expected growth of the sector that will result from a more conducive legal and regulatory framework for the sector. Residents of communities in areas of mine development will also benefit from the project which will provide local community members with new opportunities resulting from mine developments, and which will reduce the environmental impacts of future mining developments.

28. Banks will also benefit from the project as they will be able to operate under a sounder regulatory and supervisory framework. Businesses will be able to gain access to more financial resources through banks. Banks and microfinance organizations (MFOs) will also be

able to register their secured interests using a modern moveable collateral registry. This in turn will benefit entrepreneurs, as they will be better able to leverage their moveable assets to access credit.

C. PDO LEVEL RESULTS INDICATORS

29. The PDO Level Results Indicators are:

- New businesses registered through the new online one-stop-shop;
- Construction permits granted in the single window in the city of Dushanbe;
- Lending based on new registration of security interests in the new collateral registry using moveable assets as collateral;
- Legal and regulatory framework to improve financial bank supervision is developed, adopted, and implemented;
- Legal and regulatory framework to improve payment infrastructure is developed, adopted, and implemented; and
- Number of new mining exploration licenses issued.

III. PROJECT DESCRIPTION

A. Project Components

30. The project consists of three components focusing on supporting: (a) strengthening the business environment; (b) encouraging the development of the mining industry; and (c) project management.

Component 1: Strengthening the Business Environment (US\$ 6.3 million)

31. Sub-component 1.1: Completion of Establishment of an Online One-stop-shop for Business Registration (US\$ 0.6 million). This sub-component will support reforms aimed at facilitating the process of starting a business and support the following activities: (i) improvement of the existing system, so that entrepreneurs can obtain all required registration numbers at the one-stop-shop; (ii) implementation of a system based on a unique identifier number, so that entrepreneurs will only need to obtain one number at the one-stop-shop at the time of registration; (iii) adoption of all the legal changes necessary to make registrations online and via the internet; (iv) implementation of an online, internet-based system of registration. The project will provide the necessary TA and IT support, as well as the necessary capacity-building and training, to implement the above activities.

32. Sub-component 1.2: Improvement of the Regulatory Framework for Provision of Construction Permits, and Establishment of a Single Window for Processing Construction Permits and Inspections (US\$ 0.8 million). This sub-component will support reforms to facilitate applications for construction permits and establish a single window for obtaining construction permits, as well as a computerized system for construction inspections. To implement this sub-component, the project will use the City of Dushanbe as a pilot, and the

scope of this sub-component will be limited to this pilot. The sub-component will be implemented through the following activities: (i) identification of the optimal location of the single window for construction and the computerized system for inspections and the agency hosting; (ii) adoption of regulatory amendments to ensure that the design and location of these systems, and the overall regulatory framework for construction permits and inspections, are consistent with best practices and the needs of Tajik entrepreneurs; and (iii) implementation of the necessary IT systems to ensure the well-functioning of the systems for construction permits and inspections.

33. Sub-component 1.3: Improvement of the Financial Infrastructure (US\$ 4.9 million).

First, in order to enhance the framework for secured transactions and debt resolution, this sub-component will enhance the legal and regulatory framework, procure the IT system to modernize the moveable collateral registry, and strengthen the capacity of the users of the system. Second, this sub-component will include reforms to lower costs of financial intermediation and improve efficiency by modernizing the payment systems infrastructure through (a) introduction of an automated transfer system in order to enable the banking sector to manage liquidity more effectively; (b) establishment of a module of financial instruments for interbank transactions in order to enable mitigation of risk in securities transactions, give instant access to the registry for portfolio management, and provide a number of other functions; and (c) strengthening the regulations governing the national payments system. Third, this sub-component will encourage the improvement of the operation of the financial system necessary for financial institutions to intermediate funding for enterprises through (a) review and revision of legislation and regulations of the NBT; and (b) upgrade of the IT system of the NBT for bank supervision.

Component 2: Encouraging the Development of the Mining Industry (US\$ 3.1 million).

34. This component would aim at supporting the development of a conducive business environment in the mining sector, which has a high competitiveness potential in Tajikistan, leveraging the new Competitiveness Partnerships Initiative (CPI) developed under the Finance and Private Sector (FPD) network of the Bank. The project will be complemented by efforts being undertaken by the working group led by the Ministry of Finance preparing Tajikistan for candidate country status for EITI, at which time it would be eligible for funding from the Multi-Donor Trust Fund to enable it to strive towards compliant country status. The World Bank is coordinating with other donors to build on their efforts and avoid duplication.

35. Sub-component 2.1: Supporting the Preparation of Revised Mining Sector Laws and Regulations (US\$ 1.0 million). This subcomponent aims at providing TA to support preparation of sound mining sector laws and regulations, beginning with support to the GoT on the draft Law on Subsoil and associated implementing regulations in the mining sector to bring them in line with international best practices, including in the social and environmental areas. An assessment and recommendations on developing a law specific to mining sector activities (the Law on Subsoil pertains to oil, gas, and mining), including associated institutional changes, will also be undertaken. This sub-component will also include support to the GoT on revisions to the mining fiscal regime; policies and regulations for tendering of known mineral deposits; the organizational structure for the mining, cadastre and geological survey functions carried out by various agencies of the GoT; and programs and policies to enhance the domestic impacts of

mining operations in the areas of mine site employment, procurement of local goods and services by mining companies and associated employment, and infrastructure.

36. Sub-component 2.2: Development of a Modern Mining Cadastre and Associated Capacity Building (US\$ 0.9 million). This sub-component will support the development of a modern mining cadastre and associated capacity building. It will begin with a diagnostic for setting up a mineral rights cadastre, the system by which mining prospecting, exploration, and exploitation companies register the area and types of minerals that they are searching for or developing. Support will be provided to the GoT for the development of cadastral regulations to underpin the administration of the cadastral system, and the establishment of a modern, automated, transparent mineral rights cadastre system. Hardware will be provided that is capable of handling an automated cadastre, taking into account the possibility of future extension of the cadastre to various provinces. Training will be provided to relevant ministry employees to be able to administer the new system.

37. Sub-component 2.3: Modernizing the Geological Survey Function- TA, Training, and Equipment (US\$ 0.7 million). Under this sub-component support will be provided to the GoT for the development of a platform for the modernization of the geological information of Tajikistan, including requisite hardware and software. In addition, support will be provided for the modernization of the geological information policy framework and regulations and specifications for provision of information into a geodata bank; the development of modern target oriented field survey techniques; and the conversion of existing maps to digital formats at international standards. Training will be provided to relevant ministry employees to be able to use the new systems.

38. Sub-component 2.4: Providing TA to Stakeholders on the Development of the Mining Sector (US\$ 0.5 million). TA for stakeholders will be provided through a series of workshops and consultations and a diagnostic of the artisanal and small-scale mining (ASM) sub-sector. Workshops will be organized for potentially impacted stakeholder groups concerning: (i) issues surrounding the development of medium- and large-scale industrial mining, good international practice, and the potential benefits and risks of mining operations; and (ii) issues surrounding the ASM sector, including good international practice on social, environmental, and benefit enhancement issues. In addition, support will be provided for consultations with the mining industry, including the ASM sector, in a participatory discussion on impediments to business, including domestic procurement issues.

Component 3: Project Management (US\$ 0.6 million)

39. Component 3 will support the operation of a Project Management Unit (PMU) in the SCISPM. The PMU has already been established and its staff will provide on-going support to project activities, including those related to monitoring and evaluation (M&E) of project results during the implementation. The PMU will work under the guidance provided by the Project Steering Committee (PSC) composed of members of the main agencies benefiting from the project (e.g., the SCISPM, the NBT, and the Geological Survey). The PSC will appoint Project Coordinators to work with the PMU on a regular basis.

B. Project Financing

Lending Instrument

40. **The project will be financed by a Specific Investment Loan (SIL) in the amount of US\$ 10 million equivalent.** The SIL will be financed by an IDA grant on standard IDA terms to the Republic of Tajikistan.

Project Cost and Financing

Project Components	Project Cost (US\$ million)	% IDA Financing
Component 1: Strengthening the business environment	6.3	100
Component 2: Encouraging the Development of the Mining Industry	3.1	100
Component 3: Project Management	0.6	100
Total Financing Required	10.0	100

C. Lessons Learned and Reflected in the Project Design

41. **The project's design incorporates lessons learned from previous private sector development initiatives in the Republic of Tajikistan, and similar operations throughout the region.** Because the project involves implementation of reforms in several specific areas of private sector development, it incorporates lessons learned from specific projects in these areas, including implementing reforms in business registration and construction permits, secured transactions and debt resolution, as well as in the financial and mining sector.

42. **For reforms to be successful, they must have the buy-in of not just the government but the private sector as well.** In order to ensure that the system reflects the concerns and needs of the relevant stakeholders, the project will include consultations with the private sector, to ensure that the new system reflects their needs.

43. **Capacity-building is a key success factor for any business regulatory reform.** Even with the existence of a good legal framework, and a modern information and communication technology (ICT) system, if stakeholders do not know how to use the system, the reform will have little impact. A good capacity-building program is an integral part of any business regulatory reform. The project will include limited capacity-building and dissemination, and for more comprehensive training and dissemination, the project will coordinate with the IFC.

44. **As this project involves significant ICT and TA provision, it also incorporates lessons learned from similar complex projects with significant ICT procurement and TA provision, particularly with counterparts with low capacity.** Experience with such projects has shown the importance of conducting an in-depth analysis of the counterpart's capacity to design appropriate TA to support and match the ICT component; providing support in the areas of procurement and FM for the PMU; having a high-level steering committee to respond quickly

and flexibly to project issues that arise; and proposing simple ICT solutions with installation done by the supplier in a turn-key fashion, with knowledge transfer and training to staff.

45. In the areas of business registration and construction permits, an integrated approach to reforming the one-stop-shop is essential. Improving the regulatory framework alone without modernizing the ICT framework will not be sufficient to lead to significant impact. Implementation of modern registries and one-stop-shops that are reliable, accessible and easy to use will provide confidence to the stakeholders and ease the burden of regulatory compliance. In order to be consistent with international best practices, the technical design of the registries needs to include the creation of online systems.

46. In the area of secured transactions, an integrated approach to reform is also key to success. Improving the regulatory framework alone without modernizing the collateral registry will not be sufficient to lead to significant impact. Ensuring the existence of a modern, online moveable collateral registry that is reliable, accessible and easy to use, combined with a predictable legal system, will provide creditors confidence that their interest over their moveable collateral is protected. It will also allow subsequent creditors to find out, with ease, whether a particular moveable asset is encumbered or not. Capacity-building is also crucial for moveable collateral reform because creditors need to know how to evaluate and monitor moveable assets.

47. A reliable enforcement and debt resolution mechanism is crucial for the success of a moveable collateral reform. Despite the strength of all the other parts of a moveable collateral framework, if enforcement and debt resolution mechanisms are not efficient and reliable, creditors will face greater risk of losing their interests upon a debtor's default. This increased risk will translate into higher pricing and increasing transaction costs for businesses. It is important for the moveable collateral law to maintain a balance between the debtor's rights to due process, and the ability of the creditor to enforce its interest efficiently upon a debtor's default. Finally, alternative mechanisms of debt resolution should be considered.

48. To ensure sufficient financial intermediation to provide credit to the private sector, it is essential to build a strong legal, regulatory, and supervisory foundation, along with the necessary tools to implement this framework. The vulnerability assessment of the banking system of Tajikistan (2011) revealed several weaknesses in the sphere of bank regulation and supervision, which constrain banks' capacity for financial intermediation. For example, lax standards on risk management and insider lending, as well as their weak enforcement, led to an over-allocation of lending to insiders and other high-risk borrowers. This leads to high NPLs, poor performance, and low confidence of the population, who demand high interest rates on deposits, thus raising the interest rates on loans to borrowers. Weak provisioning standards and enforcement allow banks to disguise their problems and further avoid NBT intervention. The project has been designed to address the key elements of the regulatory and supervisory system in a comprehensive manner by taking into account the findings of the vulnerability assessment. The project will focus on the legal and regulatory framework, the supervisory methodology and processes, and the application of technology options to improve supervisory effectiveness. These components will collectively improve supervisory effectiveness and enable the bank supervision function to use ICT to generate early warning signals and respond in a consistent and timely

manner. Only a stable, healthy, and well supervised financial sector can intermediate funding and channel it to its most productive ends.

49. With respect to mining, the Bank has a long history of working with countries to enhance investment and benefits from mining sector reform. A key lesson is that if the awarding of licenses and contracts is not fair and transparent, any other reforms will have limited impact as the exploration and exploitation investment will not come except for known lucrative deposits. At the same time, it is important to build the capacity of the relevant agencies to regulate the sector, particularly when in the past, Government agencies saw themselves mainly as operators. Finally, if outcomes (taxes, jobs, environmental impacts, etc.) are not seen as equitable, there will often be negative reactions to the sector. It is therefore important that the fiscal regime be equitable, local communities receive adequate benefits, and that any negative social and environmental impacts be minimized.

50. Finally, as evidenced by the lessons learned from similar operations on private sector development, keeping track of the success of reforms through a proper data collection process pre- and post-reform is important as it helps identify whether ongoing reforms are sufficient or not. In order to evaluate the success of the reform, it is important to collect pre and post reform data. Comparison of such data will allow the government to evaluate the success of reforms in reaching its goals.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

51. The SCISPM will be the implementing agency for the project. The SCISPM has prior experience in implementing World Bank-financed projects, as it was the implementing agency for the World Bank IDF grant in the past few years. Project activities will be managed by a PMU that has been established within the SCISPM as a dedicated division. One procurement expert and one FM expert from SCISPM's International Relations Department have been appointed as PMU staff. In order to strengthen the capacity of the PMU and ensure appropriate segregation of duties, the project will also finance additional procurement, FM, and technical consultants (including an M&E specialist), as well as a communications specialist and an administrative assistant. Fiduciary aspects of the project will be managed by the PMU. The project coordinators, representing all implementing partners, will help the PMU in overseeing the implementation of activities initiated by the respective implementing partner. A high-level Project Steering Committee (PSC) with representation from all counterparts and/or their ministries will be established to oversee project implementation. Specific roles and responsibilities include:

- **PSC:** The PSC will be established by effectiveness to ensure adequate participation of all beneficiary institutions. The PMU will work under the overall guidance of a PSC composed of members of the main agencies benefiting from the project (e.g., the SCISPM, the NBT, Ministry of Energy, State Tax Committee, and the Geological Survey, among others). The PSC will be chaired by the Chairman or Vice-Chairman of the SCISPM. The scope of work of the PSC will include: (i) strategic guidance for

overall project implementation; (ii) development and approval of annual plans for project activities, project budget, and procurement plan, as well as regular review of project M&E data to determine progress and make adjustments, if need be, to ensure satisfactory achievement of end of project outcomes; (iii) consensus building on key policy issues related to implementation; and (iv) monitoring of issues related to implementation of reforms.

- *PMU:* The project currently does not yet fully meet the necessary FM and disbursement requirements but upon meeting the three conditions of effectiveness, the PMU will satisfy the Bank's fiduciary requirements and financial management operational policies. It will be charged with fiduciary functions and staffed accordingly, including a FM consultant, a procurement consultant, and a technical expert (with a focus on M&E). The PMU will be responsible for the day-to-day management of the Project activities, including procurement, disbursement, reporting, accounting, auditing, and M&E. The PMU has developed a draft Procurement Plan and a draft Project Operational Manual (POM). The POM will also outline the M&E system, staffing, M&E responsibilities of the PSC, PMU and Project Coordinators and use of M&E data by the PSC, PMU and other possible parties.
- *Project Coordinators.* The implementing partners will appoint Project Coordinators to be responsible for defining the tasks under each component and preparing technical TORs for contracting needs and facilitating collection of M&E data. Project coordinators will remain with their respective agencies, but will be responsible for the coordination with the PMU. The TORs will be reviewed for quality by the PMU, which will proceed with competitive contracting and selection ranking procedures, using a panel of appointed experts and appropriate tender/selection committees.

Annex 3 provides a detailed description of the implementation arrangements and documents establishing the PMU and appointing its key staff.

B. Results Monitoring and Evaluation

52. M&E of outcomes and results during implementation will follow standard World Bank practice. Annex 1 presents the Results Framework. The PMU will prepare quarterly reports with the result framework data to be reviewed by the PSC and to be discussed in conjunction with World Bank implementation support missions and the other projects counterparts in order to assess progress against objectives and need for any adjustments. A technical expert within the PMU will perform M&E of project results. Discussions during supervision missions related to institutional capacity building, financial viability, technical reviews and site visits will also provide effective means of monitoring progress. In addition to the results indicators shown in Annex 1, additional indicators will be monitored by the PMU and the World Bank.

C. Sustainability

53. The government and implementing agencies are committed to the proposed project activities, and substantial capacity building has been incorporated in the project to ensure sustainability. The project will ensure that implementing agencies are able to maintain the systems implemented as a result of the project. The project will provide capacity building on every component, including for agencies involved in the business registration and construction

permits reform, NBT, the collateral registry, mining regulatory authorities, stakeholders with an interest in secured lending and debt resolution, and the PMU. Capacity building will include trainings, workshops, and technology transfer to the implementing agencies. The improved legal, regulatory, and supervisory environment is expected to enhance the probability of long term growth of Tajikistan's economy. The project will support ongoing maintenance costs associated with the various components during the four years of the implementation phase. After the implementation, maintenance costs will be borne by the respective agencies.

V. KEY RISKS AND MITIGATION MEASURES

54. The main risks associated with the project relate to government credibility, governance and the low capacity of the implementing partners to manage projects. The project scope was streamlined and the activities proposed limited to ensure they are aligned with available institutional capacity. In addition, the provision of substantial training to the implementing agencies will enhance their ability to properly implement the project's activities.

55. To address the government's credibility issues and systemic fraud and corruption risk, the World Bank will work to build capacity in the context of Tajikistan's Country Governance and Anti Corruption (CGAC) strategy. The Bank is implementing a US\$ 3.8 million three-year grant from the Governance Partnership Facility (GPF) to mainstream governance interventions on the country, sector, and project level. The focus of this program is on increasing transparency and accountability; developing client capacity; and fostering demand for good governance.

56. The project incorporates the guidance provided by the Governance Checklist into its design. During the recent preparation mission, the team met with a poverty reduction and economic management (PREM) Governance Specialist to review the project against the Governance Checklist and ensure that governance implications were considered in the design of the project, and that this operation itself contributed to improving the governance environment in Tajikistan. The project's implementation arrangements were given particular scrutiny to ensure that there was a reliable champion for the project (the SCISPM). We note that to date, the World Bank's FM and procurement colleagues have provided regular support to the implementing agency. Staff from the SCISPM participates in formal procurement and FM training organized by the Bank. Additional improvement of the implementing agency's capacity was built into the project through training in various areas related to the project. In terms of contributing to improving the governance environment in Tajikistan, we note that the project will contribute to better oversight of the financial sector and improved governance of the banks and of NBT.

57. The proposed institutional arrangements will require close coordination between all the implementing partners involved. To manage the project, a strong PMU, staffed by experienced professionals with expertise in the World Bank projects, has been created to assist in effectively and efficiently implementing the project. A PSC will be established to ensure oversight by the main counterparts.

A. Risk Rating Summary Table

Risk	Rating
Stakeholder Risk	Moderate
Implementing Agency Risk	
- Capacity	Substantial
- Governance	Substantial
Project Risk	
- Design	Moderate
- Social and Environmental	Moderate
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Moderate
Overall Implementation Risk	Substantial

B. Overall Risk Rating Explanation

58. The overall project risks are rated Substantial but considered manageable with mitigation measures in place. As indicated in more detail in the Operational Risk Assessment Framework (ORAF) in Annex 4, the following are the main risks and mitigation measures:

- **Inadequate institutional capacity.** One of the main risks for the project is the implementing agencies' limited institutional capacity. In order to mitigate this, the project will include technical and administrative capacity building for the implementing agencies. The project will also include TA for FM, procurement and M&E. The newly appointed Deputy Chairman of the SCISPM who will manage the first component of the project and serve as the head of the PMU, is very motivated to get results in business environment reforms, while the vice-Chairman of the SCISPM, who has an extensive experience in working with the World Bank, will be the main counterpart for this project and ensure continuity and sustainability of the dialogue.
- **Resistance from some stakeholders.** There is a risk that vested interests could resist reforms in the business environment. In order to reduce the resistance, the task team will emphasize to the government how the reform will improve the country's Doing Business rating. Furthermore, some of the reforms will be supported by continuing work with the government's working groups, which diffuses vested interests. The reforms are also expected to be supported through DPO prior actions⁸. Finally, automation of certain processes will increase transparency and eliminate opportunities to receive informal payments.
- **Project Design:** The proposed project is somewhat complex due to the number of activities involved. Success of the project will dependent on cooperation of a number of

⁸ During FY06-09, the Bank's portfolio included one development policy operation (DPO) each year. These operations proved to be an effective instrument for policy dialogue with the government.

different Government agencies. To mitigate this risk, the project design will include capacity building for the implementing agencies. The task team will (i) continue the policy dialogue on the advantages of the reforms, (ii) refer as needed to earlier commitments, (iii) link the project, TA, and other support to progress in reforms, and (iv) seek to re-enforce reforms through the programmatic development policy grants (PDPGs).

