



PEER REVIEW NOTE

Monitoring competitiveness reforms in Tajikistan

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Foreword

In 2014, the OECD Eurasia Competitiveness Programme worked with the Government of Tajikistan to assess and improve the country's competitiveness. The project was developed within the Investment and Competitiveness in Central Asia project, co-funded by the European Union. The overall objective of the work is to help create the conditions for sustained economic growth and investment in Central Asia. In particular, it focuses on supporting the process of policy reform and stimulates regional exchanges on competitiveness reforms in Central Asia and between Central Asia countries.

The OECD team proposed the adoption of two sets of policy recommendations aimed at enhancing the development of the private sector, and in particular SMEs. The first focused on how to better harness the potential of the financial flows coming from remittances and on how to improve the credit environment for SMEs and returning migrants. The objective of the second set was to support SMEs and exports with a focus on the agricultural sector.

Two reports – one per policy area – were published as a result. These were peer reviewed at the 2014 OECD Eurasia Competitiveness Roundtable. The Roundtable was established in 2013 to provide OECD and Eurasian countries with the opportunity to discuss policy reforms, experiences and implementation, and to monitor progress in implementing recommendations. At the 2014 Roundtable, a delegation from Tajikistan led by the Minister of Economic Development and Trade presented the final results and endorsed the recommendations.

Since then, the OECD has monitored the implementation of the agreed recommendations through project working group meetings and monitoring workshops held during several OECD missions to Dushanbe during 2015-17. These activities involved experts from France, Kazakhstan, Moldova and Poland.

This monitoring note was developed in consultation with the Government of Tajikistan, the National Bank of Tajikistan, the Banking Association of Tajikistan, business associations and development partners during the monitoring process. It assesses the progress made during the three years from the endorsement of the policy recommendations in 2014 to 2017 and makes recommendations for further progress.

The note was peer-reviewed and endorsed by the government of Tajikistan at the OECD Eurasia Competitiveness Roundtable as part of Eurasia Week 2017 in Almaty, Kazakhstan.

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Acronyms and abbreviations

Acronym	Meaning
ADB	Asian Development Bank
AMFOT	Microfinance Association of Tajikistan
bn	billion
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EEU	Eurasian Economic Union
ESF	Entrepreneurship Support Fund of Tajikistan
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GDP	gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Co-operation)
HACCP	Hazard Analysis and Critical Control Point
IAF	International Accreditation Forum
ILAC	International Laboratory Accreditation Co-operation
IMF	International Monetary Fund
IO	international organisation
IOM	International Organization for Migration
ITC	International Trade Centre
JICA	Japanese International Cooperation Agency
KPI	key performance indicator
mn	million
MDO	micro deposit organisation
MEDT	Ministry of Economic Development and Trade of Tajikistan
MFI	microfinance institution
MoLME	Ministry of Labour, Migration and Employment
MTO	money transfer organisation
NBT	National Bank of Tajikistan
NPL	non-performing loan
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
RUB	Russian rouble (currency)
SCISPM	State Committee for Investment and State Property Management of Tajikistan
SECO	State Secretariat for Economic Affairs - Switzerland
SME	small and medium-sized enterprise
TAG	technical assistance group
TFI	trade facilitation indicator
TJS	Tajik Somoni (currency)
UNDP	United Nations Development Programme
USD	US dollar (currency)
WTO	World Trade Organization

Key indicators: Tajikistan

Table 1. Key indicators on Tajikistan

Country profile		
	Population, 2016	8.7 mn
	Surface area, 2016	142 550 km ²
	GDP (USD, current price), 2016	6.9 bn
	GDP per capita (USD, current price), 2016	804
	Real GDP growth, (y-o-y average change), 2014-16	6.5%
	Real GDP growth (y-o-y change), 2016	6.9%
	Exchange rate TJS/USD (y-o-y change), 2016	-13%
	Inflation (average consumer price, y-o-y change), 2016	6.1%
	Refinancing rate for banks, March 2017	16%
	Average rate on loans in TJS, 2017	21.7%
	Non-performing loans, September 2016	54.7%
	Exports of goods and services (USD), 2016	961 mn
	Imports of goods and services (USD), 2016	4 bn
	FDI, net inflows (% of GDP), 2016	5.4%
	General government surplus/deficit (% of GDP), 2015	-1.7%
	Public sector debt, 2016	46.9%
	Migrants to Russia and Kazakhstan, first half of 2017	242 792
	Returning migrants, first half of 2017	160 123
	Labour force, total, 2015	3 785 764
	Remittances (% of GDP), 2015	30.5%

Source: ADB (2017), *Asian Development Outlook 2017*; NBT (2017), *Survey on Saving Behaviour*; IMF (2017), *World Economic Outlook, April 2017*; United Nations (2017), *International Migrant Stock 2015*; (Federal Migration Service of the Russian Federation, 2016)

