**REPUBLIC OF TAJIKISTAN**

**NATIONAL DEVELOPMENT COUNCIL AND**

**DEVELOPMENT FORUM**

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Since the last National Development Council, two developments have changed—quite fundamentally—the context of economic policy-making, viz., (i) the opening of neighbouring markets; and (ii) the decision to construct the Rogun hydropower plant, potentially transformational in its socio-economic development impact. These changes open a unique window of opportunity, if embedded in the right policy framework, to place the country onto the *innovative-industrial* development path envisioned in Tajikistan’s *National Development Strategy*. The members of the Development Coordination Council are convinced that Tajikistan *can* take advantage of emerging opportunities and avoid corresponding risks, offering herewith their support to Government along this challenging development path.

For Tajikistan to be able to benefit from a *virtuous cycle* of investments, exports, and socio-economic development, it requires vision, courage, and commitment to ensure the ability to (i) finance public investments within a stable and sustainable macro-fiscal framework; (ii) implement complementary reforms to reinforce effective institutions; and (iii) strengthen confidence among potential investors that Tajikistan is indeed becoming a country of new opportunities and rapid development. Allow me please, Mr President, to share with you the common views of your development partners on these three critical pre-conditions.

*First, macro-fiscal stability*. You know better than anybody else, the first quarter-century of Tajikistan’s history has been difficult, constrained by geographical isolation and a series of external shocks that were all negative, including the post-2008 world economic crisis and the post-2014 collapse of energy prices. Still, Tajikistan’s economy has proven resilient, having generated gradual, but consistent improvements in principal socio-economic indicators. However, it is not possible to extrapolate the post-1998 growth experience—with an average growth rate of more than seven per cent—and assume a similar degree of economic resilience for the future: *Tajikistan’s economy can be resilient only for as long as it is able to repay its debt*. Having issued its first-ever eurobonds, the country will now have to demonstrate a maturity that is commensurate with the size and importance of the resultant obligations, ideally within the context of an IMF-supported programme.

Prudent macro-fiscal management implies that taxation moves to the centre of the policy agenda. Micro, small, and medium-sized enterprises—generally the most innovative, fastest growing segment of any successful economy—have not realised enough investments and created sufficient employment opportunities for Tajikistan’s young population, largely because of insecurity regarding effective rates of tax obligations. To overcome this development challenge, the Government is encouraged to continue implementing reforms to replace *tax collection targets* with a focus on increased levels of *voluntary tax compliance*, thereby encouraging private sector activities and, in so doing, increasing the size of budgetary revenues.

Investors are only willing to choose Tajikistan as their preferred site of doing business if they have the *confidence* in the ability to protect after-tax profits for potential re-investment. The required degree of trust, however, cannot be legislated but has to be earned. A modern tax regime and its uniform application could be a critical step in this direction.

At the same time, Government needs to strengthen efforts to avoid a repeat of the situation in 2016, whether for reasons of the banking sector or public utilities. Related efforts—including tighter coordination across State institutions and with development partners—would include attention to policies that provide the banking sector with a modern infrastructure and level playing field to become the engine of, rather than brake to, growth and development. It would involve a focus on placing the electricity and water utilities on financially sound feet, able to pay for the required recurrent and capital expenditures needed to supply Tajik citizens and enterprises with basic public services. With ongoing investments into targeted social assistance, the Government has a tool for active social policy to ensure that, with required reforms and the resultant need to adjust tariffs and improve collection, the most vulnerable households are protected.

*Second, building a strong socio-economic foundation.* While the electricity generation and transmission facilities are being built, Tajikistan has every potential to move towards an industrial-agrarian economy, with the secondary and tertiary sectors of the economy starting to increase their relative shares in the country’s national accounts. However, for that to happen, Tajikistan needs a workforce that is healthy and educated, willing and able to exploit the opportunities that are emerging. And this, in turn, requires a close attention *today* to social investments—In kindergartens, schools, and universities as well as in medical centres and hospitals.

There is a substantial literature demonstrating that the *social return* of investments in health and education—especially pronounced in universal access to early childhood development and health coverage—exceeds private ones. Countries that have sustained high rates of growth over prolonged periods of time and managed to transform their economies beyond a reliance on agriculture and low-value activities are those that have succeeded in financing not only high rates of public investments in infrastructure but also in education and health. In these efforts, it is critical to focus on *learning* rather than *years of schooling* as principal objective, i.e., to focus on, test for, and monitor the development of literacy, numeracy, and other cognitive skills. It is these results that matter most critically for growth and sustainable, inclusive socio-economic transformation.

*Third, the longer-term perspectives.* While the *National Development Strategy* summarises the objectives during Tajikistan’s transition phase up to 2030, any considerations by the private sector on productivity-enhancing investments require not only an attractive business climate but also a perspective of Tajikistan’s longer-term vision of socio-economic development. This point is particularly important, not least because it entails one potential advantage of Tajikistan’s. Its currently narrow formal private sector implies that most investments supporting the *innovative-industrial development scenario* would be “green field investments”. If Tajikistan manages to provide the private sector with sufficient confidence into its future, in terms of the overarching business climate, the quality of service delivery, and the ability to address fiscal and non-economic risk factors (principally those linked to natural hazards and effects from climate change), the country will be able to *leapfrog* several development stages and build a modern, up-to-date industry with technology that is competitive on the very large markets in Central, East, and South Asia. High rates of “catch-up” growth, reflected in increased domestic productivity, would come with additional employment and rising wages.

One potential route, with which to achieve these objectives, is a political decision on, and a clear communication and institutionalisation of, mechanisms to be applied to the use of revenues to be generated from future energy exports—ensuring the effective use of additional resources for debt repayment, infrastructure, education, health, and social policies. This would permit the transfer of Tajikistan’s principal national resources (water) into even higher-yielding human capital. That, in turn, would allow the country to share its national prosperity and promise a prosperous future to today’s children and grandchildren.

Allow me please to conclude, Mr. President, by thanking you and your colleagues in Government for the comprehensive development vision and important reforms already implemented, while reconfirming the international development partners’ support to efforts to have Tajikistan benefit, to the maximum, from the emerging opportunities by fostering skills, innovation, investments, and exports. Overcoming post-independence isolation, Tajikistan has an historic opportunity to reconnect to the legacy of the ancient Silk Road, at the intersection between Central, East, and South Asia. The emerging opportunities and very large and hungry markets right in Tajikistan’s vicinity open doors for everyone to benefit. It takes vision and courage to allow all pieces to fall into place and build the foundation for a modern, wealth- and employment-creating economy.