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

59. The project will have significant positive benefits for the implementing agencies, clients, the government, and for overall private sector development in Tajikistan. Reforms envisioned in the areas of business registration, construction permits, secured transactions, and financial infrastructure will all contribute to new business development and economic growth in the country. The project also aims to implement additional reforms related to the regulation of the mining sector.

60. Based on an existing Doing Business impact methodology, the business registration reform supported by this project in Tajikistan is expected to reduce time to start a business by over 50 percent (relative to Doing Business 2011 data). About 9,600 firms that register after the reform are expected to save about US\$ 480,000 on fee reductions. Based on existing findings in the literature, one can infer that about 3,200 firms will be created as a consequence of the reform. These firms are expected to invest over US\$ 10,000,000. The economic analysis of the one-stop-shop for business registration presented in Annex 7 shows that the net present value over four years, at a discount rate of 10 percent, is US\$ 0.07 million.

61. It is expected that the project construction permit reform will contribute to significant improvements. The reform is expected to reduce the time to get construction permits by 60 percent and to reduce costs by 91 percent (relative to Doing Business 2011 data). Furthermore, the reform is expected to reduce the number of illegal buildings.⁹ The economic analysis of the single window for construction presented in Annex 7 shows that the net present value over four years, at a discount rate of 10 percent, is US\$ 0.6 million.

62. Modernizing the secured transactions framework is expected to improve access to credit for small and medium sized businesses and farmers. A modern secured transactions and debt resolution system contributes to increased levels of credit and lower cost of credit. The online nature of the registry will contribute significantly to a reduction in corruption, as it will reduce interactions between public officials and those wishing to register a security interest. The economic analysis of the collateral registry presented in Annex 7 shows that the net present value over four years, at a discount rate of 10 percent, is US\$ 0.22 million.

⁹ In *The Mystery of Capital*, Hernando de Soto estimates that illegal buildings in cities of developing countries, constructed without required permits and inspections, have a value of US\$ 6.7 trillion.

63. Enhancing the Operation of the Financial System. A sound, healthy, efficient financial system is essential for intermediation of funds and channeling of them to their most productive uses in the private sector. The project's support for legal, regulatory, and supervisory reforms in the financial sector will contribute to the enhancement of the operation of the financial system, and therefore to Tajikistan's sustainable economic growth. The payment system upgrade implemented under the project will provide a lot of benefits, including deepened penetration of the formal banking economy into areas that are currently underserved, enablement of enterprises to make payments electronically, and allowing employees in both public and private sectors to receive salaries directly into their bank accounts. Annex 7 presents a detailed list of benefits.

64. Encouraging the Development of the Mining Sector. Investments in mineral exploitation for medium- and large-scale operations take a very long time to materialize, given the complexity of the sector and the very large amounts of funds involved. Accordingly, during the lifetime of the project, exploitation of new industrial scale mines is not likely, except for projects that are already in process or for relatively small, low infrastructure mines (e.g. a small-sized gold mine). Nevertheless, the development of a modern legal and regulatory process should lead to increased exploration, the first step in the mining process. Other countries that have undertaken comprehensive mining policy and institutional reform and capacity building have eventually had a very strong response from the industry, as described in detail in Annex 7.

B. Technical

65. The technical design of the project has been examined by World Bank staff during project appraisal and is considered to be sound and in line with international standards. The design is also grounded in analytical work undertaken prior to project design. The designs of the one-stop-shop for business registration, the single window for construction, and the collateral registry are all consistent with international best practice and the needs and capacity of the country. The technical design proposed for these registries has been developed and tested in other jurisdictions. Please refer to Annex 2 for the detailed description of the design of the registries. The proposed ICT architecture for the payment systems is in line with international practices for data management of central banks, which are based on centralized system architectures that support higher operational efficiency, strengthened risk management and enhanced opportunities for stronger internal controls. The design of the mining sector component is based on similar World Bank projects that have successfully supported Governments in other countries, while taking into account unique features of the mining sector in Tajikistan, particularly those related to its Soviet legacy.

C. Financial Management

66. An FM assessment has been conducted to determine whether the FM arrangements for the project meet the World Bank's minimum requirements. The project currently does not yet fully meet the necessary FM and disbursement requirements but upon meeting the three conditions of the effectiveness, the PMU will satisfy the Bank's fiduciary requirements and financial management operational policies.

67. The established PMU will be responsible for the FM arrangements, including the flow of funds, budgeting, accounting, reporting, and auditing for the project. In addition, it will

be responsible for the submission of the project's annual budgets, quarterly Interim un-audited Financial Reports (IFRs), and annual financial statements to the World Bank. A time-bound action plan aimed at building the FM capacity at the PMU, has been elaborated and agreed with the client. According to this plan, conditions of effectiveness include: (i) finalizing the FM chapter of POM to guide staff in daily project FM operations; (ii) procurement and installation of an automated accounting system that will be utilized by the PMU; and (iii) recruitment of a full time paid FM consultant to support the finance staff of the Project Implementing Entity and be responsible for project FM and disbursement functions. A more detailed description is presented in Annex 3.

68. The PMU has assigned a current SCISPM FM staff to manage the project-related financial management and disbursement work. The SCISPM will procure and install a standard accounting system software widely used in the Republic of Tajikistan and other Central Asian countries to support project accounting and reporting. The system shall have the functionality of automatic generation of reports for the government as well as statements of expenses (SOEs) and IFRs required for reporting to the Recipient and the World Bank. The system shall have adequate security safeguards for reliable reporting and data integrity. All FM staff will receive focused training when the project launches and hands-on training during implementation. The FM Manual, which is part of the project operations manual (POM), will describe budgeting, audit arrangements, internal control and accounting policies, and procedures to be followed for the project.

69. The PMU would open a Designated Account in US\$ for administering the IDA funds in a commercial bank acceptable to the World Bank. The ceiling for the Designated Account and other disbursement details will be provided in the Disbursement Letter. However, due to the lapsing of four loans in the Tajikistan Country portfolio no new Designated Accounts will be established for the proposed under this IDA Grant, until the refund or documentation has been received for all outstanding projects in Tajikistan. Hence, provision for use of a Designated Account as a disbursement method in the Disbursement Letter for the proposed IDA Grant might not be included. If the issues involving these operations are resolved prior to the issuance of the Disbursement Letter (i.e. at the signing of the new operation), then the letter will be revised to include such a provision. If the issues are resolved subsequently, then an amended Disbursement Letter will be issued to include the provision for a Designated Account.

D. Procurement

70. Procurement of goods and works will be carried out in accordance with the World Bank's Guidelines. Specifically, procurement of goods and works will be carried out in accordance with the World Bank's Guidelines "Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" (January 2011); Consulting services will be procured under the Bank's Guidelines "Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" (January 2011); and the provisions stipulated in the Financing Agreement. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, would also apply.

71. Procurement will be the responsibility of the PMU established in the SCISPM. An existing SCISPM procurement staff with significant experience in this area has been assigned to the PMU.

72. Procurement risk assessment was carried out based on Procurement Risk Assessment and Management System (P-RAMS). Based on the experience from past and ongoing projects in the Republic of Tajikistan, the procurement risk for the project is rated as substantial.

73. The assessment revealed that the SCISPM has adequate procurement system and capacity. SCISPM will also need to implement several recommendations in order to further strengthen its capacity. SCISPM will need to hire a procurement consultant, familiar with the World Bank procurement procedures and experienced in activities mostly related to procurement of IT systems and consultants' services, to be responsible for supporting the PMU staff on the day-to-day delivery of the services. Moreover, in order to mitigate procurement risks, intensive procurement trainings, including contract management techniques, for the government staff will be arranged; the procurement packages will be consolidated to maximize interest from reputable bidders; procurement opportunities will be advertised widely, including announcements through the SCISPM branch offices in the regions; the Bank's regional procurement staff will provide advice on a regular basis. Details of procurement arrangements are presented in Annex 3.

E. Social and Environment (including Safeguards)

74. The project consists purely of TA activities and will not include any physical investments that could per se result in significant harm or negative impacts to the environment or result in triggering of resettlement safeguards. However, if, facilitated by the project, mining activities were to significantly increase in Tajikistan without environmental and social practices being improved in parallel, negative environmental and social impacts could result indirectly from the project. With this rationale in mind, the project triggered the Bank's safeguards policy on environmental assessment (OP 4.01). The safeguards category assigned to the project is B.

75. Responding to the identified environmental issues, the project design includes appropriate environmental and social studies, assessments and recommendations, as well as capacity building and training activities, which will complement the economic, financial and administrative TA delivered to the Client. The key safeguards instrument to be produced during project implementation will be a strategic environmental and social assessment (SESA) that will investigate the effects of the anticipated changes in regulatory framework and sectoral practice, with the additional objective to increase the country's capacity for the expanded development and technical/regulatory oversight of the mining sector, as well as to sharpen the effectiveness of the environmental compliance regime, and incorporate stakeholder feedback and citizen engagement into project implementation.¹⁰

¹⁰ The SESA will be directly administered by the PMU utilizing the funding from the World Bank financed PSC project. The TORs have been discussed during the public consultation event organized by SCISPM. The SESA will be undertaken after the project becomes effective and is expected to be completed within the first year.

76. An expansion of the mining sector in many country contexts can carry social risks such as disproportionate accrual of benefits, inequitable competition over employment, and generally enhanced risks of social conflict among groups in a country. The SESA will accord consideration to such risks and how they might be managed in the context of an expanded mining sector and in the context of the project itself. Conflict (often violent) around mining issues is endemic in the region and due consideration would especially be accorded to context-specific risks in Tajikistan and moreover in the specific Oblasts where mining activities are likely to be concentrated.

77. Community development in mining areas is not necessary corollary of mining development as international experiences demonstrate, and a robust strategy is required to ensure that communities in mining regions benefit consistently. Common stakeholder priorities will need to be appraised including the nature of mine and mine-related employment, provision of local infrastructure, community development and participation. The major issues that arise in all these topics, which should be tackled through the SESA and the stakeholder TA subcomponent, include the division of benefits and responsibilities among the various stakeholders -including the ultimate distribution of tax revenues paid by mining companies – the ability to enforce companies to keep their commitments, the capacity of local governments to fulfill their assigned responsibilities, and the overall framework for stakeholder participation.

78. Overall the project's environmental impact is expected to be significantly positive. It is noted that while a successful mining component should lead to more mines being developed and these mines would have environmental/social repercussions, there would still be new mine development without the project. However, the licensing and regulation of the new mines in the existing institutional setting would continue in the current manner, which is largely non-transparent, often implemented by companies with little or no track record and with a lack of risk management. A successful project would lead to increased transparency and a shift to giving preferred access to more experienced (and often larger) companies with higher risk awareness, who will be more prepared to adhere to sectoral rules as well as implement self-regulation to safeguard their corporate reputation. Therefore, in essence the higher quantity of mines would be offset (or overcompensated) by a higher quality of mining practices and reduced incremental environmental and social impacts. In the mining sector, larger but fewer and better regulated operations often mean less environmental and social damage.

79. For reforms to be sustainable, they must be perceived as legitimate by society as a whole. Otherwise, they will be undermined, reverted, or simply ignored over time, even when seemingly successful in the short-run. There are three interrelated crucial elements in the legitimatization of a major reform or development in the mining sector. First, all important stakeholders must be involved from the beginning and have input into the reform process. Second, the government needs the requisite capacity and political will to implement reforms in a timely and effective manner. Third, the benefits from reforms must be wide-spread including those most affected by mineral resource development.

80. As the project activities consist only of TA, the conventional safeguards instruments corresponding to a safeguards category B, such as ESIA and EMP, were not developed during project preparation. In their place, the task team assisted the Recipient to produce

TORs for the environmentally and socially relevant TA activities, specifically the SESA. The TORs describe in detail the analytical and advisory activities that would assist the GoT in the parallel development of environmental and social regulations, and mainstreaming them into mining sector development, and of appropriate policy and regulatory instruments and processes to ensure compliance with international good practice in environmental regulatory oversight. These TOR have been disclosed as final draft version in the World Bank's InfoShop as well as in the country (websites of Ministry of Finance and involved line Ministries), and one consultation hearing has been organized in Dushanbe for the public, with targeted invitations issued to key stakeholders, especially the involved Government agencies and national and international CSOs.

81. The Borrower's capacity for safeguards is low. Especially the monitoring and enforcement of environmental regulations is a serious challenge for Tajik environmental authorities. The key problems are the lack of training, the lack of political and financial support by the Government, and the absence of a general culture of accountability and of environmental consciousness and care in Tajikistan. It is one of the declared objectives of the project to provide capacity building to the Borrower's licensing and enforcing agencies in the mining sector, which will include specific modules and activities for environmental authorities. Synergistic effects are expected with ongoing large scale studies in the energy sector, where environmental authorities have been challenged to actively engage and get exposure to assessment and evaluation procedures in line with good environmental practice.

D. SAFEGUARD POLICIES

82. This project triggers the environmental assessment safeguard policy and access to information policy.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Pest Management OP 4.09		X
Indigenous People OP/BP 4.10		X
Physical Cultural Resources OP/BP 4.11		X
Involuntary Resettlement OP/BP 4.12		X
Forests OP/BP 4.36		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X
Access to Information	X	

Annex 1: Results Framework and Monitoring

Country: Tajikistan

Project Name: Private Sector Competitiveness (P130091)

Results Framework

Project Development Objectives

PDO Statement

The development objective of the project is to remove key constraints to business development and investment by: (i) simplifying business registration and construction permitting processes; (ii) improving regulations and infrastructure underlying access to financial services; and (iii) encouraging development of the mining industry, where Tajikistan has a competitive advantage.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Indicator One: New businesses registered through the new online one-stop-shop	<input type="checkbox"/>	Number	60000.00	60000.00	60000.00	64000.00	69000.00	69000.00	Yearly	SCISPM and STC, Pension Fund, Statistics Agency	SCISPM
Indicator Two: Construction permits granted in the single window in the city of Dushanbe	<input type="checkbox"/>	Number	300.00	300.00	300.00	360.00	432.00	432.00	Yearly	Construction Agency/City of Dushanbe/Chief Architect's Office	SCISPM
Indicator Three: Lending based on new registration of security interests in the new collateral registry using moveable assets as collateral	<input type="checkbox"/>	Amount(USD)	0.00	0.00	4000000.00	7000000.00	10000000.00	10000000.00	Yearly	Collateral Registry	Collateral Registry
Indicator Four: Legal and regulatory framework to improve bank supervision is	<input type="checkbox"/>	Text	Compliance achieved in 0 of the 25 BCP principles ¹¹					Improvement achieved in at least 8	- BCP self-assessment to take place at midterm	NBT	NBT

¹¹ Per Basel Core Principles (BCP) assessment as part of Tajikistan 2008 FSAP

developed, adopted, and implemented								out of 25 principles	review ¹² - BCP external assessment to take place in Year 5		
Indicator Five: Legal and regulatory framework to improve payment system is developed, adopted, and implemented	<input type="checkbox"/>	Text	4 out of 10 CPSIPS principles observed ¹³	-	-	-	-	Improvement achieved in at least 3 areas	- CPSIPS self-assessment to be undertaken at midterm review - CPSIPS external assessment to take place in Year 5	NBT	NBT
Indicator Six: Number of new mining exploration licenses issued	<input type="checkbox"/>	Number	3.00	3.00	8.00	15.00	25.00	25.00	6 months	Geology Agency	Geology Agency

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target			
Intermediate Result indicator One: Time spent on business registration	<input type="checkbox"/>	Days	24.00	24.00	24.00	3.00	3.00	3.00	Yearly	STC	SCISPM
Intermediate Result indicator Two: Costs to register a business	<input type="checkbox"/>	Amount(USD)	227.00	227.00	227.00	166.00	166.00	166.00	Yearly	STC	SCISPM
Intermediate Result indicator Three: Steps to register a business	<input type="checkbox"/>	Number	5.00	5.00	5.00	3.00	3.00	3.00	Quarterly	SCISPM and STC, Pension Fund, Statistics Agency	STC
Intermediate Result indicator Four: Time spent on getting a construction permit in the city of Dushanbe	<input type="checkbox"/>	Days	228.00	228.00	228.00	180.00	150.00	150.00	Yearly	Construction Agency/ City of Dushanbe/Chief Architect's Office	SCISPM

¹² If an FSAP takes place in Tajikistan in years 2-4 of the project, the BCP assessment will be postponed until FSAP takes place

¹³ Per Core Principles for Systemically Important Payment Systems (CPSIPS) performed in 2011

Intermediate Result indicator Five: Costs to obtain a construction permit	<input type="checkbox"/>	Amount(USD)	850.00	850.00	850.00	75.00	75.00	75.00	Yearly	Construction Agency/ City of Dushanbe/Chief Architect's Office	SCISPM
Intermediate Result indicator Six: Steps to obtain a construction permit in the city of Dushanbe	<input type="checkbox"/>	Number	0.00	26.00	26.00	26.00	17.00	17.00	Quarterly	Mayor's office and Construction Agency	Construction Agency
Intermediate Result indicator Seven: Amended legal framework for secured transactions and debt resolution regimes	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Yes	Yes	Yearly	NBT/Collateral Registry	NBT
Intermediate Result indicator Eight: Existence of an operational online system for registering collateral	<input type="checkbox"/>	Yes/No	No	No	No	Yes	Yes	Yes	Yearly	Ministry of Justice/National Bank/ Collateral Registry	Ministry of Justice/National Bank/Collateral Registry
Indicator Nine: Number of loans backed by moveable assets and registered in moveable collateral registry	<input type="checkbox"/>	Number	0.00	0.00	260.00	340.00	450.00	600.00	Yearly	Collateral Registry	Collateral Registry
Intermediate Result indicator Ten: Modern Automated Transfer System (ATS) and module of financial instruments for interbank transactions operational	<input type="checkbox"/>	Text	No	No	Procurement and installation of new hardware and software completed	New hardware and software fully operational	100% of relevant staff trained and working on new systems	System installed and operational and all the relevant staff trained to use it	6 months	NBT	NBT
Intermediate Result indicator Eleven: Number of high value (RTGS) payments made through ATS per day	<input type="checkbox"/>	Number	1600.00	1600.00	1800.00	2000.00	2150.00	2150.00	6 months	NBT	NBT
Intermediate Result Indicator Twelve: Number of low value (ACH) payments	<input type="checkbox"/>	Number	0.00	200.00	800.00	1000.00	2500.00	2500.00	6 months	NBT	NBT

made through ATS per day											
Intermediate Result indicator Thirteen: Adoption of modern supervision methods	<input type="checkbox"/>	Text	Supervisory framework lacking modern supervision methods	Supervisory framework lacking modern supervision methods	Implementation of improved off-site reporting and analyses	Adoption of new bank supervision manual	Adoption of risk focused supervision	Adoption of improved offsite reporting and analyses, new bank supervision manual, risk focused, and consolidated supervision	6 months	NBT	NBT
Intermediate Result Indicator Fourteen: Adoption of banking regulations in line with international standards	<input type="checkbox"/>	Number	0	2	4	6	7	7	Yearly	NBT	NBT
Intermediate Result Indicator Fifteen: Contingency planning and crisis management framework adopted and implemented	<input type="checkbox"/>	Text	No	No	Formal framework developed	Formal framework in place	Simulation conducted to test the framework, improvements made	Formal framework in place; no serious shortcoming revealed	Yearly	NBT	NBT
Intermediate Result indicator Sixteen: Share of existing and new claims in the Mining Cadastre on new system	<input type="checkbox"/>	Percentage	0.00	0.00	25.00	50.00	75.00	75.00	6 months	Geology Directorate	Geology Directorate
Intermediate Result indicator Seventeen: Share of geological surveys in electronic form on Modern System	<input type="checkbox"/>	Percentage	0.00	20.00	40.00	60.00	80.00	80.00	6 moths	Geology Directorate	Geology Directorate
Intermediate Result indicator Eighteen: Average time to issue a mining exploration license	<input type="checkbox"/>	Months	36.00	36.00	36.00	24.00	18.00	18.00	6 months	Geology Agency	Geology Agency
Direct project beneficiaries- one-stop-shop for business	<input checked="" type="checkbox"/>	Number	60000.00	60000.00	60000.00	64000.00	69000.00	69000.00	Yearly	SCISPM and STC, Pension Fund, Statistics	SCISPM

registration										Agency	
Female beneficiaries-one-stop-shop for business registration	<input checked="" type="checkbox"/>	Percentage	0.00	2.00	4.00	6.00	8.00	10.00	Yearly	SCISPM and STC, Pension Fund, Statistics Agency	SCISPM
Direct project beneficiaries- single window for construction permits	<input checked="" type="checkbox"/>	Number	300.00	300.00	300.00	360.00	432.00	432.00	Yearly	Construction Agency/City of Dushanbe/Chief Architect's Office	SCISPM
Female beneficiaries-single window for construction permits	<input checked="" type="checkbox"/>	Percentage	0.00	2.00	4.00	6.00	8.00	10.00	Yearly	Construction Agency/City of Dushanbe/Chief Architect's Office	SCISPM
Volume of Bank Support: Enabling Environment - SME ¹⁴	<input checked="" type="checkbox"/>	Amount(USD)	0.00	0.00	700000.00	1200000.00	1900000.00	1900000.00	Yearly	NBT	NBT

¹⁴ Enabling environment funding involves support at the wholesale level for SME Finance, as opposed to support for specific institutions. The end target value (US\$ 1.9 million) for this indicator is the sum of the support provided for the following sub-components: completion of establishment of an online one-stop-shop for business registration; improvement of the regulatory framework for provision of construction permits and establishment of a single window for processing construction permits; and secured transactions and debt resolution.