Executive Summary

Tajikistan's economy has grown rapidly in the past few years, with real GDP growth averaging 6.5% per year during the monitoring period 2014-16. However, it has also had to face a series of powerful shocks. First, the economic crisis in Russia and the depreciation of the rouble and Tajik Somoni resulted in a sharp drop in the value of remittances in US dollar terms. Second, the banking crisis severely damaged trust in the financial system. In this difficult context, the government has initiated reform efforts in the two areas it identified with the OECD in 2014 to support entrepreneurship and SMEs: 1) access to finance, with a focus on migrants; and 2) agribusiness, with a focus on exports. Yet implementation remains a major challenge.

Access to finance and migration: Tajikistan has focused on improving its payment infrastructure and enhancing financial literacy, but rebuilding trust in the financial system will be difficult

The 2014 OECD review recommended both demand- and supply-side actions. On the demand side, it concentrated on expanding financial education and enhancing the entrepreneurial skills of returning migrants; on the supply side, on facilitating the banking of remittances, consolidating the microfinance sector and introducing public support funds.

Tajikistan has made visible progress on the demand side, with multiple training programmes implemented for returning migrants through the training centres of the Ministry of Labour, Migration and Employment (MoLME) and various initiatives to strengthen financial literacy of the general population, including the drafting of a national strategy by the National Bank of Tajikistan (NBT), and of migrants in particular.

The government and the NBT have attempted to take action on the supply side, but external and internal shocks, including the exchange rate dynamic and crises in the financial sector, have delayed implementation. In the future, the focus should be on rebuilding trust in the financial system and thus expanding financial inclusion and entrepreneurship.

Export promotion and agribusiness: Tajikistan has focused on an export strategy, a single window for customs, and skills, but it needs to strengthen its export support institutions and agribusiness value chains

Exports and agribusiness are two essential drivers of Tajikistan's competitiveness. In 2014, the OECD recommended a series of measures. On the export promotion side, recommendations included simpler border procedures and stronger institutional export structures: initiatives related to customs, standards and certifications and export promotion. On the agribusiness side, recommendations included strengthening the agribusiness value chain, supporting vertical and horizontal integration of businesses and co-operatives, and developing skills in the market.

Tajikistan is attempting to improve its "soft" export infrastructures and to strengthen skills in the agribusiness sector. It has focused on overhauling its export strategy and is starting to implement some aspects of it, such as the "single window" at customs. In the agribusiness sector, it has set its strategic objectives. The government is also carrying out a wide range of programmes to enhance skills in the market and help co-operatives to offer extension services. In the coming years the government should focus on effective implementation and monitoring the impact of these reforms.

Summary of Monitoring Assessment

Policy area	Overall 2014 recommendation	Detailed 2014 recommendations	2017 monitoring assessment	
			Progress status	Way forward
Access to finance for SMEs	Tajikistan should enhance access to finance for SME development, tapping into the potential of migrants and remittances	1. Facilitate the banking of remittances		Finalise payment system to channel remittances through banks (integrating money transfer organisations) Support microfinance institution consolidation Improve the efficiency and transparency of the Entrepreneurship Support Fund
		2. Support business creation and create a one-stop-shop for migrants		Enhance training centres' capabilities Start working on a National Strategy for Financial Literacy
Exports in agriculture	Tajikistan should increase exports in the agribusiness sector	1. Overhaul the export strategy		Complete the implementation of the single window Enhance the certification and export promotion infrastructure
		2. Improve taxation and financial system for agribusiness exporters		Implement new tax administration Consider the creation of an export guarantee fund
		3. Strengthen the agribusiness value chain		Integrate the many skills programmes financed by international organisations Design pilot cluster for vertical integration
		4. Implement better agribusiness policies		Prepare a precise implementation plan for the national strategy Perform regular monitoring surveys

Caption: Completed Close to completion Being implemented Initiated Not started

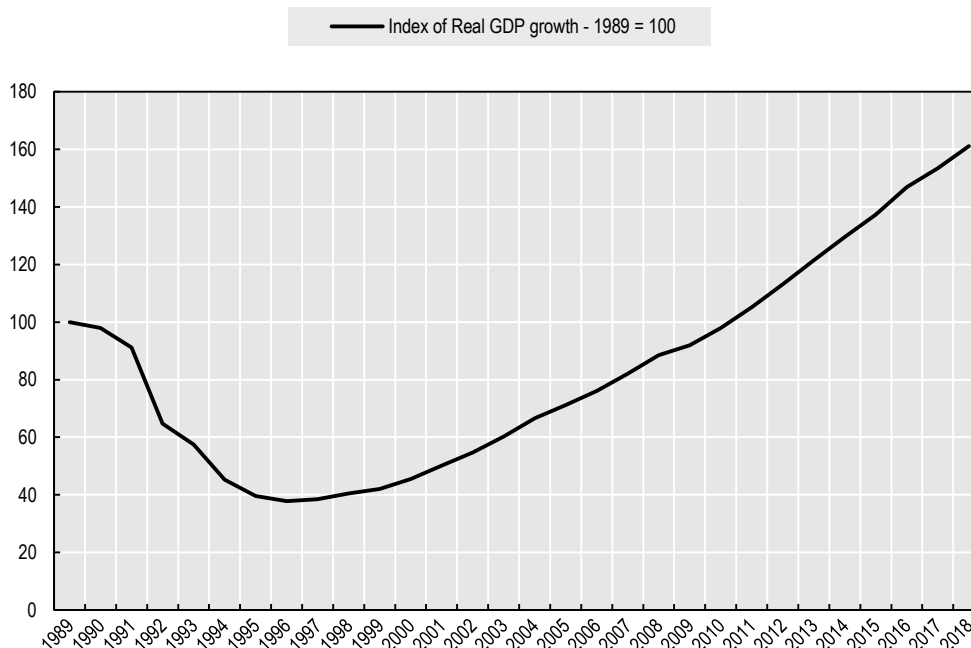
Introduction

After independence in 1991, instability dominated the scene in Tajikistan at the cost of economic development. The civil war that erupted in 1992-93 came to an end only in June 1997. The Russian financial crisis in 1998 and a mixture of floods and droughts in 1998-2000 then slowed the post-war recovery until the turn of the century (Pomfret, 2006). These shocks hit the economy hard and real gross domestic product (GDP) only returned to its pre-independence levels in 2010 (Figure 1).

Nevertheless, living standards and consumption recovered more quickly, particularly thanks to the high inflow of remittances sent by Tajik migrants. Both during and after the war, inflows of remittances were fundamental for macroeconomic stabilisation, growth and poverty alleviation, and were a valuable source of foreign exchange to finance consumption, especially of much-needed imported goods (Mughal, 2007).

Since the turn of the century, growth has been sustained, and between 2014 and 2016 Tajikistan was one of the fastest-growing countries in Central Asia, with an average GDP growth of 6.5%, reaching USD 6.9 billion in 2016. As a result, from 2000 to 2015, the share of the population below the poverty line fell from 83% to 31%. In 2014 Tajikistan became a lower-middle-income country, with GDP per capita of USD 2547 (in 2011 PPP USD) – still the lowest in Central Asia (World Bank, 2017a).

Figure 1. Tajikistan's real GDP level, 1989-2018



Source: EBRD Transition report Update (2001) - data from 1989 to 1992; (IMF, 2017), *World Economic Outlook*, April 2017.

The International Monetary Fund (IMF) expects growth to slow to 4.7% in 2017, the lowest figure for the past ten years. This is mostly because of the crisis in the financial sector and the losses suffered by the country's banks (Box 1).

Box 1. Banking crisis in Tajikistan

The situation with the financial system is particularly challenging. Traditional banks in Tajikistan are facing severe capital issues, as the ratio of capital to risk-weighted assets fell to just 5.4% in 2015, against the required 12%. In December 2016, the government recapitalised four banks, to a total of USD 400 million (7.1% of GDP). Turmoil in the financial sector has tightened credit conditions for small and medium-sized enterprises (SMEs). Borrowers have already been hit hard by the depreciation of the Tajikistani Somoni (TJS), which lost almost half its value between the end of 2014 and May 2017, as almost 60% of outstanding loans are denominated in USD. The share of non-performing loans (NPLs) in bank portfolios jumped to 54.7% in 2015, from 29.9% in 2014. Credit to the private sector shrank from 22.7% of GDP in 2015 (in line with Kyrgyzstan's share but well below Kazakhstan's 37.7%) to around 10% at the end of 2016.

Sources: (World Bank, 2017b; National Bank of Tajikistan, 2017; ADB, 2017)

Unemployment remains high, at 10.9%, and limited job opportunities continue to encourage workers to migrate. The bulk of Tajik migrants still work in Russia, where 79.1% of the Tajik diaspora resides, followed by Ukraine (5.0%), Germany (4.9%) and Kazakhstan (2.7%; United Nations, 2017). As a result, 76.4% of the USD 2 259 million remittances sent to Tajikistan in 2015 came from Russia, significantly more than the flows from Kazakhstan (6.3% of the total), Ukraine (4.0%) and Germany (3.7%; World Bank, 2017a). The slowing of the Russian economy has reduced the number of labour migrants from 800 000 (16.3% of the working population) in 2013 to 467 000 (9.2%) in 2016, with a corresponding negative effect on remittances.