Annex 1: Results Framework and Monitoring

Country: Tajikistan

Project Name: Private Sector Competitiveness (P130091)

Results Framework

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)
Indicator One: New businesses registered through the new online one-stop-shop	Number of new businesses registered as captured by the new registry.
Indicator Two: Construction permits granted in the single window in the city of Dushanbe	Number of construction permits granted in the single window in Dushanbe increases as captured by the single window
Indicator Three: Lending based on new registration of security interests in the new collateral registry using moveable assets as collateral	Bank lending increase due to the implementation of the new collateral registry, as captured by the National Bank and collateral registry systems
Indicator Four: Legal and regulatory framework to improve bank supervision is developed, adopted, and implemented	Bank supervision legal and regulatory framework improved, as measured by the improvement in at least 8 out of 25 Basel Core Principles.
Indicator Five: Legal and regulatory framework to improve payment system is developed, adopted, and implemented	Payment system legal and regulatory framework is enhanced, as measured by the improvement achieved in at least 3 areas of the CPSIPS assessment.
Indicator Six: Number of new mining exploration licenses issued	Number of new mining exploration licenses issued increases as the result of improvement of the regulatory framework

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)
Intermediate Result indicator One: Time spent on business registration	Time spent on business registration decreases as the result of the implementation of the one-stop shop
Intermediate Result indicator Two: Costs to register a business	Amount of money spent on the registration of a business decreases as captured by the single window
Intermediate Result indicator Three: Steps to register a business	The number of steps to register a business decreases as captured by the one-stop shop
Intermediate Result indicator Four: Time spent on getting a construction permit in the city of Dushanbe	The amount of time spent on obtaining a construction permit in the city of Dushanbe has been reduced, as captured by the single window
Intermediate Result indicator Five: Costs to obtain a construction permit	The amount of money spent on obtaining a construction permit in the city of Dushanbe has been reduced, as captured by the single window
Intermediate Result indicator Six: Steps to obtain a construction permit in the city of Dushanbe	The number of steps to obtain a construction permit in the city of Dushanbe has been reduced

Intermediate Result indicator Seven: Amended legal framework for secured transactions and debt resolution regimes	Laws related to moveable collateral and debt resolution regimes are modernized
Intermediate Result indicator Eight: Existence of an operational online system for registering collateral	The online system for registering collateral has been implemented and business have an option of registering either online or in person
Intermediate Result Nine: Number of loans backed by moveable assets and registered in moveable collateral registry	Number of loans backed by moveable assets as collateral increases, as captured by the collateral registry system
Intermediate Result indicator Ten: Modern Automated Transfer System (ATS) and module of financial instruments for interbank transactions operational	The new ATS (including both RTGS functionality and the capability of clearing, netting, and settling retail-level payments in one integrated package), as well as module of financial instruments for interbank transactions, are in place and functioning
Intermediate Result indicator Eleven: Number of high value (RTGS) payments made through ATS per day	The baseline number is the average number of payments made through the existing RTGS system (to be replaced by the ATS). The number of high value payments made through ATS per day is expected to increase as compared to the number of payments made through the existing RTGS system at present.
Intermediate Result Indicator Twelve: Number of low value (ACH) payments made through ATS per day	The new ATS system, which incorporates ACH, starts processing low value payments. The number of payments processed through ACH increases gradually in the future years
Intermediate Result indicator Thirteen: Adoption of modern supervision methods	Adoption of modern supervision methods will take place in several stages. First, improved off-site reporting and analyses will be implemented. Then new bank supervision manual and risk-focused and consolidated supervision will be adopted. NBT's IT system for bank supervision will be upgraded to enhance its capabilities and is functioning, NBT staff will be trained on risk management practices, supervision and other areas which need capacity building, as well as and on the application of the new software procured as the result of the project
Intermediate Result Indicator Fourteen: Adoption of banking regulations in line with international standards	This indicator is measured through the number of laws/regulations developed, adopted, and successfully implemented. Areas to be covered under new or revised laws and regulations will, at a minimum, include: (i) implementation of risk based supervision; (ii) review and revision of supervisory processes, bank supervision manual, and quality control framework for on-site bank examinations; (iii) strengthening the package of off-site returns and early warning systems; and (iv) introduction of formal contingency planning and crisis management frameworks
Indicator Fifteen: Contingency planning and crisis management framework adopted and implemented	The implementation of this activity will be measured through the successful completion of the various stages contingency planning and crisis management framework adoption and implementation. In the first year, the formal framework for contingency planning and crisis management will be developed. In the second year, it will be put in place. In the third year, simulations will be conducted to test the adequacy of the framework and improvements will be made. Finally, simulations will not reveal any serious shortcomings, and the framework will become fully operational.
Intermediate Result indicator Sixteen: Share of existing and new claims in the Mining Cadastre on new system	Existing cadastral records are all accurately placed on new system, as well as new licenses and contracts
Intermediate Result indicator Seventeen: Share of geological surveys in electronic form on Modern System	Existing geological information is all accurately placed on new system, as well as new data being generated and collected
Intermediate Result indicator Eighteen: Average time to issue a mining exploration license	The length of time which it takes, on average, to issue a mining exploration license

Direct project beneficiaries- one-stop-shop for business registration	This indicator will measure the direct project beneficiaries from introduction of the one-stop-shop for business registration.
Female beneficiaries- one-stop-shop for business registration	This indicator will measure what percentage of the beneficiaries are female out of the direct project beneficiaries of one-stop-shop for business registration.
Direct project beneficiaries- single window for construction permits	This indicator will measure the direct project beneficiaries from introduction of single window for construction permits
Female beneficiaries - single window for construction permits	This indicator will measure what percentage of the beneficiaries are female out of the direct project beneficiaries of single window for construction permits.
Volume of Bank Support: Enabling Environment - SME	This indicator will measure the volume of Bank support for SME lending

Annex 2: Detailed Project Description

TAJIKISTAN: Private Sector Competitiveness and Financial Sector Strengthening Project (P130091)

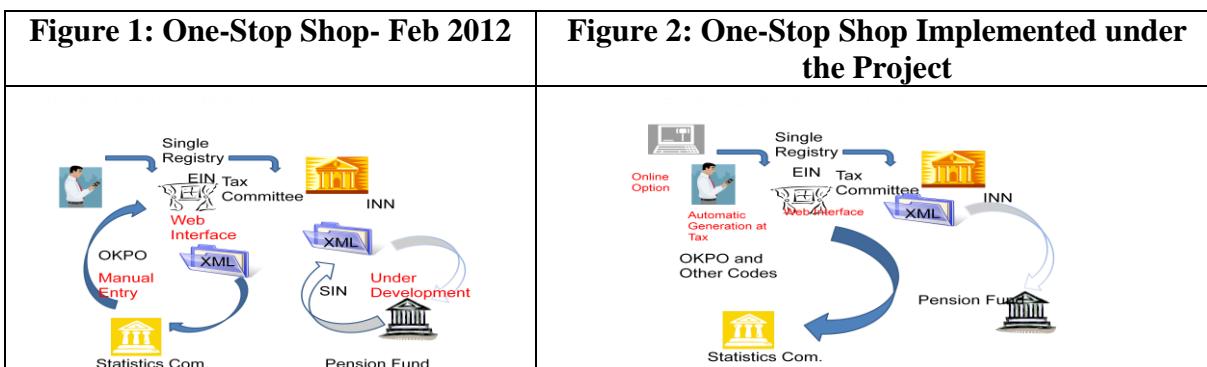
Component 1: Strengthening the Business Environment (US\$ 6.3 million)

1. This component aims to make the business environment in Tajikistan more friendly to private firms and entrepreneurs by continuing supporting reforms in selected areas of the investment climate, where the technical assistance provided by the Bank over the last few years needs to be extended in depth and breadth, and supporting the implementation of reforms, by complementing the technical assistance with a dedicated investment and capacity building component. The program will focus on three sub-components are described in detail below:

1) Sub-component 1.1: Completion of Establishment of an Online One-stop-shop for Business Registration (US\$ 0.6 million):

2. **The government is determined to continue improving the process of business registration.** Starting a business in Tajikistan could be significantly easier if the process of registration could be made through an effective central service center, a number of procedures were simplified, and costs were reduced. At the moment, entrepreneurs still need to visit at least two agencies (the Tax Committee and the Pension Fund) and sometimes three (the Statistics Committee as well) to obtain separate registration numbers.

3. **The task team expects to complete the roll-out of a system ensuring the fully functioning of the one-stop-shop as the result of the project.** The current system is presented in **Figure 1**. It is considerably less efficient than the system proposed under the project. The future one-stop-shop which is envisioned to be developed and implemented under this project, is presented below in **Figure 2**. It will significantly simplify the procedures which need to be performed by entrepreneurs to open a business in Tajikistan: instead of visiting two or sometimes three agencies, entrepreneurs will be visiting only one (a single registry), which will generate a single number for the businesses. Furthermore, there will be an online option for registration.



4. **The activities under this sub-component will focus on five major areas: legislative support, registry design and development, awareness and training activities, developing monitoring and evaluation mechanisms for the reforms, and IT.**

- i. **Legislative Support:** This includes procurement of the services of legal experts, in order to review the legislative framework, and ensure that adequate legislative framework is in place, that the laws meet international best practice and the specific needs of Tajikistan, and that all relevant laws are harmonized. Legal experts will also assist the government in developing the necessary implementation regulations/decrees. While the law currently provides the legal basis for the operation of the registry, it does not have sufficient detail to guide the operation of the registries (e.g. the fee structure, hours of operation, method of submission of documents and search, etc.). The project will support the preparation of the appropriate decree/regulations for the well-functioning of the registry that, where applicable, would address the following: time and location of operation of the registry; the manner in which the head of the registry discharges his duties and obligations; requirements to complete a registration; requirements to complete a search request; search methodology; format of confirmation of registrations and search results reports; establishment of regular user accounts for access control and fee payment; methods and processes for payment of fees; and fees for registry services.
- ii. **Registry Design and Development:** The project will support the provisioning of the skills necessary for implementation and IT experts.
- iii. **Awareness and training activities:** The project will increase awareness and provide training to public stakeholders on compliance with the new laws and regulations, on the use of the online system. The project will include preparing materials, study tours and peer-to-peer learning events, publicity and training event facilities for the periods of awareness-raising activities and training.
- iv. **Developing monitoring and evaluation mechanisms for the reforms:** Once the reform is completed, it is important to ensure that there is an appropriate monitoring and evaluation mechanism in place to measure the impact of the reforms. The project will support putting in place monitoring tools, impact indicators and data collection procedures, guidelines and plans.
- v. **IT:** This involves the procurement of training firms, hardware and software and related services for the well-functioning of the registry, and training of the relevant staff. Activities undertaken in these major areas will include: procurement for the application software license and for purchase or lease of hardware to ensure that all relevant agencies have the necessary IT infrastructure in place for the systems to be able to communicate and exchange information; procurement of ISP services if needed; procurement of servers and consultants if needed; procurement of office equipment for the registry operations staff when needed; procurement of firms to carry out capacity-building and training for the registry staff, as needed; tender for a co-location facility (if servers cannot be located in the registry facility); development of the operating budget estimates for the functioning of each registry; and testing and deployment of the new technology systems
We note that these five major areas will also be addressed for following two sub-components: (i) construction permits and inspections; and (ii) secured transactions and debt resolution.

5. Technical Design:

- The architecture of the one-stop-shop business registry calls for a database in which information is captured and retained, and from which information may be retrieved. The technical design includes the creation of an online one stop shop, which users of the registry's services can access through the internet. Regular users of the registry will establish payment accounts with the registry that may be either pre-paid or post-paid accounts, where payments are made on periodic statements for services rendered during the period. Other users will pay either through pre-identified bank accounts or at a cash machine in the registry, demonstrating the receipt as a proof of payment. To ensure easy access for users in regions where internet service providers do not exist, it may be necessary to provide intake points for users to present paper documents.
- The one-stop-shop for business registration will connect the three agencies that include the tax committee, pension fund and statistics committee. When the entrepreneur visits the one-stop-shop, upon registration, he/she receives a single registration number. No additional numbers will be given to entrepreneurs. The single registration number then automatically sends this information to all the three agencies. Each agency can maintain the generation of their internal numbers for their internal use. These numbers will no longer be needed by the entrepreneur. In the final phase of the reform, the registry will be made available online so that entrepreneurs can register through a web-based system.

2) Sub-component 1.2: Improvement of the Regulatory Framework for Provision of Construction Permits, and Establishment of a Single Window for Processing Construction Permits and Inspections (US\$ 0.8 million):

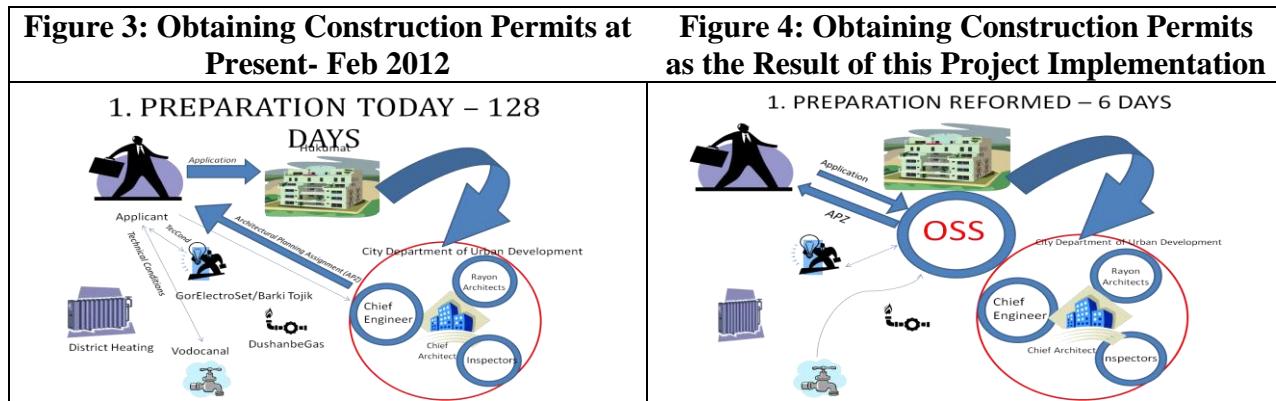
6. The government successfully implemented a number of legislative reforms to simplify the process of issuing construction permits. This is a positive step forward and creates a platform to broaden the reform and introduce a new system of single window for issuing construction permits. While the legislative amendments call for the implementation of a single window for construction permits, no such mechanism currently exists to have a visible impact on the business environment. In addition, the regulatory framework needs additional components, such as a modern licensing framework for building practitioners, best practice codes and risk-based approaches for construction inspections.

7. This sub-component will help the government to further strengthen the regulatory framework and implement the new system of issuing construction permits and inspections that will help to make it less expensive and burdensome to comply with building rules. The assistance will specifically aim at implementing a risk-based approach for construction permitting and inspections, to produce a harmonized legislation for building inspections, a modern licensing system for professional building practitioners and best practice codes.

8. To implement this sub-component, the project will use the City of Dushanbe as pilot. The main agencies involved in this component of the project are the Construction Agency and the Municipality. Under this component, the project will work closely with the Mayor's Office, the Chief Architect of the City of Dushanbe, as well as the Construction Agency to ensure that there is a single window for obtaining construction permits. The single window for construction will connect the relevant agencies (e.g., sanitary/hygiene environment, fire

protection, road police, water, electricity, etc.) to the one-stop-shop for the purposes of construction permits and inspections.

9. To ensure effective functioning of the single window for construction permits, the project will focus on the following activities: (i) identification of the location of the single window for construction and the computerized system for inspections and the agency hosting; (ii) adoption of regulatory amendments to ensure that the design and location of the systems, and the overall regulatory framework for construction permits and inspections, are consistent with best practices and the needs of Tajik entrepreneurs; and (iii) implementation of the necessary IT systems to ensure the well-functioning of the systems. Please refer to **Figure 3** below for the illustration of the current process of obtaining construction permits which at present takes 128 days. As the result of the project implementation, the process of obtaining construction permits will be simplified significantly (**Figure 4**), and this process will be only taking 6 days¹⁵.



10. As noted above, similar to the sub-component 1.1, this sub-component will also focus on five major areas: legislative support, registry design and development, awareness and training activities, developing monitoring and evaluation mechanisms for the reforms, and IT. Please refer to the sub-component 1.1 description above for the explanation of the major activities covered in these areas. Regarding ICT for the single window for construction, there is a need for domain, email and firewall servers, the operating system, database, and firewall software. While the various agencies involved in the process of obtaining a construction permits, including the office of the Chief Architect of Dushanbe, the Construction Agency, the utility companies involved or the Mayor's office may have significant IT needs, the scope of the current project is limited to ensuring the well-functioning of a single window for construction in the pilot City of Dushanbe. The IT support to each of the mentioned agencies will be provided to the extent necessary to facilitate the process of obtaining a construction permit in the pilot city.

3) Sub-component 1.3: Improvement of the Financial Infrastructure

I. Secured Transactions and Debt Resolution (US\$ 0.5 million):

11. The secured transactions and debt resolution sub-component will focus on three major areas: legislative support, registry design and development, and awareness and

¹⁵ The design of the computerized inspections system will be developed under the project.

training activities. This component will be coordinated with the IFC, which will provide complementary capacity building for private sector participants on the use of the new online registration system, moveable asset-based lending techniques, and risk management mechanisms.

12. The project will support improvements in the legal and regulatory framework for secured transactions and debt resolution. Specifically, the project will revise and amend the legislation and regulations in the areas of creating a security interest, registering a security interest, establishing priorities, and obligations towards moveable collateral, enforcement over moveable collateral, improvements in the protection of secured creditors in the insolvency law, and debt resolution mechanisms, including the use of alternative dispute resolution mechanisms, such as mediation and arbitration for debt resolution inside and outside insolvency. The project will ensure harmonization of the secured transactions law with other laws, such as insolvency or mortgage law.

13. The project will finance the procurement of a modern online moveable collateral registry system. This will ensure that the system of registration for collateral is sustainable, easy to access throughout the country, reliable, and secure. The activities under this sub-component will include preparing the registry's specifications and conducting a competitive bidding process for installation of a new registry. The architecture of the registry calls for only one database in which information is captured and retained, and from which information may be retrieved. The technical design includes the creation of an online collateral registry, which users of the registry's services can access through the internet. To ensure easy access for users in regions where internet service providers do not exist, it may be necessary to provide intake points for users to present paper documents. These intake points may be provided either by the government or the private sector. Regular users of the registry will establish payment accounts with the registry that may be either pre-paid or post-paid accounts, where payments are made on periodic statements for services rendered during the period. Regarding ICT, there is a need for domain, email and firewall servers, the operating system, database, and firewall software. The product used for the operating system and database could be either open source, Microsoft, or Oracle running on Unix. While customized software could be developed, the preferred method is taking an off-the-shelf software and modifying it to meet the system's needs.

14. The project will increase awareness and provide training to public stakeholders on compliance with the new laws and regulations, on the use of the online system, and on asset-based lending techniques. Training will be provided to the staff of the registry, judges, arbitrators, and bailiffs on compliance with new laws and regulations. This component will be coordinated with the IFC, which will provide complementary capacity building for private sector participants, especially banks and microfinance organizations, on the use of the new online registration system, asset-based lending techniques, and debt resolution mechanisms.

II. Modernization of the Payment Systems Infrastructure (US\$ 2 million) and Strengthening the Regulation and Oversight of the National Payments System (US\$ 0.2 million):

15. As the project focuses on improving the business environment in Tajikistan, it is critical to include activities that will enhance the operation of the financial system,

including modernization of the payment systems infrastructure and strengthening of bank regulation and supervision. An efficient financial system operating in a sound, well supervised manner helps to build the population's trust in the system and encourages funds to be channeled into the financial system to ultimately become available for enterprises seeking credit, as opposed to remaining outside the banking system, as in the case of Tajikistan.