That said, remittances still amounted to 30.5% of GDP in 2016. This is lower than the 43.5% registered in 2013, mostly due to the depreciation of the Russian rouble (RUB) as most remittances are denominated in roubles (World Bank, 2017b; ADB, 2017).

Trade is a core component of Tajikistan's economy, with total trade turnover amounting to 53% of GDP in 2015. This is in line with other countries in the region (World Bank, 2017a).¹ The country ran a merchandise trade deficit of USD 2.9 billion in 2015: imports of goods amounted to USD 3.6 billion (47% of GDP) and exports of goods to USD 730 million (9% of GDP; ITC, 2017).² Tajikistan mostly imports from China (USD 1.8 billion), Russia and Kazakhstan, and the main goods imported are machines, textiles, oil and gas products, metals, and fruit and vegetables. Tajikistan's main export market is Turkey, followed by Kazakhstan. Its main export products are raw aluminium, mineral products, gold, textiles (including raw cotton) and vegetable products. Exports of cotton and vegetable products have seen a consistent decline, falling by 10% and 16% respectively from 2013 to 2015 (OEC, 2017a).

Tajikistan joined the World Trade Organization (WTO) in 2013, and the government is working to align its standards to support trade. Tajikistan is also considering joining the Eurasian Economic Union (EEU), which currently includes the Russian Federation, Armenia, Belarus, Kazakhstan and Kyrgyzstan.

Tajikistan's agribusiness sector is important, accounting for 25% of GDP, 39% of tax revenues and around 50% of total employment. Moreover, 70% of the population live in rural areas, even though arable land covers only 7% of the territory. In Soviet times Tajikistan's agricultural production was a monoculture of raw cotton. Since 1991, cropping patterns have partially changed, with cereals and legumes gaining ground, and wheat and fodder occupying 35% and 15% respectively of the total sown arable area. However, a dearth of irrigated land, bad connections between markets and agricultural production areas, and low productivity make Tajikistan's agriculture relatively vulnerable (Strokova & Ajwad, 2017; ADB, 2016).

To transition towards an upper middle-income level of development, the government's National Development Strategy of Tajikistan for the Period 2016-2030 identifies two main factors that could drive economic development: economic diversification, the development of the private sector and small and medium-sized enterprises (SMEs), and increased exports (Government of Tajikistan, 2016).

SMEs dominate the private-sector landscape. Unfortunately Tajikistan does not yet compile precise statistics. The last comprehensive survey, conducted almost a decade ago, indicated that SMEs employed about 1 million people in 2007, around 48% of the total formal employment at the time. Only 200 businesses had more than 200 employees (IFC, 2009). If the informal sector is included, the weight of SMEs is even greater, and their development is essential to economic diversification. To contribute to the achievements of these long-term objectives, the OECD has worked with the Government of Tajikistan to support SME development, focusing on access to finance for SMEs and agricultural exports.

Notes

¹ Trade turnover equalled 43% of GDP in Uzbekistan and 53% in Kazakhstan. The 108% reported by Kyrgyzstan is not directly comparable for the extremely high proportion of re-exports (data for Turkmenistan are not available).

² Note that the current account balance deficit for Tajikistan was around USD 471 million (6% of GDP) in 2015, as the flow of remittances plays a particularly important role in this country.

CHAPTER 1. Access to finance and migration

Studies conducted on a large number of emerging economies show that a consistent flow of remittances promotes financial development, which in turn stimulates growth and poverty reduction. In particular, financial development is connected to the effect of remittances on the aggregate level of deposits and credit intermediated by the local banking sector (Aggarwal, Demirgüç-Kunt, & Martínez Pería, 2010). The use of the formal financial sector to transfer remittances plays an important role by increasing transparency and accountability.

However, the use of the formal financial sector might be unpopular in the absence of incentives for migrants, as costs of money transfer organisations (MTOs) are lower and there is no deposit insurance scheme (Grigorian & Kryshko, 2017). Incentives are particularly important in Tajikistan, as the 2015 banking crisis inflicted a severe blow to public trust in the stability of the financial system. In fact a significant, if decreasing, share of migrants' remittances are still transferred through MTOs (Figure 2). The banking crisis (Box 1) worsened conditions for migrants' families receiving remittances. It also did tremendous damage to public trust in the financial system, pushing many to withdraw their bank deposits and diminishing their willingness and ability to save, as well as reducing Tajikistan's already low financial inclusion. The National Bank of Tajikistan (NBT) recently surveyed the population about their savings and 68% of respondents said that they were not able (56%) or not willing (12%) to accumulate savings, 20% that they kept them at home and only 12% that they were keeping their money in credit institutions or banks (National Bank of Tajikistan, 2017).

Nevertheless, there is evidence that receivers of remittances are subject to a wealth effect which makes them more likely to invest their savings in micro-enterprises, usually in self-employment, overcoming liquidity constraints (Woodruff, 2007; Mesnard et al., 2006). The studies do not suggest that the majority of remittances are used for productive investment, but over time their cumulative impact is still significant. Most remittances were and are used for consumption purposes, but the OECD recommendations focused on how these financial resources could be used productively, in particular as a form of internal financing of SMEs (OECD, 2015a).

Overview of 2014 recommendations

In 2014, the OECD recommended taking advantage of migrants' remittances and returning migrants' skills to improve access to finance and support entrepreneurship. The 2014 OECD recommendations focused on ways to enhance access to finance for SMEs, by designing and implementing policies to support both the supply side (loan offers) and demand side (financial literacy) (OECD, 2015a).

Recommendation 1: On the supply side, facilitate the banking of remittances

Most remittances in 2014 were channelled through MTOs such as Western Union, Money Gram and Golden Crown. Money was withdrawn directly in cash, without passing through

Tajikistan's financial system. The OECD recommended three specific steps (OECD, 2015a):

- To create a technological platform to connect these MTOs to the financial system and link the country's payment system³ to migrant destination countries' payment systems, especially Russia's. This would also have the effect of encouraging financial inclusion and the take up of official bank accounts. At present only a very small minority of the population (11.5%) has a bank account (World Bank, 2017c).
- To consolidate the microfinance institution (MFI) sector to allow MFIs with stronger capitalisation to offer better products to SMEs, transform themselves into micro deposit institutions (MDIs) or even request banking licences.
- To improve the operational management of the Entrepreneurship Support Fund to offer better financing alternatives to SMEs in the country.

Recommendation 2: On the demand side, support business creation and create a one-stop shop for migrants

The 2014 review suggested two steps to the government (OECD, 2015a):

- To organise and promote financial literacy in the country, both for the general population and for SMEs. Citizens and returning migrants with better financial skills would be keener to open bank accounts, hold savings and accessing credit. The OECD's principles on financial education and awareness could be leveraged to structure a sound National Financial Literacy Strategy (OECD, 2005; OECD/INFE, 2012). International conferences, leaflets, television shows and other marketing tools could all prove useful in extending the reach of initiatives by public agencies and private-sector associations.
- To provide practical and project-based entrepreneurial training to equip return migrants with the skills needed to start a business, including through dedicated centres (one-stop shops). The creation and management of courses tailored to migrant needs should be promoted by public and private training institutions. Support should also continue after the training, with counselling and coaching activities offered at all stages of business creation and development.

Findings of the 2017 monitoring assessment

The Government of Tajikistan has made progress in acting on the OECD recommendations, but much remains to be done to implement them. On the supply side, the NBT is establishing a payment structure to allow remittances and other financial flows to be channelled into the official financial system. However, the impact of these measures will depend critically on the authorities' success in dealing with the banking system's troubles and re-establishing a measure of confidence in the soundness of banks and other financial institutions. On the demand side, financial literacy is starting to become a priority for the government. Many different initiatives are currently carried out with the support of international organisations (IOs) and the National Bank of Tajikistan is starting discussions about the possible drafting of a national strategy for financial education.

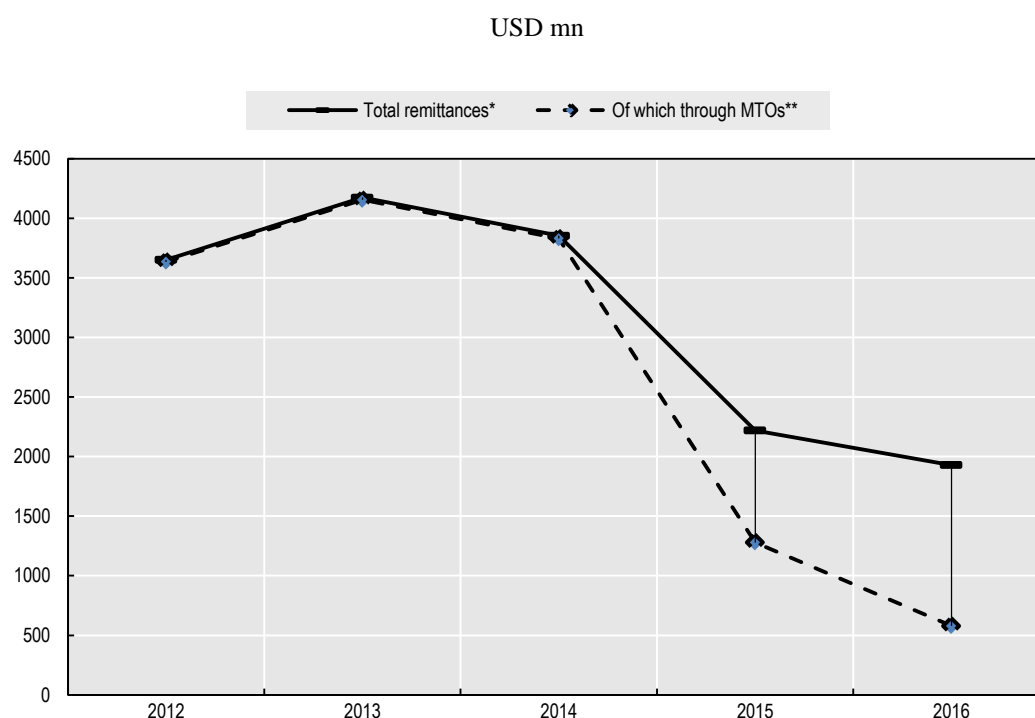
Monitoring of Recommendation 1 finds efforts to improve the banking of remittances but access to finance for entrepreneurs remains challenging