16. **This sub-component will improve efficiency in the financial sector and lower the costs of financial intermediation by modernizing the payment systems infrastructure and strengthening the regulation and oversight of the national payments system.** Existence of modern and efficient payment systems is critical to reduce transaction costs for enterprises and support market participants in managing their liquidity. Without efficient payment systems, online services envisioned under this project in several areas (e.g., collateral registry, one-stop-shop for business registration, and single window for construction permits and inspections), will not be able to function properly. Implementation of the modern payment system under the project will make online services possible, as well as allow banks to manage their liquidity more efficiently, and thus significantly reduce transaction costs for enterprises, making them more competitive.

17. **Specifically, this sub-component will finance the procurement of an ATS (including both RTGS and ACH functionality) to replace the existing RTGS system at NBT and offer significantly enhanced functionality.** In addition to control of systemic risk¹⁶ (which is the traditional function of an RTGS system), the new system will enable banks to manage their liquidity more effectively so as to ensure the free and unimpeded flow of payments (both large and small) without requiring them to hold excessive amounts of reserve funds. The ATS will have a linkage to the NPC for card payments, ensuring the orderly and safe settlement of these transactions, and eventually to other trading systems such as the Stock Exchange.

18. The ACH element will provide functionality at the level of retail payments, including:

- i. The ACH will clear and settle retail-level electronic payments including direct credits and direct debits. This will enable financial institutions to offer new and attractive services to their customers. It will also make payments faster, more efficient and less risky.
- ii. The ACH will be linked to financial systems in the Ministry of Finance, the Tax Administration and the Customs Service. All of these agencies will be able to make and/or receive payments by fast, efficient, cost-effective, accurate and safe electronic means. For example, government salary payments will be able to be made electronically, giving benefits to both employees and government agencies. The result will be increased efficiency of government operations, improved levels of service to government clients and reduced opportunities for misappropriation of government funds.
- iii. The ACH will enable enterprises to make payments electronically. Banks will be able to offer direct electronic connection to their customers' electronic accounting systems so that payment of creditors and salaries can be automated, thus improving efficiency,

¹⁶ Defined by the Bank for International Settlements (BIS) as “the risk that the failure of one participant in a transfer system...to meet its required obligations will cause other participants or financial institutions to be unable to meet their obligations...when due”.

financial control and creditor/employee satisfaction. Enterprises that regularly bill customers, such as utilities, finance companies, etc., will be able to receive payments by direct credit or debit, improving both cash flow and efficiency and reducing costs.

- iv. Employees in both public and private sectors will be able to receive their salaries directly into their bank accounts. They will have certainty that their salary will be available at a predictable time. Taken in combination with the current developments in extending the use of payment cards, this will reduce the necessity to use cash. Consumers will be able to make their regular payments (e.g. for utilities, rent) by either direct credit (standing order) or direct debit rather than having to travel to make payments in person.
- v. The system will contribute to deepening penetration of the formal banking economy into the section of the community that is currently underserved. This will not only contribute to the overall development goals of the economy but will also promote the move away from the use of cash and thus free up financial resources for productive investment

19. **This sub-component will also finance the procurement of a module of financial instruments for interbank transactions.** The module of financial instruments for interbank transactions will (i) enable transactions in securities to be carried out according to the principle of Delivery versus Payment (DvP), reducing risk in these transactions and conforming to international recommendations; (ii) improve efficiency of operation in the RTGS through automatic collateralization of liquidity provision by NBT to participants; (iii) securely hold information on all government and NBT securities and register all transfers of ownership, safely and accurately; and (iv) provide instant access to the registry for portfolio management and provide a number of other functions, including management of the issuing (auction) process and automatic calculation and payment of interest, maturity pay-outs, taxes, etc.

20. **The sub-component will also strengthen the legal and regulatory framework for the payment system.** It will strengthen the oversight of the national payments system and provide TA to strengthen the governance structure of the new NPC to support small value payments and the use of cards.

III. Strengthening of Bank Regulation and Supervision (US\$ 2.2 million)

21. **This sub-component will encourage the improvement of the operation of the financial system necessary for financial institutions to intermediate funding by strengthening bank regulation and supervision in a number of areas.** A sound, healthy, and efficient financial system is essential to intermediate funds and channel them to their most productive uses in the private sector. The project's support for legal, regulatory, and supervisory reforms in the financial sector will contribute to the enhancement of the operation of financial system, greater access by enterprises to financial services, and therefore to Tajikistan's sustainable economic growth.

- i. **TA to NBT - Strengthening of Banking Regulations and Supervision (US\$ 0.7 million):**

- **Strengthening of Banking Regulations:** The project will include TA to NBT to review and revise relevant legislation and regulations in accordance with international best practices in the following areas: risk management, licensing, IFRS, bank corporate governance, investment activities of banks, related lending, consolidated supervision, payment systems, business continuity planning, electronic banking, internal control and audit, information security. Internal guidelines will be introduced or revised, where relevant, on functional areas where the regulations will be issued or revised. The project will be flexible in addressing these areas based on needs as they are identified during the course of the project.
- **Strengthening of off-site supervision:** The project activities will include strengthening of the off-site reporting framework and the processes adopted by the off-site unit to improve its effectiveness. This will include the following: reviewing and revising the package of supervisory reporting, including reporting formats; strengthening the early warning system; improving the analyses of off-site reporting information; designing new management reports to the NBT's senior management and board; establishing new processes to act upon these reports as necessary; and upgrading the existing off-site supervision system to provide more extensive functionality to support the evolving activities of the banking supervision department.
- **Strengthening of on-site supervision:** The project will also strengthen the on-site examination framework and the processes adopted by the on-site unit to improve its effectiveness. The areas that need improvement include introduction of processes and methodologies for inspection of new and emerging areas of bank operations; introduction of a quality control framework for on-site examinations; preparation of a revised bank supervision manual; and a review and revision inspection methodology and processes. The project will also support the adoption of risk-based supervision, and develop a risk estimation methodology. In the move to adopting risk-based supervision, the tasks will include development of a risk assessment, estimation and rating methodology for all relevant risks; and development of a supervisory framework escalating the level of supervisory focus to the level of risk or concern.
- **Stress test methodology:** The project will help enhance NBT's capacity to undertake stress tests on more parameters, dynamic stress tests, and scenario analyses. NBT will also migrate to macro stress tests and promote bottom-up stress tests for all critical parameters. The project will also assist NBT to introduce a system whereby the outcomes of the periodic stress testing of banks' financial positions feed into an early warning system.
- **Contingency planning and crisis management:** The project will assist NBT to put in place a formal contingency planning and crisis management framework that will equip it and the financial system to manage stress situations.
- **Training and capacity building:** The project will provide for the training and capacity building of the NBT's supervision department in the areas of off-site supervision, on-site supervision, stress test methodology, new and updated

regulations, use of the upgraded FINA systems, and other areas as identified over the course of the project.

ii. **Upgrade of the NBT's IT System for Bank Supervision (US\$ 1.5 million):**

- The activities above will be underpinned by the upgrading of the ICT infrastructure, which currently supports only off-site banking supervision. NBT's ICT system for bank supervision was installed in the early 2000s, and has not kept pace with developments in the off-site banking supervision unit's functions and activities. In addition, the hardware on which it runs is rather slow and at times unreliable. The project will contribute US\$ 1.5 million to cover:
 1. Procurement of new hardware servers and related ICT infrastructure to operate new banking supervision software, that will include adequate redundancies and disaster recovery capabilities;
 2. Development of a software package that will: support data storage and retrieval for all regulated entities, both on-site and off-site, with adequate data security and access protocols; facilitate collection, validation and standard analyses of a broad range of data, both financial and non-financial, pertaining to the regulated entities with minimal human intervention; support effective supervision through enhanced analyses of data received from regulated entities, the inspectors in the off-site supervision, the on-site supervisors, the functionaries attending to various authorizations, and other sources; including through stress testing, generating early warning signals and supporting macro-prudential supervision; support generation of efficient management information reports for individual banks, group of banks and the banking system as a whole that will facilitate decision making and policy making; and provide flexibility in the software package to enable supervisory staff to perform new analyses and generate modified reports as may be required, without requiring intervention from ICT technical staff

Component 2: Encouraging the Development of the Mining Industry (US\$ 3.1 million).

22. **This component would aim at supporting the development of the mining industry, a sector with a high competitiveness potential in Tajikistan, leveraging the new Competitiveness Partnerships Initiative CPI developed under the FPD network.** The mining component would be developed in collaboration with the SEGOM unit in the World Bank and leverage preliminary work implemented by SEGOM in recent years. To date the involvement of other donors has been limited, although the German aid agencies are intending to provide assistance on capacity building and other issues in the near future. The Finnish government has also recently been providing help with technical aspects such as digitization of the existing geological information. The World Bank is coordinating with both donors, particularly the Finnish Geological Survey, to build on each other's efforts and avoid duplication.

23. **Tajikistan's rich geological potential has gone mostly unexploited.** In the 1970s and 1980s, geological exploration work financed by the former USSR mapped most of the country's territory, but the mining sector has not yet taken off after Tajikistan's independence. The sector is dominated by small operators and artisanal miners that operate without adherence to

environmental, social, or health and safety regulations. Potential sector revenues remain lost to the central authorities, as they lack capacity to collect taxes and enforce mining sector legislation that is currently in place. Tajikistan is not well poised to take advantage of the global mining investment boom without a significant transformation of the operation of its mining sector.

24. Nevertheless, the Government of Tajikistan has been actively seeking to reform its mining sector. The most crucial step was undertaken, when the Government decided to put the Konimansur silver deposit out for tender and selected the IFC's Advisory Services group as its transaction advisor. Located in the north of Tajikistan close to the border with Uzbekistan, the deposit is one of the largest in the world. Various estimates put the size of the deposits at around 50,000 tons, and the total investment required to develop them will likely be more than US \$2 billion. The Konimansur silver deposits are of high grade and include significant quantities of zinc and lead ores, which makes them even more attractive to a potential investor. This process is regarded as the first step in opening up Tajikistan's mining sector and becoming a world-class mining destination. The tender process has been moving ahead, and, if successful, will bring Tajikistan on the global mining map as a key player. The final steps of the process are underway and it is expected to be completed in December 2011.

25. A number of state agencies are involved in overseeing mining sector policies in Tajikistan. Exploration and exploitation activities are completely separate, with the exploration work falling under the authority of the Head Geology Agency that has access to the maps and geological data. The Agency decides on prioritization of the deposits and prepares the tenders for exploration work. Once an investor moves from exploitation to exploration work, the authority is transferred to the Ministry of Energy and Industry, SCISPM, and Gornadzor (State Safety and Inspection agency). In addition, the Ministry of Industry and Energy plays a very important role in the mining sector and, in fact, is responsible for coal, gold, and precious metals and is involved in joint ventures in all three areas as well as for licensing of activities in these areas, fragmenting cadastre responsibilities between the Ministry and the Geology Agency. Other ministries are also involved in various stages of the process, including the Ministry of Justice, Ministry of Finance, taxation authorities,¹⁷ and Environmental Protection Committee. The latter is responsible for environmental impact assessments and environmental inspections.

26. Tajik laws and regulations which control business activities are a great hindrance to entrepreneurs in the mineral sector in so much as their drafting has been dominated by outdated Soviet philosophy which defined the roles of the state and the individual. The mining investment procedures are at times cumbersome and complicated and the proposed assignment is seen as the first step in streamlining the procedures and working with the authorities on introducing international best practices in mining sector management to Tajikistan. The insistence on government control makes Tajikistan uncompetitive relative to other exploration expenditure destinations (the competition is not with other CIS countries who suffer from a similar throwback philosophy, but rather from emerging countries in South America, Southeast Asia and Africa). Moreover, there is no law specific to minerals and the legal and regulatory responsibilities pertaining to the sector are spread over a large number of agencies,

¹⁷ While taxation policy is the responsibility of the Ministry of Finance, the Tax Committee under the GoT makes the final decisions. The Tax Committee works closely with the Geology Agency and the MIE on types and administration of taxes in the subsoil sectors. The current tax code has special provisions for mining.

resulting in long time lags between requests by the private sector to advance on mineral projects and the time all the necessary approvals come through. In addition, geological data are very difficult to access, greatly dissuading new entrants to the sector.

27. With global commodity prices steadily rising, and investor interest peaking around the globe, central Asia stands to be the next frontier for mining exploration and exploitation, and Tajikistan may position itself to benefit from a surge in mining investment. In September 2010, the President of Tajikistan mandated the organization of a mining technical working group that aims to make the mining sector more attractive and open to investors. The President reaffirmed the commitment to mining sector reforms in early 2011 in his annual address. A number of reforms are envisioned changes to the mining law to bring it to international level and improvements to the country's mineral licensing regime. The Government has already started working with the World Bank on mining sector reform, and requested assistance in the minerals sector and the implementation of the Extractive Industries Transparency Initiative (EITI). The Konimansur silver deposit is currently under tender; However, without deeper and more structured policy and institutional reform of the mining sector, this development may be the exception rather than the rule. The current system is very unattractive to the junior exploration companies, who are crucial for changing mineral resources into economically feasible deposits as well as identifying new resources and deposits.

28. Finally, global experience demonstrates clearly that development of the mining sector without adequate benefit sharing- both at the impacted community level and the country as a whole- will usually end up in legal, fiscal, and even violent conflicts. Tajikistan is not yet prepared to take advantage of the potential linkages and other benefits that modern mining developments, with their large demands for goods and services, can offer. There is a generalized lack of education at all levels with respects to the various costs that need to be mitigated, particularly social and environmental, and benefits that can only be attained with concerted efforts, including education, training, and general capacity building of SMEs.

29. The component would aim at: (i) increasing the attractiveness of Tajikistan as a destination country for large mining developments and (ii) building the capacity to manage and regulate the sector, building upon a number of previous Bank ad-hoc interventions in the mining sector (a mining strategy review, a review of mining legislation, and preliminary work on the EITI). The activities included in this component are the following:

1. Sub-component 2.1: Supporting the Preparation of Revised Mining Sector Laws and Regulations - US\$ 1.0 million

- i. Support to the GoT on the draft Law on Subsoil and associated implementing regulations in the mining sector, including complementary institutional changes/reorganization, to bring them in line with international best practices, including in the social and environmental areas;
- ii. Assessment and recommendations on developing a law specific to mining sector activities (the Law on Subsoil pertains to oil, gas, and mining, contrary to the situation in most countries where mining has its own sector specific law or code), including associated institutional changes;

- iii. Support to the GoT on revisions to the mining fiscal regime including an assessment of the total fiscal burden on mining operations;
- iv. Support to the GoT on policies and regulations for tendering of known mineral deposits (given the large amount of unexploited resources that were identified in the Soviet period);
- v. To undertake the first four activities an international consultant will be appointed to carry out a comprehensive review of the status of mineral policy and the legislative and regulatory setting for the sector and to provide policy advice to the Government in managing immediate and emerging issues. The consultant's report will include a detailed analysis of the current mining and related environment legislation and any supporting regulations, including the existing fiscal regime and tender process. The fiscal and legislative regime will be compared with recently changed regimes in important mining countries to determine its competitiveness. The consultant will then prepare an assessment report on the current status of the policy and regulatory environment for the mining sector and provide recommendations to the GoT.
- vi. Support to the GoT on the organizational structure for the mining, cadastre and geological survey functions carried out by various agencies of the GoT, including an assessment and recommendations on institutional design and responsibilities, current and future staffing needs, and a training strategy for staff in key regulatory roles. An institutional development specialist will carry out a comprehensive review of the organizational structure for the mining and geological survey activities in the GoT, an assessment of current and future staffing needs, and a training strategy for staff in key regulatory roles. He will work with Government agencies to devise mechanisms to address recruitment and retention problems associated with sector specific technical staff. The advisor will provide recommendations to the GoT on programs to enhance the domestic impacts of mining operations in the areas of mine site employment, procurement of local goods and services by mining companies and associated employment and infrastructure. A consultant will be assist in the development of policy framework for enhancing the benefit streams generated by mining activities.
- vii. Provision and delivery of training programs to develop improved staff skills in relevant GoT agencies, including issues in the areas of the monitoring and evaluation of environmental and social impacts and benefit streams management. Consultant services will be hired to design and deliver training programs to develop improved staff skills in the agencies directly involved in the mining sector. An important part of this technical training will focus on coordination of activities and issues surrounding environmental and social risks, benefit streams management and community development in mining impacted communities.

2. Sub-component 2.2: Development of a Modern Mining Cadastre and Associated Capacity Building - US\$ 0.9 million

- i. Conducting a diagnostic for setting up a mineral rights cadastre, the system by which mining prospecting, exploration, and exploitation companies register the area and types of minerals that they are searching for or developing¹⁸;

¹⁸ Developing a cadastral system should not be confused with land use planning. It does not allocate mines to or away from mining activities but simply records precisely where existing activities are taking place.

- ii. Support for the development of cadastral regulations (in line with the Law on Subsoil or a future mining specific Law) to underpin the administration of the cadastral system.
 - The current situation in Tajikistan is that the cadastre is largely based on a paper system and the manner in which exploration and exploitation licenses are issued lacks transparency. The development of functioning cadastres with a strong legal basis allows interested parties to apply for well-demarcated exploration and exploitation areas in a non-discretionary and non-conflictive manner. The system also requires clear rules as to the length and options on the various licenses as well as payments to maintain a valid license. For the first two activities in this sub-component a consulting team will be hired to make a diagnostic and provide recommendations to the GoT on the organizational and regulatory frameworks for the cadastre.
- iii. Support for the establishment of a modern, automated, transparent mineral rights cadastre system, including the creation of a digital inventory of all existing licenses;
- iv. Provision of hardware that is capable of handling an automated cadastre, taking into account the possibility of future extension of the cadastre to various provinces;
- v. Training to relevant ministry employees to be able to administer the new system.
 - For the last 3 activities in this component a consulting team will be contracted to work with the GoT in developing a modern cadastre including the IT requirements. Training will be provided and a long-term training scheme will be devised in order to ensure the sustainability of the cadastre.

3. Sub-component 2.3: Modernizing the Geological Survey Function- TA, Training, and Equipment - US\$ 0.7 million

- i. Support for the development of a platform for the modernization of the geological information of Tajikistan, including requisite hardware and software;
- ii. Support for the modernization of the geological information policy framework and regulations and specifications for provision of information into a geodata bank;
- iii. Support for the development of modern target oriented field survey techniques, including geology and geophysics;
- iv. Support for the conversion of existing maps to digital formats at international standards; and
- v. Training to relevant ministry employees to be able to use the new system
 - For this sub-component an international consulting team will be contracted to assist the GoT in a modern geological framework, including a move to internationally accepted methods of assessing deposits and processing geological data. It will also work with the GoT to increase the level of transparency of its geological systems by developing a GeoData Bank that provides information in a manner that is much more accessible than the current closed system, while maintaining consistency with other laws and policies in Tajikistan.

4. Sub-component 2.4: Providing TA to Stakeholders on the Development of the Mining Sector - US\$ 0.5 million

- i. Support for a series of workshops with (potentially) impacted stakeholder groups concerning issues surrounding the development of medium- and large-scale industrial mining, good international practice, and the potential benefits and risks of mining operations;
- ii. Diagnostic of the artisanal and small-scale mining (ASM) sub-sector with respect to its social and environmental impacts, as well as the potential for value added activities in the gem sector;
- iii. Support for a series of workshops with (potentially) impacted stakeholder groups concerning issues surrounding the artisanal and small-scale mining sector, including good international practice on social, environmental, and benefit enhancement issues; and
- iv. Support for consultations with the mining industry, including the artisanal and small-scale mining sector, in a participatory discussion with representatives of SMES and the GoT on impediments to increasing the amount of domestic procurement undertaken by mining firms.
 - The activities in this sub-component focus on the impacts of the medium- and large-scale mining sector on communities, vulnerable groups, artisanal and small-scale miners and civil society stakeholders in general. It focuses on catalyzing a transparent dialogue amongst all stakeholders on national and local opportunities presented by benefit sharing. A central objective of the activities is to enhance awareness of and build a dialogue among the GoT, mining firms, and civil society, including the non-mining private sector, on the potential for increasing the benefits and reducing the negative externalities of mining operations, as well as reducing the potential for conflict in communities impacted by mining operations. The focus of the consultations will be guided by the results of the SESA undertaken for this project. To undertake the various activities local and international consultants will be hired.

Component 3: Project Management (US\$ 0.6 million)

30. Component 3 will support the operation of the established PMU within the SCISPM. The PMU is charged with fiduciary functions and includes a financial management consultant, procurement consultant, and a technical expert. The PMU will work under the overall guidance of a PSC composed of members of the main agencies benefiting from the project (e.g., the SCISPM, the NBT, the Geological Survey). Key project stakeholders will be represented on the PSC and appoint Project Coordinators to work with the PMU on a regular basis. Project operational monitoring and supervision will be carried out by the PMU, which will work with the PSC to streamline the decision making process. Please refer to the PSC diagram in Annex 5.