Recommendation 1: On the supply side, facilitate the banking of remittances

The banking of remittances has partly improved thanks to new regulation

The NBT, with the support of the World Bank's Payment System Modernization project, set up a national payment system policy framework in October 2014, "that prioritises legal, regulatory, institutional and infrastructural reforms required for the promotion of electronic payments in the country" (FIRST, 2015). The National Processing Centre is now handling 80% of debit card transactions in Tajikistan, reducing the country's dependence on other countries' payment systems. The inefficiency of having all card payments cleared outside the country (especially in Kazakhstan and Russia) was pushing local banks to invest in their own systems and thus creating additional fragmentation. Moreover, reducing additional costs and promoting the safety of payments increases trust in the financial sector, which is particularly relevant to supporting deposit mobilisation, especially in the current crisis.

In 2016 the NBT also started working with the Russian authorities to connect the country's payment system to the Russian one, to support the transfer of remittances through the official financial system. The resulting reduced costs and greater reliability encouraged many migrants to modify their behaviour. Data from the Central Bank of Russia show that in 2016, the total amount of remittances from Russia to Tajikistan equalled USD 1.9 billion and that no more than 30% of this (USD 579 million) was transferred through MTOs. This is a considerable shift, as MTOs transferred close to 100% of remittances in the preceding years (Figure 2).

Figure 2. Remittances from Russia to Tajikistan

* It includes cross-border wire transfers of income from physical persons resident and physical persons non-resident to physical persons resident and physical persons non-resident carried out with and without accounts in credit institutions. It includes also remittances via money transfer systems;

** It includes payment made through ANELIK, BLIZKO, CONTACT, InterExpress Western Union, Zolotaya Korona, Sberbank (Hummingbird), International Money Transfers LEADER, UNISTREAM, and the Russian post

Source: (Central Bank of the Russian Federation, 2017).

The NBT has also taken additional supply-side measures to increase the penetration of financial products in rural areas, where most migrants and their families comes from. A new NBT regulation⁴ led to the opening of an estimated 1 420 Banking Service Units (BSUs), which are smaller than bank branches but provide a range of basic banking services, all around the country. MTOs now often operate through the BSUs around the country, with their staff working in the same buildings. Moreover, the regulation requires that all remittances in RUB must be converted into TJS for withdrawal by citizens at an official rate and that half of the foreign currency must be resold immediately to the NBT.⁵

Several banks have started offering deposit-related savings products tailored to migrants' needs. A bank account can be opened before the migrant departs and the migrant's family has access to it. There have only been limited information campaigns promoting these products, fact that contributes to their limited use, and their precise impact has not yet been evaluated. Recent turbulence in the banking sector has almost certainly slowed their uptake.

The National Bank of Tajikistan has triggered a consolidation in the microfinance sector

To encourage consolidation and strengthen the financial stability of MFIs, the NBT introduced higher capital ratios in 2016, raising them from TJS 1 million to TJS 4 million for MFIs (from USD 125 000 to USD 500 000) and from TJS 4 million to TJS 6 million

(USD 500 000 to USD 750 000) for micro deposit organisations (MDOs). This measure has put some of the smallest and least active MFIs out of business, reducing their number by 15% to 91, of which 38 were MDOs. The sector, initially supported by IOs (Box 2), needed consolidation. The number of microfinance borrowers fell from 561 000 in 2014 to 480 000 in 2015 and 366 000 in 2016, showing that the lack of trust in the banking sector might have spread to the microfinance sector.

However, according to the AMFOT (Microfinance Association of Tajikistan), the technical difficulties involved in integrating the operations and records of small players into bigger systems, and the lack of reliable accounts of past operations, have hindered consolidation efforts. Since 2015, only a few MDOs have obtained banking licences from the NBT, partly due to the current difficult banking market conditions. The only example in 2016 was the MDO Standard Malia, which became the CJSC Bonki Beynalmilal Toimiston (the International Bank of Tajikistan).

Box 2. International donors' support for access to finance

The Government of Tajikistan has also worked extensively with international organisations to implement programmes aimed at enhancing access to finance for SMEs. In particular, a project by the Swiss State Secretariat for Economic Affairs (SECO) focused on improving the provision of financial services to micro-enterprises through an improvement of the microfinance sector, including through new regulations and certification process. The Asian Development Bank (ADB) and Kreditanstalt für Wiederaufbau (KfW) established a Microfinance Fund which is a revolving fund refinancing financial institutions with an independent board. Moreover, in 2014, the ADB invested USD 14.4 million to provide equity to AccessBank Tajikistan in order to enhance the access to finance of unserved farmers and SMEs.

Source: (ADB, 2014)

The Entrepreneurship Support Fund was established to improve access to finance for SMEs but its governance hinders its effective operation

The State Committee for Investment and State Property Management (SCISPM) established the Entrepreneurship Support Fund (ESF) in 2015,⁶ which provides subsidised loans at low interest rates (around 7% against the average market rate of 23%) to SMEs engaged in strategic sectors. The management of the fund has been moved under the Cabinet of Ministers. To date, the fund has supported 132 projects totalling TJS 120.3 million (USD 15.2 million).

International experience shows that transparent, well-managed public credit institutions can support the development of SMEs (OECD, 2016a). However, Tajikistan's business associations are not involved in the management of the fund and their levels of trust in it are low, according to interviews carried out by the OECD, both in bilateral meetings and during the open discussion in the Public Private Working Group organised in Dushanbe. They report a lack of consistency and transparency in decision making on loans, and an unclear process for the selection of projects. They also find it difficult to reach the fund, which still lacks a website and a widely available phone number. Moreover, while no official figures are available, the percentage of loan repayments is reported to be very low (less than 50%), which would imply an inadequate risk management system and possible mismanagement of funds.

The opaque decision-making process of the ESF limits its role as a key player in the development of access to finance for SMEs in Tajikistan. The OECD's experience with similar public financial vehicles in other countries in the region suggests that reforming the fund could bring important results for SMEs (OECD, 2016a). Involving the private sector more in the management of the fund, making its selection process more transparent and strengthening its risk-management policies could have a strong impact on its efficiency and ultimately on the access to finance of SMEs. The PARE 1+1 programme in Moldova shows how the state might co-finance projects in strategic sectors or areas, matching private investments with public funds (OECD, 2015a).

Monitoring of Recommendation 2 highlights major efforts to enhance financial literacy and business skills

Recommendation 2: On the demand side support business creation and create a one-stop shop for migrants

The government and the NBT have started to develop some initiatives to promote financial literacy with the support of international organisations

Ministries and government agencies, supported by IOs, have been active in promoting financial literacy through some initiatives. At the beginning of 2017, the NBT elaborated a National Consumer Protection and Financial Literacy strategy with the support of the World Bank, and it is now working on the Action Plan to implement it. This is a particularly welcome initiative, as multiple ministries, government agencies and IOs are currently working on separate projects with similar objectives.

The NBT and the Ministry of Education have been active since 2014, with the support of international organisations. For example, the International Organization for Migration (IOM) is promoting increased productivity of remittances through education and investment. The project offered financial education to 1 500 migrants' families, with 65 to 70 households receiving basic training in business development. Resource Centres in 15 communities also received training to provide better information about labour migration and 15 migrant household associations were set up under each Resource Centre to serve as a link between labour migrants and their communities of origin in order to facilitate the flow of remittances. The private sector has also been active, with financial education training offered by AMFOT, by the Banking Association and by business associations (Box 3).

Box 3. Main projects to promote financial literacy in Tajikistan

Projects to promote financial literacy, by improving the financial literacy of the population in general, are expected to also improve the financial literacy of migrants and their capacity to set up a business. During the monitoring programme, the main such projects were:

- The NBT drafted a National Consumer Protection and Financial Literacy Strategy at the beginning of 2017 with the support of the World Bank. The World Bank's support also extends to the production of information material and videos posted on the NBT website, and helping credit institutions to offer financial literacy courses around the country.
- The Ministry of Education and Science and the NBT, with the support of the German Society for International Co-operation (GIZ), organised events aimed at high school teachers in August 2016. The programme developed draft guidelines on financial education on the subject of the "Basis of Economics" in secondary schools, and provided training to 24 trainers, who should in turn prepare 3 000 secondary school teachers to teach this course.
- The NBT, together with credit organisations, the association of banks and the microfinance association (AMFOT) organised the International Week of Financial Literacy in March 2016, with the aim of increasing public confidence in the banking system and expanding awareness of possible financial solutions in the country. In 2015, the previous edition reportedly included 689 students in secondary and high schools of Dushanbe and Khujand, as well as in 8 districts of Khatlon province. The event held in Dushanbe is part of a global initiative called the Global Money Week organised by Child and Youth Finance International. The event engaged an estimated 5.6 million schoolchildren in 2015.