Annex 3: Implementation Arrangements
TAJIKISTAN: Private Sector Competitiveness Project

Project Institutional and Implementation Arrangements

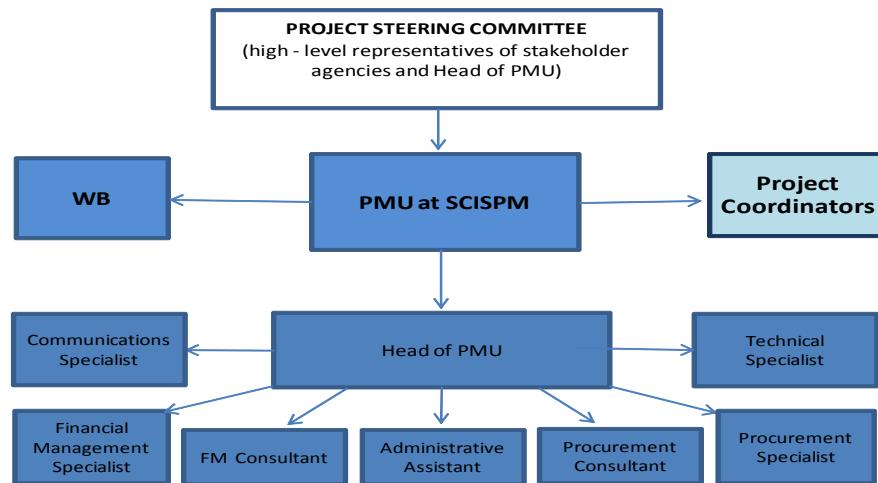
1. The SCISPM will be the implementing agency for the project. In late 2006, the GoT established SCISPM as the lead government agency supporting development of the private sector and attracting foreign direct investments. The SCISPM is charged with a function of implementing private sector development strategies and projects in Tajikistan. The SCISPM was the implementing agency for the IDF grant in the past few years and currently employs procurement and FM specialists within general International Relations Department. Project activities will be managed by a PMU that has been established within SCISPM as a stand-alone division. These experts have recently been appointed as new PMU staff within the SCISPM and the project will also finance additional procurement, FM and technical consultants (including M&E specialist), as well as a communications specialist and an administrative assistant, to strengthen the capacity of the PMU. Fiduciary aspects of the project will be managed by the PMU of the SCISPM. The project coordinators, representing all implementing partners, will help the PMU in overseeing the implementation of activities initiated by the respective implementing partner. A high-level PSC with representation from all counterparts and/or their ministries will be established to oversee project implementation. Please refer to Figure 5 for the illustration of the implementation arrangements.

Specific roles and responsibilities are detailed below:

- **PSC:** The PSC will be established by project effectiveness to ensure adequate participation of all beneficiary institutions. The PMU will work under the overall guidance of a PSC composed of members of the main agencies benefiting from the project (e.g., the SCISPM, the NBT, Ministry of Energy, State Tax Committee, and the Geological Survey, among others). The PSC will be chaired by the Chairman or Vice-Chairman of the SCISPM. The scope of work of the PSC will include: (i) strategic guidance for overall project implementation; (ii) development and approval of annual plans for project activities, project budget, and procurement plan, as well as regular review of project M&E data to determine progress and make adjustments, if need be, to ensure satisfactory achievement of end of project outcomes; (iii) coordination and consensus building on key policy issues related to implementation; and (iv) monitoring of broad issues related to implementation of reforms.
- **PMU:** The project currently does not yet fully meet the necessary FM and disbursement requirements but upon meeting the two conditions of the effectiveness, the PMU will satisfy the Bank's fiduciary requirements and financial management operational policies. The PMU will be charged with fiduciary functions and is already staffed accordingly, including a FM Specialist, procurement consultant, and a technical expert (with a focus on M&E). The PMU will be responsible for day-to-day management of the Project activities, including procurement, disbursement, reporting, accounting, auditing, etc. PMU has developed a draft Procurement Plan and draft POM. The POM will also outline the M&E system, staffing, M&E responsibilities of the PSC, PMU and Project Coordinators and use of M&E data by the PSC, PMU and other possible parties.

- *Project Coordinators.* The implementing partners will appoint Project Coordinators to be responsible for defining the tasks under each component and preparing technical TORs for contracting needs and facilitating collection of M&E data. The TORs will be reviewed for quality by the PMU, which will proceed with competitive contracting and selection ranking procedures, using a panel of appointed experts and appropriate tender/selection committees.

Figure 5: Project Administration Mechanisms



Financial Management and Disbursement Arrangements

Country Issues

2. **A Country Financial Accountability Assessment (CFAA) for Tajikistan issued in 2003 concluded that the country's fiduciary environment is extremely weak and the risk to public funds is *high*.** The findings, supported by the Public Expenditure and Financial Accountability Assessment (PEFA) issued in 2007, point out that systems of public accountability function poorly and public sector transparency is still a problem at all levels of government. Most project implementing entities use the cash basis of accounting, which in most cases is sufficient for proper accounting of project resources and expenditures.
3. **The internal audit function has been established within the Ministry of Finance (Internal Control & Audit Department) and a few pilot ministries, and carries out inspections in budget organizations, mainly to ensure compliance with laws and regulations.** Internal audit function is still weak, and focuses on regularity in individual transactions rather than on systemic issues and on effectiveness with which public resources are used. The EU has been working with the GoT to develop a strategy for improving internal control and audit. External audit is practiced by individuals and a small number of audit firms. The Agency for Financial Control and Anti-Corruption (formerly State Financial Control Committee) is the equivalent of a Supreme Audit Institution (SAI). But this Agency's capacity is low and the Bank does not place any reliance on audits conducted by it. Audits of Bank-

financed projects, required by IDA, have been performed by audit firms pre-qualified by the Bank.

4. **To minimize financial risk, there has been a need to “ring fence” financial resources in Bank-financed projects in order to provide the appropriate fiduciary safeguards.** Most Bank-financed projects in Tajikistan are implemented through stand-alone project implementing agencies that install parallel accounting systems to those used in the respective line ministries. The project implementing entities use the cash basis of accounting, which is not in accordance with IFRS, but is allowed under IPSAS, and in many cases sufficient for proper project accounting. A small number of projects are implemented by borrower/recipient agencies, which are required to follow World Bank’s financial management procedures rather than the country’s financial management systems.

5. **Based on assessments of the country PFM system, only some elements of the country FM systems are planned to be used under the Project.** These include the limited use of budgeting, accounting and reporting elements.

Implementation Arrangements

6. **The SCISPM will be the implementing agency of the Project, and will be responsible for developing and updating the Project Implementation Plan; ensuring that project activities are implemented according to the legal documents, Procurement Plan and Project Operation Manual; reporting on project progress; and ensuring that procurement is carried out in a timely manner and in accordance with World Bank guidelines.** The SCISPM will manage project funds, including the Designated Account, maintain accounts, have the accounts audited, facilitate the work of consultants, and review consultant outputs. The SCISPM will ensure that project resources are managed with due attention to economy, efficiency and effectiveness, and that project funds would be used only towards the realization of project objectives.

Strengths and weaknesses

7. **An FM assessment has been conducted to determine whether the FM arrangements for the project meet the World Bank’s minimum requirements.** While the project currently does not yet fully meet the necessary FM and disbursement requirements, upon meeting the three conditions of the effectiveness, the PMU will satisfy the Bank’s fiduciary requirements and financial management operational policies (see action plan below).

8. **The FM system has a number of strengths. The client agreed to take actions to address some of the weaknesses identified during pre-appraisal.**

9. **The SCISPM has already implemented one small Bank’s grant, and its staff has gained some understanding of Bank procedures for financial management, disbursement and procurement.** A number of strengths include:

- i. The SCISPM has already created PMU through an order # 42 dated March 1, 2012. As per the order, this PMU is responsible for the preparation of project documents at the initial stage and further realization of activities later.
 - ii. The TORs for the head of the PMU, project coordinator, technical expert, procurement and financial specialist have already been prepared.
 - iii. The PMU consists of four current SCISPM staff members (one of them is responsible for overall FM arrangements), who have extensive expertise in the areas they have been assigned to. Specifically, the FM specialist has been involved in the implementation of the prior IDF grant and he participated in the workshop on FM and Disbursement, which was organized by the Bank in Dushanbe on November 2010. Moreover, before the project becomes effective, the PMU will hire a local FM consultant under the project to work with the FM specialist and the Chief Accountant of SCISPM.
10. The main weaknesses include:
- i. PMU staff will be comprised of the existing staff who will work on the project in addition to their current responsibilities, which will increase their workload. They will provide the guidance to the new FM staff with relevant experience to be recruited for the PMU within the SCISPM before the effectiveness of the project.
 - ii. The POM has not been finalized yet. However, it will be finalized before the Effectiveness, and it will include an FM Chapter that will clearly describe financial reporting, accounting and internal control policies and procedures, budgeting and planning mechanisms to be followed by implementing agencies. Specifically, segregation of duties will be addressed.
 - iii. The existing the accounting system of the SCISPM (software and accounting procedures) are different of the requirements imposed by the Bank for investment operations by the Bank. The SCISPM will need to introduce automated accounting system for the project

11. The following Action Plan has been agreed to be implemented to ensure existence of satisfactory financial management arrangements that meet Bank requirements:

Recommended Actions for Capacity Building	Responsibility	Completion Date
1. Finalize the FM chapter of POM to guide staff in daily project financial management operations. The FM chapter will reflect the project related internal, accounting and reporting, funds flow, external control, audit arrangements, disbursement procedures	PMU	Effectiveness
2. Procure and install an automated accounting system that will be utilized by the PMU for project accounting, budgeting and reporting. Provision of adequate training on the accounting system for its effective use by FM and Disbursement staff. The accounting system shall have inbuilt controls to ensure data security, integrity and reliability, and the functionality of automatic generation of IFRs	PMU	Effectiveness
3. Organize training on the World Bank FM and disbursement policies and procedures for the PMU FM	PMU and the World Bank	By June 30, 2012

Recommended Actions for Capacity Building	Responsibility	Completion Date
staff		
4. Recruit a full time paid FM consultant to support the finance staff of the Project Implementing Agency and be responsible for project FM and disbursement functions	PMU	Effectiveness

The overall residual FM risk of the project is High now and it is expected to go down after implementation of the mitigation measures.

Budgeting and planning

12. **Under the project, the PMU will be responsible for the preparation of the annual budget and consolidating annual project budgets based on procurement plans, and separate budgets received from the various agencies.** At the SCISPM budgeting follows the budget guidelines issued by the Ministry of Finance. Overall, project budgets, prepared on an annual basis, will form the basis for allocating funds to project activities. The budgets will be prepared in enough detail, by activities and account codes, and broken down by quarters. Annual budgets should be agreed with the World Bank before final approval, and approved annual budgets will then be entered into the accounting system and used for periodic comparison with actual results as part of the interim financial reporting. The annual budget will be prepared in detail, which is necessary for monitoring the existing projects and will be based on the final procurement plan approved by the World Bank.

Accounting and maintaining accounting records

13. **The project accounting will be maintained on the cash basis.** For reporting purposes, cash basis and the World Bank guidelines for investment projects will be used under the project. The FM Chapter of the POM will be elaborated to properly reflect accounting policies and procedures applicable to the project. At the SCISPM the accounting system comprises manual, handwritten, and excel spreadsheet. Currently the SCISPM has no plans to automate its accounting and reporting, which is an area of potential weakness with substantial risk of errors that could undermine reliability of financial reports produced by the accounting system. Therefore, the SCISPM will need to install suitable accounting software for the project accounting and reporting. This system will be specially designed to meet the Bank-financed projects requirements, including ability to generate IFRs, withdrawal applications, annual financial statements, etc. The systems shall have the safeguards against the input of inaccurate data using appropriate security profiles. In addition, regular back up of the accounting data shall be made by the accounting staff. The FM staff within the PMU will be responsible for: (i) overall FM arrangements of the project, including maintenance of accounting records, preparation of SOEs and withdrawal applications, financial reporting, budgeting and planning, etc; and (ii) preparation of IFRs and annual financial statements and coordination of the project audit process.

Internal controls

14. **For the purposes of the current project, sound internal control system will be maintained in all implementing entities.** The project should maintain an adequate segregation

of duties. To achieve this, the SCISPM will need to utilize the existing accounting staff and assign the Chief Accountant to review and authorize payments and assign the Chief Specialist (who is currently responsible for Cashier's tasks) to keep the cash book and process cash payments. Another person will be required to create transactions and keep records in the automated accounting software. This person can be a full time paid FM Consultant, who will be responsible for other financial arrangements, except those tasks assigned to the Chief Accountant and the Cashier. This will include preparation of withdrawal application, reviewing of support documents, preparation of financial reports, and facilitation of the process of project audits. The FM Consultant will need to work with the Chief Accountant, and be responsible for project financial management and disbursement functions.

15. Project related specific internal control activities applicable will be described in the FM chapter of the POM. They will include: procedures over cash transactions including maximum allowed daily cash operations, expenditure authorization, invoices approval and payments processing procedures; data backup arrangements; reconciliation procedures of project records with Client Connection, safeguards of assets, including cash. This section of the POM will also reflect the policies and procedures applicable for conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from associated risks. The bank account reconciliation will be prepared by the local FM Consultant and reviewed and approved by the Chief Accountant of the SCISPM.

Financial reporting

16. Project management-oriented IFRs will be prepared under the project. The SCISPM will need accounting systems with capacity to generate the reports required by the Bank. The local FM Consultant will be responsible for submission of interim un-audited financial reports (IFRs) that will be generated by the accounting system based on formats agreed with the World Bank. The reports, to include Statement of Sources and Uses of Funds, Uses of Funds by Project activities (Components & Expenditure Categories) and Statement of Designated Account (DA), will be submitted to the World Bank within 45 days of the end of each quarter, with the first reports under the proposed Project being submitted after the end of the first full quarter following initial disbursement.

External audit

17. For each operation supported by the World Bank funding, the Recipient has to maintain financial management arrangements that are acceptable to the World Bank. Therefore, as part of the overall arrangements that the Recipient has in place for implementing the operation, the external auditor shall provide assurance that the proceeds of the grant are used for the purposes for which the funds were provided.

18. The SCISPM implemented the Trust Fund funded by the Bank during the period of February 2008 to June 2011. The project audit report for this grant was received and it was found to be satisfactory to the Bank.

19. An audit of the project will include the project financial statements, SOEs and DA Statement. The annual audited project financial statements will be submitted to the Bank within

six months of the end of each fiscal year and also at the closing of the project. The cost of the audit will be financed from the project funds. The following table identifies the audit reports that will be required to be submitted by the SCISPM together with the due date of submission:

Audit Report	Due Date
The Project financial statements (PFSs) to include Statement of Sources and Uses of Funds, Uses of Funds by Project Activity, SOE Withdrawal Schedule, DA Statement and Notes to the financial statements.	Within six months of the end of each fiscal year and also at the closing of the project.

20. Audited project financial statements will be publicly disclosed in accordance with the Bank's Access to Information (AI) Policy. The agencies will publish the audit reports in a manner satisfactory to IDA and, upon receipt of the audit reports IDA will make them publicly available.

Flow of funds and disbursement arrangements

21. The following disbursement Methods may be used under the Financing: (i) reimbursement; (ii) direct payment; (iii) advance; (iv) special commitment. Details on the ceiling of the DAs will be provided in the Disbursement Letter. Withdrawal applications for the replenishments of the DA will be sent to the World Bank at least on a quarterly basis.

22. Supporting documentation will be provided against payments contracts for payments against contracts valued at: US\$ 1,000,000 equivalent or more for works, US\$ 200,000 equivalent or more for goods, US\$ 100,000 equivalent or more for services of consulting firms, and US\$ 50,000 equivalent or more for individual consultants. Disbursements below these thresholds will be made according to certified SOEs. Full documentation in support of SOEs would be retained by the implementing agency for at least two years after the World Bank has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made. This information will be made available for review during supervision by World Bank staff and for annual audits which will be required to specifically comment on the propriety of SOE disbursements and the quality of the associated record-keeping.

23. The PMU would open a Designated Account in US\$ for administering the IDA funds in a commercial bank acceptable to the World Bank. The ceiling for the Designated Account and other disbursement details will be provided in the Disbursement Letter. However, due to the lapsing of four loans in the Tajikistan Country portfolio no new Designated Accounts will be established for the proposed under this IDA Grant, until the refund or documentation has been received for all outstanding projects in Tajikistan. Hence, provision for use of a Designated Account as a disbursement method in the Disbursement Letter for the proposed IDA Grant might not be included. If the issues involving these operations are resolved prior to the issuance of the Disbursement Letter (i.e. at the signing of the new operation), then the letter will be revised to include such a provision. If the issues are resolved subsequently, then an amended Disbursement Letter will be issued to include the provision for a Designated Account.

FM Supervision Plan

24. **The Project will be a part of the risk-based monitoring model, in line with the project risk assessment.** The minimum number of FM monitoring is to be at least two times per annum at initial stages of project implementation, which may be decreased later during project implementation.

25. **During project implementation, the Bank will supervise the Project's financial management arrangements.** This review will include the following: (i) review the Project's quarterly IFRs and the Project's annual audited financial statements and auditor's management letters; and (ii) during the Bank's monitoring missions, review the Project's financial management and disbursement arrangements and control environment to ensure continuing compliance with the Bank's minimum financial management requirements.

Procurement Capacity and Risk Assessment

26. **Procurement will be the responsibility of the PMU established in the SCISPM.** An existing SCISPM procurement staff with significant experience in this area has been assigned to the PMU.

27. **Procurement risk assessment was carried out based on P-RAMS.** Based on the experience from past and ongoing projects in the Republic of Tajikistan, the procurement risk is rated as substantial.

28. **The assessment revealed that the SCISPM has adequate procurement system and capacity.** SCISPM will also need to implement several recommendations in order to further strengthen its capacity:

- The procurement staff has its own functions related both to its own procurement following national procurement procedures and oversight of all the procurements under the public investment projects in the Republic of Tajikistan. Given such an intensive workload of the existing staff, as well as the technical capacity required for the procurement of the management information systems (MIS), it will be necessary to add more procurement capacity to undertake an efficient procurement under the project. This may be done through hiring of a procurement consultant responsible for supporting the PMU staff on the day-to-day delivery of the services. The consultant shall be familiar with the Bank procurement procedures and be experienced in activities mostly related to procurement of IT systems and consultant's services.
- The main procurement risk would be potential delays in evaluation process due to the government officials involved in project procurement through Tender Committees not being familiar with the international procurement procedures. Another risk would relate to contract administration procedures that may not be adequate to ensure efficient and timely contract performance. Inadequate competition and procurement not attracting adequate competition is also among the risks. To mitigate these risks, intensive procurement trainings, including contract management techniques, for the government staff will be arranged; the procurement packages will be consolidated to maximize interest from reputed bidders; procurement opportunities will be advertised widely, including announcements through the SCISPM branch offices in the regions; the Bank's regional procurement staff will provide advice and assistance on a regular basis.

Applicable Guidelines

29. **Procurement of goods and works will be carried out in accordance with the World Bank's Guidelines:** "Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" (January 2011); Consulting services will be procured under the Bank's Guidelines "Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" (January 2011); and the provisions stipulated in the Financing Agreement. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, would also apply.

Procurement Plan and General Procurement Notice

30. **Initial procurement plan covering all procurement activities for the entire project period has been developed and will be agreed at the negotiations.** The plan will be updated annually, or as required, to reflect the actual project implementation needs. Each update will be subject to the World Bank's review and will be published on the World Bank's external web site in accordance with the requirements of the World Bank Guidelines. A General Procurement Notice will be published following the negotiations. Summarized Procurement Plan is provided in Addendum 3.1.

31. **A General Procurement Notice (GPN) covering the project procurement activities will be prepared and published at the negotiations.** More details on the procurement arrangements will be provided in the procurement section of POM.

Procurement of Goods

32. Goods contracts include several packages for procurement of IT equipment and systems which will be procured through the ICB procedure. Other contracts for procurement of computer equipments and furniture for PMU below US\$100,000, will be procured through shopping procedure

Procurement of Works

33. No works anticipated under the project.

Consultants' services

34. Consultants' services would include assignments related to reviewing and drafting legal and regulatory acts; designing and implementation of collateral registry; strengthening the banking regulation and supervision functions of NBT; improving institutional framework; training In view of the large value of the packages, QCBS will be applied for all contracts. LCS will be used for hiring audit services and IC procedure for selection of individual consultants.

Operating Cost

35. Budget for operating costs will be prepared and cleared by the Bank

Procurement Supervision and Ex-post Review:

36. Procurement reviews and supervision will be provided from the country office. In addition, two supervision missions are expected to take place per year during which ex-post reviews will be conducted on a sample basis (one per five contracts) for the contracts that are not subject to Bank prior review. One post review report, which will include physical inspection of sample contracts, including those subject to prior review, will be prepared each year. Not less than 10 percent of the contracts will be physically inspected.

Procurement Thresholds:

37. The thresholds for procurement methods and Bank prior review are indicated in the following table.

Expenditure Category	Contract Value (US\$)	Procurement Method	Bank Prior Review
Goods	>200,000	ICB	All the ICB contracts
	≤200,000	NCB	Two first NCB contract
	≤100,000	Shopping	The 1 st Shopping contract
	NA	DC	All DC contracts
Works	>1,000,000	ICB	All the ICB contracts
	≤1,000,000	NCB	Two first NCB contract
	≤ 100,000	Shopping	The 1 st Shopping contract
	NA	DC	All DC contracts
Consultant Services	>200,000	QCBS, QBS, FBS, LCS	All contracts above US\$100,000 for firms plus the 1 st CQS contract regardless of value; and all contracts above US\$50,000 for individuals; and all SSS contracts.
	≤200,000	CQS	
	NA	SSS	
	NA	IC	

Notes : ICB – International Competitive Bidding
NCB – National Competitive Bidding
DC – Direct Contracting
QCBS – Quality and Cost Based Selection
QBS – Quality Based Selection
FBS – Fixed Budget Selection
LCS – Least Cost Selection
CQS – Selection Based on Consultants’ Qualification
SSS – Single (or Sole) Source Selection
IC – Individual Consultant selection procedure
NA – Not Applicable

Addendum 3.1: Summarized Procurement Plan

Republic of Tajikistan
Private Sector Competitiveness Project

PROCUREMENT PLAN - CONSULTING FIRMS - MARCH 2012- MARCH 2016
ПЛАН ЗАКУПОК КОНСУЛЬТАЦИОННЫХ УСЛУГ НА ПЕРИОД МАРТ 2012-МАРТ 2016
(Date of PP:11.03.2012; Update No. _____; Date of WB NOL:pre-appraisal)
(Дата ПЗ: _____; Обновление № _____; Дата одобрения ВБ: _____)

Item №	Responsible Agencies	Component Reference as per PAD	Contract Ref.	Contract Description	Plan vs Actual	Select. Method	WB Review (Prior/ Post)	Request for Exp. Of Interest	Draft RFP (incl. TOR, Short List)	WB No-objection to RFP (full package)	RFP Issued	Date of Proposal Submission	Tech. Evaluation Report (TER)	WB No-objection to TER	Combined Tech & Fin Eval. Report	Draft Final Contract	WB No-objection to Draft Contract	Date of Contract Signing	Date of Contract Completion
№ Пункта	Ответственные агентства	Ссылка на компоненты согласно документу об Оценке Проекта	№ Конракта	Описание контракта	План и Факт	Метод отбора	Обзор Банка (предварит. по следующ.)	Запрос на выраж. зaint	Проект ПНП вкл ТЗ и КС	Одобрение Банка на полный пакет ПНП	Выпуск ПНП	Срок подачи предложений	Технический оценочный отчет (TO)	Одобрение ВБ на ТО	Комбин. оцен. отчет	Проект финального контракта	Одобрение Банка на контракт	Подписание контракта	Завершение контракта
Component 1: Strengthening the Business Environment (US\$ 7.6 mln, out of which US\$ 1.3 mln is expected from SECO)																			
1	NBT	1.3. Improving Financial Infrastructure	PSC/QCBS1	Strengthening the banking regulation and supervision functions of the NBT	Planned/План	QCBS	Prior	8/1/2012	9/3/2012	9/17/2012	10/1/2012	10/29/2012	11/26/2012	12/10/2012	1/7/2013	1/28/2013	2/4/2013	2/11/2013	2/11/2014
Component 2: Encouraging the Development of the Mining Industry (US\$ 3.1 million).																			
2	SCISPM, Geology Agency, Ministry of Industry and Energy	2.1. Improvement of the legal framework in the mining sector	PSC/QCBS2	Improving legal, regulatory and fiscal framework for mining, including environmental and social studies	Planned/План	QCBS	Prior	7/20/2012	8/20/2012	9/3/2012	9/17/2012	10/15/2012	11/12/2012	11/26/2012	12/10/2012	1/7/2013	1/14/2013	1/21/2013	1/22/2014
3	Geology Agency, Gortekhnadzor, Ministry of Industry and Energy			Improving institutional framework for mining	Actual/Факт														
4	Geology Agency, Gortekhnadzor, Ministry of Industry and Energy	2.2. Development of a modern mining cadastre	PSC/QCBS3	Training for capacity building of Government staff on implementation of mining laws and regulations	Planned/План	QCBS	Prior	10/1/2012	11/1/2012	11/15/2012	11/29/2012	12/27/2012	1/24/2014	2/7/2013	2/28/2013	3/21/2013	3/28/2013	4/4/2013	4/4/2014
5	Geology Agency			Development of and training in modern mining cadastre	Actual/Факт														
6	Geology Agency	2.3. Modernization of the geological survey function	PSC/QCBS5	Development of and training in modern geological survey	Planned/План	QCBS	Prior	12/1/2012	1/4/2012	1/18/2013	2/1/2013	3/1/2013	3/29/2013	3/12/2013	5/3/2013	5/24/2013	5/31/2013	5/7/2013	5/7/2014
7	Geology Agency, Gortekhnadzor, Ministry of Industry and Energy			Workshops and public consultations	Actual/Факт														
Component 3: Project Management (US\$ 0.9 million, out of which US\$ 0.3 million is expected from SECO)																			
8	SCISPM	3. Project Management	PSC/LCS1	Project Audit	Planned/План	LCS	Prior	9/3/2012	10/3/2012	10/17/2012	10/31/2012	11/28/2012	12/26/2012	1/9/2012	1/30/2013	2/20/2013	2/27/2013	3/6/2013	3/7/2017

Republic of Tajikistan
Private Sector Competitiveness Project

PROCUREMENT PLAN - INDIVIDUAL CONSULTANTS - MARCH 2012-MARCH 2016
ИПАН ЗАКУПОК УСЛУГ индивидуала КОНСУЛЬТАНТОВ (по методу CQS - отбор по квалификации консультанта или индивидуала)
 (Date of PP: 11.03.2012; Update No. _____; Date of WB NOL/pre-appraisal)

№ _____; Дата одобрения ВБ: _____)

Item №	Responsible Agencies	Component Reference as per PAD	Contract Ref.	Contract Description	Plan vs Actual	Firm or Ind.	Select. Method	WB Review (Prior/ Post)	Draft TOR	WB No-objection to TOR	Request for Exp. Of Interest	Evaluation report for Short list & RFP	WB No-objection to RFP/ Short list	RFP Issued (for CQS)	Proposal Submission	Draft Final Contract	WB No-objection to Draft Contract	Date of Contract Signing	Date of Contract Completion
№ Пункта	Ответственные агентства	Ссылка на компоненты согласно Документу об Оценке Проекта	№ Конракта	Описание контракта	План и Факт	Фирма или Индивидуал	Метод отбора	Обзор Банка (предвар./последующ.)	Проект ТЗ	Одобрение ВБ	Запрос на выраж. заинтересованности	Оцен. отчет по краткому списку и ППИ	Одобрение ВБ на ППИ и краткий список	Выпуск ППИ	Срок подачи предложений	Проект финального контракта	Одобрение ВБ на финальный контракт	Подписание контракта	Завершение контракта
Component 1: Strengthening the Business Environment (US\$ 7.6 mln, out of which US\$ 1.3 mln from SECO)																			
1	Tax Committee, Statistics, Pension Fund	1.1. Completion of an online on-stop-shop for business registration	PSC/IC1	Consultant to review and draft legal and regulatory acts for one-stop-shop for business registration and conduct capacity-building	<i>Planned/План</i>	Ind.	IC	Prior	11/1/2012	11/15/2012	11/29/2012	12/28/2012	1/11/2013	n/a	n/a	1/18/2013	1/25/2013	2/8/2013	2/8/2014
					<i>Actual/Факт</i>														
2	Mayor's Office, Construction Agency, Office of the Chief Architect of Dushanbe, utilities companies	1.2. Improving the construction permits framework	PSC/IC2	Consultant to review and draft legal and regulatory acts for one-stop-shop for construction permits and conduct capacity-building	<i>Planned/План</i>	Ind.	IC	Prior	10/1/2012	10/15/2012	10/29/2012	11/29/2012	12/13/2012	n/a	n/a	12/20/2012	12/27/2012	1/10/2013	1/10/2014
					<i>Actual/Факт</i>														
3	NBT/MOJ	1.3. Improving financial infrastructure	PSC/IC3	Legal expert to review the laws on creating and protecting the security interest and to assist in developing regulations governing the operation of the collateral registry	<i>Planned/План</i>	Ind.	IC	Prior	8/1/2012	8/15/2012	8/29/2012	9/21/2012	10/5/2012	n/a	n/a	10/12/2012	10/19/2012	11/9/2012	11/9/2013
					<i>Actual/Факт</i>														
4	NBT/MOJ		PSC/IC4	Legal expert on debt resolution	<i>Planned/План</i>	Ind.	IC	Prior	8/1/2012	8/15/2012	8/29/2012	9/21/2012	10/5/2012	n/a	n/a	10/12/2012	10/19/2012	11/9/2012	11/9/2013
					<i>Actual/Факт</i>														
5	NBT		PSC/IC5	TA (Consulting Services) for strengthening the regulation and oversight of the National Payments System	<i>Planned/План</i>	Ind.	IC	Prior	10/1/2012	10/15/2012	10/29/2012	11/29/2012	12/13/2012	n/a	n/a	12/20/2012	12/27/2012	1/10/2013	1/10/2014
					<i>Actual/Факт</i>														
6	NBT		PSC/IC6	IT specifications for Automated Transfer System (ATS) and Central Securities Depository (CSD)	<i>Planned/План</i>	Ind.	IC	Prior	10/1/2012	10/15/2012	10/29/2012	11/29/2012	12/13/2012	n/a	n/a	12/20/2012	12/27/2012	1/10/2013	1/10/2014
					<i>Actual/Факт</i>														
7	NBT		PSC/IC7	IT specifications for upgrading NBT's ICT infrastructure	<i>Planned/План</i>	Ind.	IC	Prior	10/1/2012	10/15/2012	10/29/2012	11/29/2012	12/13/2012	n/a	n/a	12/20/2012	12/27/2012	1/10/2013	1/10/2014
					<i>Actual/Факт</i>														
Component 2: Encouraging the Development of the Mining Industry (US\$ 3.1 million)																			
8	Geology Agency	2.2. Development of a modern mining cadastre	PSC/IC8	IT requirements and design of the mining cadastre	<i>Planned/План</i>	Ind.	IC	Prior	11/1/2012	11/15/2012	11/29/2012	12/28/2012	1/11/2013	n/a	n/a	1/18/2013	1/25/2013	2/8/2013	2/8/2014
					<i>Actual/Факт</i>														
9	Geology Agency	2.3. Modernization of the geological survey function	PSC/IC9	IT requirements and design of the geological survey function	<i>Planned/План</i>	Ind.	IC	Prior	11/1/2012	11/15/2012	11/29/2012	12/28/2012	1/11/2013	n/a	n/a	1/18/2013	1/25/2013	2/8/2013	2/8/2014
Component 3: Project Management (US\$ 0.9 million, out of which US\$ 0.3 million is expected from SECO)																			
10	SCISPM	3. Project Management	PSC/IC10	Financial Manager	<i>Planned/План</i>	Ind.	IC	Prior	7/10/2012	7/24/2012	8/24/2012	9/7/2012	9/21/2012	n/a	n/a	9/28/2012	10/12/2012	10/26/2012	6/30/2016
					<i>Actual/Факт</i>														
11	SCISPM		PSC/IC11	Procurement Specialist	<i>Planned/План</i>	Ind.	IC	Prior	7/10/2012	7/24/2012	8/24/2012	9/7/2012	9/21/2012	n/a	n/a	9/28/2012	10/12/2012	10/26/2012	6/30/2016
					<i>Actual/Факт</i>														
12	SCISPM		PSC/IC12	Administrative Assistant/Communications Specialist	<i>Planned/План</i>	Ind.	IC	Post	7/10/2012	7/24/2012	8/24/2012	9/7/2012	9/21/2012	n/a	n/a	9/28/2012	10/12/2012	10/26/2012	6/30/2016
					<i>Actual/Факт</i>														
13	SCISPM		PSC/IC13	Technical Specialist (Lawyer)	<i>Planned/План</i>	Ind.	IC	Post	7/10/2012	7/24/2012	8/24/2012	9/7/2012	9/21/2012	n/a	n/a	9/28/2012	10/12/2012	10/26/2012	6/30/2016
					<i>Actual/Факт</i>														
14	SCISPM		PSC/IC14	Administrative Assistant/Translator	<i>Planned/План</i>	Ind.	IC	Post	7/10/2012	7/24/2012	8/24/2012	9/7/2012	9/21/2012	n/a	n/a	9/28/2012	10/12/2012	10/26/2012	6/30/2016
					<i>Actual/Факт</i>														

Republic of Tajikistan
Private Sector Competitiveness Project

PROCUREMENT PLAN - GOODS AND WORKS for March 2012 - March 2016

План закупок товаров и работ на период с марта 2012 по март 2016

(Date of PP: 11.03.2012; Update No. _____; Date of WB NOL: pre-appraisal)

(Дата ПЗ: _____; Обновление № _____; Дата одобрения ВБ: _____)

Annex 4: Operational Risk Assessment Framework (ORAF)
TAJIKISTAN: Private Sector Competitiveness Project (P130091)

Operational Risk Assessment Framework (ORAF)
Tajikistan: Private Sector Competitiveness (P130091)
Stage: Negotiations

Project Stakeholder Risks					
Stakeholder Risk	Rating	Moderate			
<p>Description:</p> <p>Stakeholders:</p> <p>There is a risk that vested interests could resist reforms in the business environment (e.g., starting a business, construction permits, and secured transactions regimes) that will reduce the scope for receiving informal registration payments and limit these agencies' influence.</p> <p>Vested and politically connected interests in the banking sector may prevent passage and/or implementation of stricter bank regulations and supervision.</p> <p>Some vested interests among the implementing partners could work to reduce the impact at implementation of the project outputs, since they might feel threatened by the project's goal of making information more transparent, as they benefit from current state of difficult access to limited information.</p> <p>Donor Relations:</p> <p>There is a risk that international donors that support activities, in some of the areas addressed by the project, may resist reforms if the laws, regulation, supervision, or standards are onerous or infringe on their current operations.</p>	<p>Risk Management:</p> <p>Stakeholders:</p> <p>The proposed project builds on the successful dialog and achievements in the prior years, more specifically, the PSD and FSD dialog that led to gradual improvement of the country ranking in DB. Secured transactions reforms will be supported by continuing work with the government's Working Group, which diffuses the vested interests. These reforms will also be supported by emphasizing to the government how the reform will improve the country's Doing Business rating. Finally, the reforms will be supported through DPO prior actions. Automation of certain processes (e.g., implementation of online business registration and online collateral registry) will increase transparency and eliminate opportunities to receive informal payments.</p> <p>Adoption and implementation of banking regulations and supervision will be supported by continuing policy dialog, a new TA approved by the FIRST initiative, additional TA under this project, a semi-resident advisor placed in NBT, coordination with the IMF which also agrees on the importance of these reforms for banking stability, and DPO prior actions.</p> <p>Also, the government has demonstrated ownership and commitment to implement reforms in business environment, as evidenced by the visible achievements in the below highlighted areas. Specifically, since 2009, the following reforms have been implemented:</p> <ul style="list-style-type: none"> (i) Starting a Business: Process of starting a business was simplified through legal reform (amendments to the Law on Business Registration) and the establishment of a one-stop-shop , (ii) Protecting Investors: Amendments to the Joint Stock Company Law were enacted to improve the rights of minority shareholders in cases of self-dealing; (iii) Dealing with Construction Permits: Process of obtaining a construction permit was simplified through passage of Decree 282, which led to reduction in fees and number of days and procedures that it takes to obtain a construction permit. <p>Donor Relations:</p> <p>The Government would take leadership on legal reforms, including accountability for their implementation, as well as the inter-agency consensus building that sustainable reform requires. It would also use working groups and donor consultation processes to clearly communicate its positions to the donor community.</p>	<p>Resp: Bank</p>	<p>Stage: Preparation</p>	<p>Due Date:</p>	<p>Status: In Progress</p>

Implementing Agency (IA) Risks (including Fiduciary Risks)

Capacity	Rating	Substantial		
<p>Description:</p> <p>Resources and Training:</p> <p>The risk is that the implementation of the project will be led by the State Committee for Investment and State Property Management (SCISPM) that has been charged directly with the implementation of reforms in several sectors. It has received a previous WB grant and is familiar with WB procedures but may have limited capacity to lead reforms in different sectors due to lack of formal training in issues related to all of the sectors covered by the project and limited resources.</p> <p>The SCISPM may delay the establishment of the PMU within its structure that may result in a slow process of creating adequate capacity.</p> <p>There is a risk that the option of direct payments may delay the implementation of the project.</p> <p>Coordination:</p> <p>Given a large number of sectors involved in the project, PMU may be perceived as being weak in dealing with other counterparts, leading to tensions in project coordination.</p>	Risk Management:	<p>Resources and Training:</p> <p>During the preparation mission, it was agreed that the SCISPM will establish the PMU ahead of the appraisal mission. The Bank will conduct an assessment of the PMU to determine its capacity to assume this function including potential system needs. The project also will support to organize training on World Bank procedures as necessary.</p> <p>Newly appointed Deputy Chairman of SCISPM who will manage the first component of the project, has M.A. in public administration from Syracuse and is very motivated to get results in business environment reforms, whereas the vice-Chairman of SCISPM, who has an extensive experience in working with the Bank, will be the main counterpart of this project and ensure continuity and sustainability of the dialogue.</p> <p>Specifically in the mining sector, a Finnish agency has a twinning arrangement to improve institutional capacity in this sector. Strong interest in SCISPM for EITI will lead to additional capacity building TA. It is anticipated that Tajikistan will formally sign up to EITI before the end of first quarter of 2012.</p> <p>The PMU will consider this factor in the implementation plan and monitor closely the implementation process to make sure the direct payment requests are prepared and submitted on time.</p> <p>Coordination:</p> <p>During the last mission, SCISPM demonstrated its ability to bring together different agencies involved in the project and perform the coordination of the activities of agencies involved.</p>		
	Resp: Bank	Stage: Preparation	Due Date:	Status: In Progress
Governance	Rating	Substantial		
<p>Description:</p> <p>Cooperation:</p> <p>There is a risk of lack of cooperation between SCISPM and government agencies, as SCISPM does not have direct control of the various agencies involved in the project. Consequently it will be dependent on cooperation from other Government agencies and will need continued supported from the Government (President's Office).</p> <p>Further, there is a risk that the implementing agencies' bureaucratic procedures will delay timely decisions for the project's activities.</p>	Risk Management:	<p>Cooperation:</p> <p>It was agreed that an inter-agency Steering Committee will be established that includes representatives of all the main agencies and the President's Office that will ensure coordination across agencies. During the preparation mission the team has observed the strong capacity of the lead agency to coordinate the activities of all agencies involved in the project. The SCISPM organized two workshops, with participation of all stakeholders, to agree on the design and final scope of the proposed assistance under the project. The project will bring in international experts to assess current institutional organization and procedures and make recommendations for change.</p>		
	Resp: Client	Stage: Implementation	Due Date:	Status: In Progress
Project Risks				
Design	Rating	Moderate		
<p>Description:</p> <p>Complexity:</p>	Risk Management:	<p>Complexity:</p>		

<p>The proposed project is somewhat complex due to the number of activities involved. Success of the project will depend upon cooperation of a number of different Government agencies.</p> <p>IT Packages Procurement:</p> <p>The risk is that in the current design, the project envisions procurement of several IT packages;</p> <p>There is a risk that the legal, regulatory, and supervisory reforms will not follow international good practice and, therefore, will not promote development of the sector.</p>	<p>Project design will include substantial technical and administrative capacity building for the implementing agencies. The team will (i) continue policy dialogue on the advantages of reforms, (ii) refer as needed to earlier commitments, (iii) link the project, TA, and other support to progress in reforms, and (iv) reinforce reforms through PDPGs. The project team will incorporate lessons learned from other private and financial sector projects in Tajikistan and will build on the experience of the implementing agencies. It will also incorporate lessons learned from other WB projects in the region on payment systems, secured transactions, and banking regulation and supervision.</p> <p>IT Packages Procurement:</p> <p>The team will engage a regional procurement specialist with IT expertise to review technical specifications beforehand so as to define a clear set of parameters.</p>
Social and Environmental	<p>Rating: Moderate</p> <p>Description:</p> <p>Mining:</p> <p>There will be no works undertaken in this project. However, successful implementation could lead to more mining activities in the future. An expansion of extractive industries can also contribute to enhanced risks of social conflict among groups in a country.</p> <p>Risk Management:</p> <p>Mining:</p> <p>As per recommendations of the Regional Safeguards Meeting, the team has prepared the TOR for a Strategic Environmental and Social Assessment (SESA) and has obtained all necessary clearances from the Regional Safeguard Adviser to proceed with disclosure and in country consultations.</p> <p>The project includes a sub-component on outreach to potentially impacted stakeholders focused on increasing the benefits and reducing the risks to them of future mining developments. A scale-up of Tajikistan's mining sector may offer an opportune platform to establish relevant SA mechanisms from the outset, and this may be part of the overall TA activities to build in social accountability to a potential expansion of Tajikistan's mining sector. In addition, the German development agencies (BGR and GIZ) are planning to undertake work on areas impacted by extractive industry developments. This project will work in close coordination with them.</p>
Program and Donor	<p>Rating: Moderate</p> <p>Description:</p> <p>Description:</p> <p>The project activities do not depend on the completion of any other project. There are no other donors involved directly in the project but SECO is considering providing support for reforms in the business enabling environment. BGR and GIZ are planning some activities in EI sectors in Tajikistan. Therefore, there is a risk of limited collaboration with donors, including the IMF, SECO, and GIZ. There is also a risk of delays in securing SECO support.</p>
Delivery Monitoring and Sustainability	<p>Rating: Moderate</p> <p>Description:</p> <p>Project Sustainability:</p> <p>There is a risk that the project's progress may not be sustainable after project completion due to lack of technical capacity or adequate budget.</p>
	<p>Risk Management:</p> <p>Project Sustainability:</p> <p>The project team will cooperate with different donors (e.g., German aid program for the mining sector) on skill enhancement for the sector involved in the project.</p>

<p>Staff Retention: An important challenge facing the agencies of a government is to attract and keep professionals if and when the private sector (especially mining sector) starts developing rapidly and attracting the best talent.</p> <p>New IT Systems: New IT systems to be delivered and introduced will require maintenance and in-house expertise.</p>	<p>Staff Retention: The project team will work with the relevant Government agencies on institutional changes required to attract and keep key staff in the implementation agencies.</p> <p>New IT Systems: The team will include in the procurement plan the cost for maintenance during the life of the project and build in-house capacity to continue with the maintenance of the project.</p>
	Resp: Bank Stage: Preparation Due Date: Status: In Progress

5. Project Team Proposed Rating Before Review

Preparation Risk Rating:	Substantial	Implementation Risk Rating:	Substantial
Description:		Description:	

6. IL Risk Team Rating

Preparation Risk Rating:	Substantial	Implementation Risk Rating:	Substantial
Description:		Description:	

7. Overall Risk

Preparation Risk Rating:	Substantial	Implementation Risk Rating:	Substantial
Description:		Description:	

Annex 5: Implementation Support Plan
TAJIKISTAN: Private Sector Competitiveness Project

Strategy and Approach for Implementation Support (IS)

1. **The strategy for IS describes how the World Bank and other development partners will support the implementation of the risk mitigation measures and provide the technical advice necessary to facilitate achieving the PDO.** It has been developed based on the nature of the project and its risk profile. Formal supervision and field visits will be carried out semi-annually and focus on:

- **Strong coordination between the World Bank, the implementing agencies, the PMU, and partners.** The World Bank task team will bring a comprehensive set of instruments and expertise to advise on project activities. It will work closely with the implementing agencies and the PMU to ensure project success. The task team will also coordinate closely with SECO on the activities envisioned under the trust fund. The project will take a flexible approach to ensure that it meets client needs as circumstances evolve.
- **FM.** As part of its project supervision missions, the World Bank will conduct risk-based FM supervision, initially after every six months and later at appropriate intervals based on assessed risk. A World Bank FM specialist will interact with the client on an on-going basis. Areas for particular review will include the financing of ICT-related activities as a more risky area as well as checking that payments are done strictly in accordance with contract provisions. During project implementation, the World Bank will supervise the project's FM arrangements in the following ways: (a) review the project's quarterly interim financial reports, the annual audited financial statements, the auditor's report, and remedial actions recommended in the auditor's management letters; and (b) during the World Bank's onsite supervision missions, review project accounting and internal control systems, budgeting and financial planning arrangements, and disbursement management and financial flows, as applicable.
- **Procurement.** As part of its project supervision missions, the World Bank will undertake procurement supervision, including post reviews. A dedicated procurement specialist will work with clients to ensure they understand the Bank's procurement guidelines from the start. Implementation support missions will be geared towards: (a) providing training to relevant staff of implementing agencies; (b) reviewing procurement documents; (c) providing detailed guidance on the Bank's Procurement Guidelines; and (d) monitoring procurement progress against the detailed Procurement Plan.
- **M&E:** The World Bank will review the updated result framework submitted quarterly by the PMU during the supervision mission or as a desk review. The team leader will discuss the progress and deviations with the PSC, Project Coordinators and PMU to identify any areas where additional help from the World Bank is needed. The team leader will facilitate the use of the M&E data to promote awareness of the project results.

Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate (staff weeks)	Partner Role ¹⁹
First twelve months				
	FM training and supervision	FM specialist	6	
	Procurement training and review	Procurement specialist	6	
	Establishment of the M&E system and use of M&E data	Team leader	3	
Payment system and NBT regulation and supervision strengthening	Legal and regulatory acts, NBT supervisory processes (TORs, recruitment of consultants, and supervision of consultants)	FSD TTL, bank supervision expert, procurement specialist	4	
	ICT infrastructure for bank supervision and for payment systems (TOR, recruitment, supervision)	FSD TTL, bank supervision expert, payment systems expert, procurement specialist	4	
	Capacity building to stakeholders on new laws and regulations for NBT and on the new ICT (TOR, recruitment, supervision of consultants)	FSD TTL, bank supervision expert, payment systems expert, procurement specialist	3	
One-stop-shop for business registration	Legal and regulatory acts for one-stop-shop for business registration (TORs, recruitment of consultants, and supervision of consultants)	TTL, PSD expert, procurement specialist	4	SECO's participation in supervision missions
	ICT infrastructure for one-stop-shop for business registration (TOR, recruitment, supervision)	TTL, PSD expert, ICT expert, procurement specialist	4	SECO's participation in supervision missions
	Capacity building to stakeholders on new laws and regulations related to one-stop- shop for business registration and on the new ICT (TOR, recruitment, supervision of consultants)	TTL, PSD expert, procurement specialist	3	SECO's participation in supervision missions
Single window for construction	Legal and regulatory acts for the single window for construction (TORs, recruitment of consultants, and supervision of consultants)	TTL, PSD expert, procurement specialist	4	SECO's participation in supervision missions

¹⁹ SECO is included as a partner here to illustrate the collaboration efforts between the World Bank and the donor, once the free-standing Trust Fund is established.

	ICT infrastructure for one-stop-shop for construction (TOR, recruitment, supervision)	TTL, PSD expert, ICT expert, procurement specialist	4	SECO's participation in supervision missions
	Capacity building to stakeholders on new laws and regulations on single window for construction and on the new ICT (TOR, recruitment, supervision of consultants)	TTL, PSD expert, procurement specialist	3	SECO's participation in supervision missions
Secured Transactions	Legal and regulatory framework for secured transactions and debt resolution (TOR, recruitment, supervision of consultants)	TTL, secured transactions and debt resolution specialist, procurement specialist	3	SECO's participation in supervision missions
	Procurement of software and hardware, including training for the online collateral registry (TOR, recruitment, supervision of consultants)	TTL, secured transactions and debt resolution specialist, procurement specialist	3	SECO's participation in supervision missions
	Capacity building to stakeholders on new laws and regulations for secured transactions and debt resolution and on the online registry (TOR, recruitment, supervision of consultants)	TTL, secured transactions and debt resolution specialist, procurement specialist	3	SECO's participation in supervision missions
Mining	Legal, regulatory and fiscal framework for mining	Mining component TTL, mining legal specialist, mining tax specialist	3	
	Institutional framework for mining	Mining component TTL, mining institution specialist	2	
	Capacity building in mining agencies	Mining component TTL, mining legal and policy specialist, mining environmental specialist, mining social specialist	2	
	Development of and training in modern mining cadastre	Mining component TTL, procurement specialist, specialized cadastre team	2	
	Development of and training in modern geological survey	Mining component TTL, procurement specialist, specialized geological survey team	2	Finnish Geological Survey participation in implementation and monitoring
	Capacity building for stakeholders on benefits and risks of mining developments	Mining component TTL, mining social specialist, workshop facilitation team	3	
	Project coordination and monitoring	TTL, procurement specialist, FM specialist	3	

13-48 months				
	FM supervision	FM specialist	8	
	Use of M&E data	Team leader	2	
Payment system and NBT regulation and supervision strengthening	Legal and regulatory acts, NBT supervisory processes (supervision)	TTL, bank supervision expert, payment systems expert, procurement specialist	12	
	ICT infrastructure for banking supervision and payment systems (supervision)	TTL, procurement specialist	4	
One-stop-shop for business registration	ICT infrastructure for one-stop-shop for business registration (supervision)	TTL, PSD specialist, procurement specialist	3	
	Legal and regulatory framework for one-stop-shop for business registration (supervision)	TTL, PSD specialist, procurement specialist	3	
	Capacity building to stakeholders on new laws and regulations for one-stop-shop for business registration, and on the online registry (supervision)	TTL, PSD specialist, procurement specialist	3	
Single window for construction	ICT infrastructure for the single window for construction (supervision)	TTL, PSD specialist, procurement specialist	3	
	Legal and regulatory framework for the single window for construction (supervision)	TTL, PSD specialist, procurement specialist	3	
	Capacity building to stakeholders on new laws and regulations for the single window for construction, and on the online registry (supervision)	TTL, PSD specialist, procurement specialist	3	
Secured Transactions	Legal and regulatory framework for secured transactions and debt resolution (supervision)	TTL, secured transactions and debt resolution specialist, procurement specialist	3	
	Procurement of software and hardware, including training for the online registry (supervision)	TTL, secured transactions specialist, procurement specialist	2	
	Capacity building to stakeholders on new laws and regulations for secured transactions and debt resolution, and on the online registry (supervision)	TTL, secured transactions and debt resolution specialist, procurement specialist	6	
Mining	Legal, regulatory and fiscal framework for mining (supervision)	Mining component TTL, mining legal specialist, mining tax specialist	1	
	Institutional framework for mining (supervision)	Mining component TTL, mining	1	

		institution specialist		
	Capacity building in mining agencies (supervision)	Mining component TTL, mining legal and policy specialist, mining environmental specialist, mining social specialist	4	
	Development of and training in modern mining cadastre (supervision)	Mining component TTL, procurement specialist, specialized cadastre team	3	
	Development of and training in modern geological survey (supervision)	Mining component TTL, procurement specialist, specialized geological survey team	3	Finnish Geological Survey participation in implementation and monitoring
	Capacity building for stakeholders on benefits and risks of mining developments (supervision)	Mining component TTL, mining social specialist, workshop facilitation team	2	
	Project coordination and monitoring	TTL, procurement specialist, FM specialist	6	

II. Partners

Name	Institution/Country	Role
SECO	Switzerland	Once the Free-standing TA is established, the World Bank team envisions close coordination with SECO, since the trust fund will support supervision of activities that are relevant to this project (such as activities related to the one-stop-shop for business registration, single window for construction, and secured transactions).
The Finnish Government	Finland	Coordination on the mining sector component

Annex 6: Summary of Studies Performed on Private Sector Development Challenges in Tajikistan

TAJIKISTAN: Private Sector Competitiveness Project (P130091)

1. A large number of studies have been conducted both by the World Bank and other donors to carry out the diagnostic of the private sector development and provide solutions:

- *Doing Business* has conducted assessment of Tajikistan on an annual basis in line with all other countries participating in the survey.
- *BEEPS* (2008) performed the analysis of constraints faced by firms in Tajikistan.
- In the *Tajikistan CEM 2010*, the World Bank undertook an in-depth analysis of the most recent World Bank enterprise survey data as well as other data from the State Statistical Committee, to obtain a thorough understanding of the private sector in Tajikistan.
- Constraints to the development of the private sector in Tajikistan have been documented in various World Bank analytical pieces prepared as part of its programmatic dialogue on Private Sector Development with the authorities over the last 3 years, including the *Report on Business Entry Reform in Tajikistan – Addressing Remaining Implementation Challenges* (WB, 2011), a *Business Confidence Barometer* report summarizing firm perceptions of the investment climate in Tajikistan (BCB 2011), a *Survey of Small and Medium Enterprises* (IFC, 2011), and a *Private Sector Development in Tajikistan: Businesses Face High Hurdles to Expansion* report (2009).
- The World Bank has also had an ongoing dialogue to support the Government of Tajikistan in strengthening the financial sector in an aim to improve access to finance of Tajik enterprises. The Bank conducted a *Banking Sector Vulnerability Assessment for Tajikistan (2011)*, providing a thorough analysis of the health of the banking sector, as well as of the strengths and weaknesses of the regulatory and supervisory framework.
- With respect to the mining sector, the World Bank has provided support to the Government of Tajikistan for the commissioning of three studies on the legal and institutional structures: Arne, Kenneth G. (2010), *Review and Recommendations of the Legislative and Normative Acts of the Republic of Tajikistan in Subsoil Usage*, Public Sector Reform Project Component 4, Contract PSRP/IC/2009/022/I-2, Dushanbe, Tajikistan; (ii) Rainer, P. (2011), *Technical Assistance for the Institutional Audit of Public Institutions in Charge of the Mining Sector/Subsoil Use in Tajikistan*, undertaken for SCISPM, Contract No. TJ/PSD/CS/IC/5, Dushanbe, Tajikistan; and (iii) Kaznacheev, Peter (2011), *Tajikistan's Roadmap to an Investment Boom in Mining*, Technical Assistance to Support Operations of the Mining Strategy Working Group, undertaken for SCISPM, Contract No. TJ/PSD/CS/IC/9, Dushanbe, Tajikistan. In addition, the World Bank has commissioned a study by Adam Smith International (draft), *Political Economy Analysis of the Extractive Sector in Tajikistan*, World Bank, Washington, D.C.

Private Sector Studies Overview

A. Doing Business

2. The **Doing Business** indicators confirm that the investment climate in Tajikistan is among the least supportive of private sector growth in Central Asia. Table 1 below compares Tajikistan's position compared to other countries in the region as measured by **Doing Business 2012**.

Table 1: Tajikistan's Doing Business 2012 Rank vs. Eastern and Central Asia's Top Ranked States

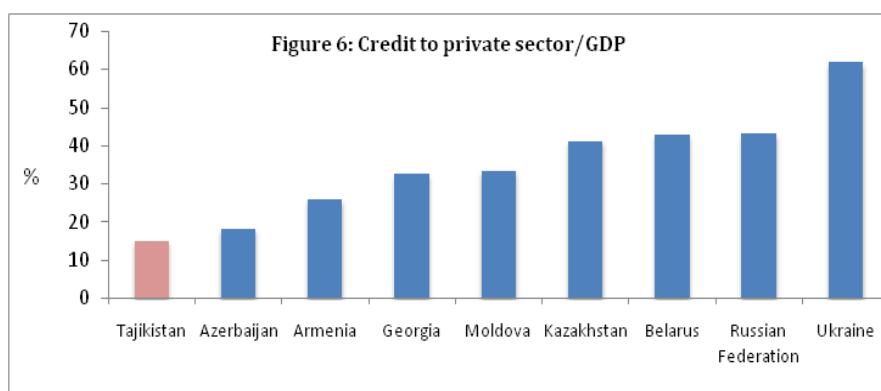
Topic	Eastern Europe and Central Asia's top ranked 2012 (out of 183 countries)	Tajikistan's global rank (out of 183 countries)
Starting a business	Macedonia, FYR (6)/Georgia (7)	70
Dealing with construction permits	Georgia (4)/Belarus (44)	177
Getting electricity	Croatia (56)/Montenegro (71)	178
Registering property	Georgia (1)/Belarus (4)	90
Getting credit	Latvia (4)/Romania (8)	177
Protecting investors	Kazakhstan (10)/Kyrgyz Republic (12)	65
Paying taxes	Kazakhstan (13)/Macedonia, FYR (32)	168
Trading across borders	Latvia (15)/Cyprus (19)	177
Enforcing contracts	Russian Federation (13)/Belarus (14)	42
Resolving Insolvency	Cyprus (23)/Kosovo (31)	68

3. Tajikistan's 2012 global rank for the **Doing Business** indicator of *Starting a Business* was a relatively low 70 (out of 183 countries), despite establishing a one-stop-shop for business registration in 2010. This ranking compares with ranks number 6 and 7 for Macedonia and Georgia, the top ranked Eastern European counties for the *Starting a Business* indicator, respectively. The number of procedures required to start a business is large and costs are high compared to countries in the region and of the Organization for Economic Cooperation and Development (OECD).

4. Tajikistan has been ranked 177 (out of 183 countries) for the 2012 Doing Business indicator regarding *Dealing with Construction Permits*, despite legislative amendments calling for the implementation of a single window for construction permits. This ranking compares with rankings of 4 and 44 respectively for Georgia and Belarus, the top ranked Eastern European countries for the *Dealing with Construction Permits* indicator. Tajikistan's very low ranking results from the fact that, while legislative amendments call for the implementation of a single window for construction permits, no such mechanism currently exists. Furthermore, the regulatory framework for dealing with construction permits lacks key components, such as a modern licensing framework for building practitioners, best practice codes and risk-based approaches for construction permitting, and construction inspections. Due to the lack of implementation of the single window and the under-developed regulatory framework, it is still very expensive and burdensome to comply with building rules. Finally, according to anecdotal information, the number of illegal construction permits is very high.

5. The Doing Business 2012 report also shows that the indicator for *Getting Credit* is very low in Tajikistan. Tajikistan was downgraded from an already very low rank of 170 (out of 182

countries) in 2011 to 177 (out of 183 countries) in 2012. This compares very unfavorably to Latvia and Romania (the top ranked Eastern European countries for the Getting Credit indicator) which received ranks of 4 and 8, respectively. Credit to the private sector amounted to 15 percent of GDP in 2010, compared to 41 percent in Kazakhstan (see **Figure 6** below). There were 260 bank branches as of July 2011, representing one branch for every 30,437 people, which is very low by international standards. Overall, outstanding loans to SMEs amount to less than 1 percent of GDP, the lowest level in the ECA region. Interest rates, which are among the highest in the region, are cited by SMEs as the primary reason for them not applying for loans²⁰. Nominal lending rates in local currency at end-November 2011 averaged about 21 percent (up from about 19 percent in 2010) and the spread between the average lending rate and average deposit interest rate stood at about 20.4 percent. In foreign currency, average lending rates stood at 20 percent at end- November 2011 (down from 22.1 percent in 2010), with a spread of about 18.5 percent.



6. Low confidence of the public in banks leads to low deposit penetration in Tajikistan, raises financial intermediation costs, and limits resources which could otherwise be available for lending in the country. Tajikistan has the lowest deposit account penetration in ECA (31 bank accounts per 1,000 adults²¹) and very high volumes of cash outside the banking system.²² The economic slowdown that followed the 2008-09 global crisis, the Government's interference in lending to the agriculture sector via directed lending programs,²³ and deficiencies in the NBT's supervisory and regulatory framework have exacerbated the banking system vulnerabilities. A number of obstacles currently limit the restoration of a stable and sound banking sector: (i) government interference in bank lending; (ii) poor risk management in banks; (iii) absence of stable funding sources; (iv) inadequate prudential standards; (v) lax enforcement of prudential standards; (vi) low capacity in NBT to conduct stress tests to monitor vulnerabilities; and (vii) lack of key elements of financial sector infrastructure. All of these

²⁰ IFC SME survey, 2008

²¹ Financial Access 2010 report

²² Ratio of cash outside of banks to money supply in Tajikistan is extremely high: it approximates 72 percent, compared to only 6 percent in OECD countries and an average of 22 percent in countries that borrow from the World Bank

²³ The Government's directed lending program has contributed to the deterioration of loan portfolios by undermining the risk management systems of banks and adversely impacting their financial positions. During 2008 and 2009, the government allocated TJS 320 million (US\$ 73 million), and influenced banks to lend their own resources too, for financing the agriculture sector, primarily cotton. In addition, the Government has also encouraged banks to lend to certain state agencies and state-owned enterprises, which are dealing in agriculture and non-agriculture commodities.

vulnerabilities have contributed to low trust of the population in the banking sector. This in turn raises the costs of mobilizing deposits and other funding sources.

7. Some of the country's financial infrastructure is outdated, inefficient, and lack certain important components, thereby raising transaction costs for businesses. In 2002, the NBT launched a real time gross settlement (RTGS) system which has handled increasing volumes of interbank payment transactions. However, while it has provided basic RTGS functionality, it offers few of the other features and functionality that are now considered standard among modern RTGS systems. It lacks intraday liquidity or queuing facilities, thus requiring banks to maintain excess liquidity positions to meet their obligations, which increases costs for banks. It also lacks the capability of clearing, netting and settling retail-level payments. Finally, it lacks a securities depository, hindering the development of an interbank market, which could further reduce bank costs. Furthermore, there is still no centrally organized settlement or custodial system that is subject to a clear and binding set of rules in Tajikistan.

8. Market participants reportedly do not have trust in the existing payment system because they feel that their balances may be frozen or payments stopped unilaterally, resulting in the failure of the transaction. Due to the absence of a modern and efficient payment system in the country, there is currently no strong foundation for the development of online services in different areas of doing business and for making electronic payments, which significantly raises transaction costs for companies. For enterprises to be able to conduct their activities effectively, it is important to significantly strengthen financial infrastructure, as well as regulations governing the banking sector, to enhance the operation of the financial system.

9. The secured transactions and debt resolution framework in Tajikistan also faces a number of challenges, which further raises transaction costs for enterprises. For example, the laws governing secured transactions are scattered across a variety of pieces of legislation; there are some limitations in the law that prevent creditors from using some or most of their important types of collateral (e.g., accounts receivable, inventory) as collateral; there are a number of serious inconsistencies between the Law on Pledge and other laws (e.g., the Civil Code or the Law on Mortgage); enforcement and debt resolution mechanisms are lengthy, leading to the reduction in the value of the collateral; the laws of insolvency and pledge are not harmonized and the rights of secured creditors in insolvency are not well-protected. In addition, the collateral registry faces significant challenges: it has outdated technology, does not allow the online registration of security interests, and has stopped functioning due to a weak information-technology (IT) system. Finally, there is low local capacity to engage in moveable asset-based financing. Creditors generally do not take moveable assets as collateral, or if they do, it is usually accompanied by other types of protection (such as security interest over immovable assets). Lack of knowledge in collateral-based financing using moveable assets plays a significant role in the malfunctioning of the system.

B. BCB

10. The World Bank has partnered with two national business associations, the Council of Associations of Tajikistan (CASE) and the National Association of Small and Medium Business of the Republic of Tajikistan (NAMSB) to conduct the BCB. The BCB is designed to evaluate changes in business confidence over time and to identify trends in the business

environment. In the first phase of the BCB, businesses throughout the country (members and nonmembers of CASE and NAMSB) were interviewed between May 2011 and July 2011. Some of the main results of the survey include the following. The most-frequently mentioned obstacles to doing business were high tax rates, borrowing costs, and transportation. Business people had a neutral or negative perception of the impact of the reforms to the business environment initiated at the national and regional levels between mid-2010 and mid-2011. Tajik businesses appeared to be fairly optimistic about the immediate future, although they held relatively negative opinions on current economic conditions during the summer 2011. Half of the respondents did not answer the questions about unofficial payments. But one in ten respondents indicated having made unofficial payments (three, on average) during the first half of 2011. Only half of Tajik businesses invested in their business. Those who did not invest usually cited a lack of funds.

C. BEEPS

11. According to the latest BEEPS²⁴, enterprises in Tajikistan face a number of significant constraints including: (i) tax policy and administration; (ii) electricity supply; (iii) corruption in interactions with public officials; and (iv) access to finance.
12. Although BEEPS concluded that tax rates rank among the top constraints faced by firms in all countries, the particularly high level of concern in Tajikistan suggests that taxes are a serious obstacle for doing business in this country. In 2008, firms in Tajikistan were more likely to say that taxes were a serious problem than any other area of the investment climate. Tax rates applicable to commercial entities are generally higher in Tajikistan than in most countries in the region, and the tax burden is felt stronger due to the combined effect of having a large number of taxes. The method of tax collection and the frequency of the required tax payments increase the possibility of rent-seeking, and indirectly increase the tax burden.
13. After taxes, electricity supply ranks as the second-highest impediment to business in the survey. About 39 percent of firms in Tajikistan surveyed for BEEPS responded that power was a serious problem and more than 23 percent cited it as their “most serious obstacle”. The main problem for firms in Tajikistan is the frequency of power outages rather than the cost of power.
14. The third most pronounced obstacle in the investment climate cited by Tajik enterprises was corruption. Close to 40 percent of firms said that corruption was a serious obstacle to enterprises’ operations, while close to 6 percent list it as the “most serious obstacle”. Tajikistan is not unique in this respect as the survey showed that corruption is a serious concern across much of the Central Asian region. Solicitation of informal payments was most frequent in relation to construction and operating licenses.
15. The fourth major constraint is access to finance. According to the BEEPS, one-quarter of enterprises in Tajikistan (24.8 percent) found access to finance to be a major constraint, and around 17 percent cited it as the *greatest* obstacle to their operations. Small and medium-sized firms were the most likely to report access to finance as a major or very severe constraint, higher than both microenterprises (21.3 percent) and large firms (20.1 percent). The average value of

²⁴ The most recent BEEPS was performed in 2008 and given that more recent surveys support BEEPS findings, the team found it appropriate to use this data in the analysis

collateral required as a share of the amount of the loan or credit line in Tajikistan was 145.2 percent in 2007, the highest among Central Asian economies.

D. Banking Sector Vulnerability Assessment

16. The Banking Sector Vulnerability Assessment concluded that current vulnerabilities in the Tajik banking system arise from credit risk, liquidity risk, funding risk and banking sector concentration. The assessment developed certain recommendations to be implemented within 3 months (urgent), within 12 months (short-term), and within 24 months (medium-term).

17. Urgent Measures: NBT should require the banks that are likely to breach capital adequacy requirements to raise fresh capital and introduce certain prudential measures to ensure greater stability and resilience of the banking system. NBT should focus its supervisory resources to address the vulnerabilities in the top 3 banks and engage their management and shareholders in discussions to take preventive measures and decide on contingency plans. NBT should require banks that are most vulnerable to liquidity and funding risks to submit contingency liquidity and funding plans for managing liquidity under stressful situations and to rectify structural liquidity and funding imbalances.

18. Short-term Measures: In view of the vulnerabilities, there is also a need to improve the prompt remedial action framework (PRAF) to address the current threats and those that may emerge in the near term. As directed lending is adversely affecting the health of the banking system, NBT should undertake an assessment of the performance of this portfolio and pursue with the Government to put in place an alternative framework to meet public policy objectives that is in compliance with the principles of prudent credit risk management, transparency and corporate governance. NBT should review its supervisory function with reference to the established standards for an effective supervisory framework and introduce revisions.

19. Medium-term Measures: NBT should undertake a review and enhance the regulatory framework aimed at transitioning the banking system closer to international best practices. Some of the main areas of regulations that need to be reviewed or revised include capital adequacy, asset classification and provisioning, risk management, corporate governance, large exposures, related party exposures, disclosures and transparency, internal control, compliance function, and prudential requirements for the consolidated banking group.

E. Mining Studies

20. All three completed studies- Arne, Rainer, and Kaznatcheev- undertaken on the mining sector by the Government of Tajikistan with World Bank support, as well as the draft political economy study commissioned by the World Bank, have similar conclusions. If mining exploration and exploitation is to increase substantially (aside from the Konimansur deposit), there is a great need for legal, fiscal, administrative, and institutional reform in the country. It is worth noting that while Tajikistan was not included in the recent survey of mining companies on the attractiveness for exploration of 93 mining jurisdictions by the Fraser Institute in Canada, it has a similar legal and institutional framework as its neighbors Kazakhstan and Kyrgyzstan, albeit Tajikistan's institutional framework for mining is much more complicated

than the other former Soviet countries. In the survey Kazakhstan ranked 81st of 93 countries and Kyrgyzstan ranked 87th of 93 countries.²⁵

21. The five main obstacles faced by mining companies, according to the four studies, can be described as follows. First, the legal framework is not conducive to mineral exploration. Second, the institutional framework is extremely complex and too many public bodies can stop or delay projects, which makes the licensing procedure in particular a very long and expensive process. Third, the tax system for mining is non-transparent and very complex, so much so that it is not even possible to accurately calculate an effective rate of taxation, although it does seem that many individual taxes are high by international standards. Fourth, the management of geological data—much of which is considered a state secret—is a strong deterrent to investment in the sector as well as highly inefficient. Fifth, the licensing process is very opaque and, moreover, if a company manages to get a license and discovers an economic deposit, it is not guaranteed the right to exploit or sell the rights to the deposit.

22. All of the studies come to similar recommendations. First, there is a need for a comprehensive revision of the Subsoil Law and, preferably, the introduction of a mining specific law. Second, and related to the first, the system of licensing of mining activities, particularly exploration, needs to be completely revised and reorganized. Third, the institutional framework needs to be greatly simplified with much fewer agencies having a role to play in regulating and licensing mining operations. Moreover, the main mining functions should be gathered into one agency or ministry or at least regulation should fall to one agency, as is the case in most other countries. Fourth, the fiscal system needs to be greatly simplified and made globally competitive. Fifth, other than for exceptional cases, geological data (or at least a great deal of it) needs to be taken out of the ‘state secret’ category. It should be necessary to build a strong case for classifying geological data as a state secret rather than for not classifying it as such.

Government Reform Program and World Bank Involvement

23. Overall, it is clear that the business environment in Tajikistan is not conducive to the development of the private sector due to a number of constraints faced by enterprises. Results of the various studies conducted on the business environment in Tajikistan are largely consistent with one another. For instance, the 2010 CEM noted that the combination of strong regulation and weak enforcement creates significant opportunities for rent-seeking by public officials, while the BEEPS survey concludes that corruption in interactions with public officials comprises one of the top constraints for private businesses in Tajikistan. Tajikistan’s low Doing Business results for the *Starting a Business* indicator are consistent with the findings of Tajikistan’s 2010 CEM which notes that Tajikistan’s low image for investors as a place to start and operate a business is a major deficiency for attracting investment and stimulating growth in a country that does not have a big domestic market and is not close to large markets. The BCB’s results are mostly consistent with the BEEPS findings. The most-frequently mentioned obstacles to doing business according to the BCB are high tax rates and high loan costs which effectively limit access of enterprises to finance, while the BEEPS survey also lists tax issues and access to finance among the top four constraints. According to the IFC SME Survey (2008), interest rates were also cited as the primary reason for SMEs not applying for a loan.

²⁵ The Fraser Institute’s *Survey of Mining Companies: 2011/12*

24. Reforms in the private sector of Tajikistan are supported by various donors. As shown in the table below, such donors as WB, IMF, IFC, ADB, EBRD, the Swiss Government, Soros Foundation, and the Government of Finland, have all provided support to the GoT in reforming its business environment. Taken together, the assistance of development partners is aimed at building institutions for private sector activity from the bottom up.

Reform Area	Donor
Tax reform	WB, IMF, IFC and ADB
Land reform	WB, USAID, EU
Trade and customs reforms	GIZ and the Swiss Government.
Accounting and financial sector	WB, EBRD, IFC, the Swiss Government
Corporate governance	IFC
Mining sector reforms (EITI)	WB, IFC, Soros Foundation, Government of Finland
Access to electricity	WB

25. With the World Bank assistance, the government of Tajikistan (GoT) has been implementing reforms of the business environment since 2008. In the spring of 2008, the World Bank Group elaborated a Doing Business Reform Memorandum, which was presented and discussed with the government. Based upon this, the government approved a plan titled “200 Days of Reforms”, aiming at implementing business reforms in very specific and targeted areas. In order to ensure the adequate implementation of the plan, in September 2009, the government sent an official letter to the World Bank Group requesting further assistance. The reform effort of the government of Tajikistan has led to significant achievements. In *Doing Business 2010 and 2011*, Tajikistan was ranked amongst the top-ten countries that have improved their business environment in the world. Significant reforms in the *Starting a Business*, *Protecting Investors*, and *Dealing with Construction Permits* indicators have been implemented. Furthermore, reforms were implemented in other areas such as *Paying Taxes*, *Getting Credit*, and *Closing a Business*.

26. The World Bank also assisted the Tajik government in strengthening the financial sector in several important areas. The World Bank and the IMF conducted an assessment of the financial sector under the Financial Sector Assessment Program (FSAP) in 2007-08, and then provided TA under a Financial Reform and Strengthening (FIRST) Initiative project²⁶ to implement key FSAP recommendations and develop a 5-year financial sector action plan, which was formally adopted by the government in May 2010.²⁷ Under the FIRST TA, the World Bank carried out a detailed diagnostic of the secured transactions system, and is now providing technical assistance to the government in improving the legislative framework under a new FIRST TA.²⁸ The World Bank conducted a Banking Sector Vulnerability Assessment for Tajikistan in late 2010, providing a thorough analysis of the health of the banking sector, as well as of the strengths and weaknesses of the regulatory and supervisory framework.

27. The World Bank has also assisted Tajikistan to strengthen the payment system. The FIRST TA mentioned above assisted NBT to prepare a new draft law on the payments system, and another FIRST TA assisted NBT to procure a National Processing Center (NPC) to support

²⁶ Tajikistan: Post-FSAP Financial Sector Legal and Regulatory Reforms and Strategy Development, 2008.

²⁷ Government Resolution No. 261, May 28, 2010.

²⁸ FIRST TA – Tajikistan: Legal Framework for Secured Transactions.

small value payments and the retail plastic card payments, but the new system lacks adequate rules to ensure good governance and proper oversight by NBT.²⁹ A detailed assessment of the RTGS performed under the same FIRST TA concluded that the current RTGS needs to be replaced. NBT has since indicated its decision to procure a new system, incorporating both RTGS functionality and Automated Clearing House (ACH) functionality for clearing of retail-level electronic payments. Such a hybrid RTGS-ACH system is known as an Automated Transfer System (ATS). The RTGS assessment also recommended that NBT consider procuring a module of financial instruments for interbank transactions to manage information about government and NBT securities and enable safe settlement of securities transactions and provision of collateral to support NBT's supply of intraday liquidity to RTGS participants. The payment system elements described above are key components of a well functioning payment system that are critical both to lower the costs of financial intermediation and to support the implementation of business environment reforms that would facilitate online payments for services (e.g., online registration of new businesses, online registration of collateral).

28. In the mining sector, the World Bank has also provided assistance to the government during recent years. A small component of the recently completed Institutional Development Fund (IDF) grant focused on private sector development has supported two scoping studies – one focusing on an initial institutional assessment and another focusing on the initial inputs into the Government's mining strategy. In parallel, an overview of legislation pertaining to the mining sector was done under the Public Sector Reform Project, with a compilation and translation of over 200 acts and laws done. A South-South Exchange Trust Fund financed a 10-day visit by key members of the Mining Strategy Group to Brazil in May 2010, and this visit facilitated knowledge sharing and improved the understanding of this group of mining reforms on a global level. Furthermore, the Government, following its interest in adhering to the Extractive Industries Transparency Initiative (EITI), organized, with support from the World Bank and the Open Society Institute (OSI), a launch workshop, which took place on July 12, 2011. An official announcement regarding the country's commitment to EITI was made, and currently, steps are underway to fulfill all pre-conditions to submit Tajikistan's candidacy to the EITI Board. Finally, a stand-alone political economy of mining study has been launched under the overall governance agenda and a first draft was completed in February 2012. A detailed overview of the mining studies performed is presented in Annex 6.

29. In partnership with the World Bank, the GoT has commenced the work on the mining sector reform. The government has specifically requested assistance in the minerals sector and the implementation of the EITI. The most crucial step was undertaken, when the Government decided to put the Konimansur silver deposit out for tender and selected the IFC's Advisory Services group as its transaction advisor. Located in the north of Tajikistan close to the border with Uzbekistan, the deposit is one of the largest in the world. Various estimates put the size of the deposits at around 50,000 tons, and the total investment required to develop them will likely be more than US \$2 billion. The Konimansur silver deposits are of high grade and include significant quantities of zinc and lead ores, which makes them even more attractive to a potential investor. This process is regarded as the first step in opening up Tajikistan's mining sector and becoming a world-class mining destination. The tender process has been moving ahead, and, if

²⁹ FIRST TA – Tajikistan: Payment System Modernization, 2011.

successful, will bring Tajikistan on the global mining map as a key player. The final steps of the process are underway and it is expected to be completed in December 2011.

Annex 7: Economic and Financial Analyses

30. The economic analyses of the one-stop-shop for business registration, the single window for construction, and the collateral registry all show relatively large benefits. Tables 2-4 below show calculations of the net present value for these sub-components, based on the impact model developed by the investment climate practice in the World Bank.

Table 2: One-Stop-Shop for Business Registration Economic Benefits

(in US\$) ³⁰	Year 1	Year 2	Year 3	Year 4
New firms registered	-	-	4,000	5,600
Savings in fees per new firm	-	-	50	50
Total savings from a reformed registration process	-	-	200,000	280,000
Savings in operational costs due to project	-	-	55,000	55,000
Total savings	-	-	255,000	335,000
Investment	(200,000)	(200,000)	-	-
Increased revenues and reduction in costs minus investment	(200,000)	(200,000)	255,000	335,000
PV of savings and investment	(181,818)	(165,289)	191,585	228,810
Net present value	73,287			

Table 3: Single Window for Construction Economic Benefits

(in US\$)	Year 1	Year 2	Year 3	Year 4
Number of construction permits ³¹	300	300	360	432
Savings in financial cost per new permit ³²	-	-	6,121	6,121
Savings in labor cost to obtain a permit ³³	-	-	84	84
Total savings	-	-	6,205	2,680,560
Project investment	(650,000)	(650,000)	(60,000)	(60,000)
Investment - savings	(650,000)	(650,000)	53,795	2,620,560
Present value of investment and savings	(590,909)	(537,190)	40,417	1,789,878
Net present value	621,362			

Table 4: Collateral Registry Economic Benefits

(in US\$)	Year 1	Year 2	Year 3	Year 4
Costs	250,000	250,000	60,000	60,000

³⁰ All numbers are expressed in US\$ amounts except for the number of new firms registered

³¹ Baseline provided by agency. Assumption of 20 percent of increase in construction permits after implementation

³² According to CIC estimations based on DB data. Current cost is US\$ 6700 per permit. Reduced cost after implementation would be US\$ 579

³³ According to CIC estimations based on DB data. Current cost is US\$ 139 per permit. Reduced cost after implementation would be US\$ 55

Benefits			451,879	587,443
Benefits - cost	(250,000)	(250,000)	391,879	527,443
Net present value (NPV) at 10% rate	220,791			

31. Upgrading the payment system. The ATS will have significant benefits for NBT, the Tajik financial community, payment system users (government agencies, companies, and individuals) and overall economic development.

32. The two main elements of the ATS (RTGS and ACH) will provide a range of benefits. The RTGS will improve control of systemic risk and enable banks to manage their liquidity more effectively to ensure the unimpeded flow of payments. The RTGS will be linked to the NPC for card payments, ensuring the orderly and safe settlement of these transactions, and eventually to other trading systems such as the Stock Exchange. The RTGS will be procured and operate in full conformity with the *Core Principles for Systemically Important Payment Systems* published by the BIS Committee on Payment and Settlement Systems (CPSS).

33. The ACH will provide functionality at the level of retail payments which will offer benefits to all users, including: (i) deepening penetration of the formal banking economy into areas that are currently underserved; (ii) promoting the move away from the use of cash to more efficient electronic payments; (iii) enabling enterprises to make payments electronically, improving efficiency and financial control, (iv) allowing employees in both public and private sectors to receive their salaries directly into their bank accounts and allowing consumers to make their regular payments (e.g. for utilities, hire purchase, rent, etc.) by either direct credit (standing order) or direct debit rather than having to travel to make payments in person; (v) enabling banks and other financial institutions to offer new and attractive services to their customers and make payments faster, more efficient and less risky; (vi) allowing various government offices, such as the Ministry of Finance, the Tax Administration, and the Customs Service to make and/or receive payments by fast, efficient, cost-effective, accurate and safe electronic means (e.g., government salary payments) resulting in more effective control of government finances, increased efficiency of government operations, improved levels of service to government clients and reduced opportunities for misappropriation of government funds.

34. Similarly, the module of financial instruments for interbank transactions will have benefits for NBT, the Government and the financial community. It will enable transactions in securities to be carried out according to the principle of Delivery versus Payment (DvP), reducing risk in these transactions and conforming to international recommendations, and it will improve efficiency of operation in the RTGS through automatic collateralization of liquidity provision by NBT to participants. The module of financial instruments for interbank transactions will also securely hold information on all government and NBT securities and register all transfers of ownership, safely and accurately.

35. Encouraging the Development of the Mining Sector. A lot of examples show the mining and institutional reforms have led to a significant increase in mining investment. In Tanzania, mining investment was less than US\$ 10 million per year from 1990-99 but after the World Bank assisted sector reform was completed in 2000, it rose to over US\$ 250 million per year from 2001-2008. In Mongolia, mining investment was negligible until the World Bank assisted sector

reform took place, which was completed in 1997. From 2003-09, investment averaged US\$ 335 million per year In Burkina Faso, the mining sector was negligible in 2006 and is now one of the most important sectors of the economy. In sum, mining sector reform in Tajikistan (not including Konimansur) could easily result in an increase of hundreds of millions of investment and more likely billions of dollars of investment but this will take some time.