In addition, the State Committee on Investments and State Property Management (SCISPM) created Tajinvest. One of its main functions is to develop business skills among the population, including returning migrants. In 2016 the SCISPM held 10 business forums and roundtables, inviting young entrepreneurs. The SCISPM also worked with the World Bank on a project to offer capacity building among young entrepreneurs, which consisted of 150 days of training for 3 838 young people in 66 cities and villages in Khatlon, Sughd Regions, RRS and Dushanbe.

In 2017, the government joined a project run by the OECD and its International Network on Financial Education (OECD/INFE), with financial support from the Ministry of Finance of the Russian Federation. Building on the OECD/INFE's internationally recognised expertise, the project seeks to support the development, implementation and evaluation of evidence-based national strategies for financial education in six Commonwealth of Independent States (CIS) countries, to measure the level of adult financial literacy in each country, and to address the financial education needs of specific target audiences, including migrants and their families.

The Ministry of Labour, Migration and Employment is updating and has started implementing the country's migration strategy but training centres could offer better entrepreneurship support

The Ministry of Migration, Labour and Employment of the Population (MoLME) is now updating the National Strategy on Labour Migration of Tajik Citizens Abroad for 2016-2020.⁷ Drafts of the strategy are not yet available, so it is not possible to comment on its priorities or proposed measures.

To support migrant entrepreneurship, the ministry is offering free and paid-for training to new and returning migrants and their families. The courses offer training in 96 different professions, through a network of 73 training centres all around the country, including Dushanbe, Khorog, Khujand and Kurgantyube. The vocational training offered is usually short term, lasting 1, 3 or 6 months. During the monitoring period a total of 373 098 job-seekers and returning migrants were trained in institutions of primary vocational education (101 117 in 2014, 101 209 in 2015, 105 815 in 2016 and 64 957 in the first half of 2017). The data shared by the MoLME show that in the first 6 months of 2017, 12 259 of them were trained in the vocational training centres, and it is interesting to note that 75% of them were women. The certificates attainable at the end of the training are recognised in all CIS countries, but business associations argue⁸ that the quality of the courses could still be improved. Moldova offers a good example of how it could be done effectively.

Moreover, entrepreneurship training programmes could be targeted more specifically for women, as they are the predominant group of remittance recipients. To achieve this goal, a more extensive local network would be useful – maybe with the support of local community leaders, who could also be incentivised in connecting and share experience among themselves. More use could be made of the experience of non-governmental organisations (NGOs) working at community level, with the goal of increasing the accessibility of the training.

Box 4. Promoting entrepreneurial training: The case of Moldova

The government of Tajikistan could consider the development and promotion of entrepreneurial training programmes and disciplines both in school and through training centres. In the Republic of Moldova, the Fundamentals of Entrepreneurship course is taught in the vocational, specialised and higher secondary education system in order to give students the skills, values and attitudes needed to meet to the challenges and demands of the contemporary labour market and financial system.

Entrepreneurship education is one of the policy directions included in the Consolidated Strategy for the Development of Education for 2011-15 as set out in the Bruges Communiqué on Promoting Entrepreneurship. As a course of study, Fundamentals of Entrepreneurship is a component of the national curriculum as an optional course recommended by the Ministry of Education. The implementation of the given course in pre-university education is carried out through the Junior Achievement Moldova Association (JA Moldova) in co-ordination with the Ministry of Education.

According to the Framework Plan for Primary, Secondary and High School Education for the academic year 2016/17, approved by the Order of the Minister of Education no. 242 of March 25, 2016, Economic and Entrepreneurial Education was included in the list of optional courses recommended for grades I-IV, V-IX and X-XII in high school and contains the following courses: Business Ethics, Consumer Protection, Entrepreneurship, Economic ABC, My Finances, School Company, School Ministries, Entrepreneurship, Economic Education, Applied Economics and Key to Success.

Throughout 2016, Basics of Entrepreneurship was taught in all technical vocational education institutions in the country: 120 hours (96 hours of theory / practice and 24 hours of consultations) in secondary vocational technical education institutions and 90 hours in post-secondary technical vocational institutions.

Source: (Ministry of Education of the Republic of Moldova, 2017; Government of the Republic of Moldova, 2010)

The way forward

In 2017, financing options for SMEs remain tight and the financial crisis in Tajikistan has not helped improve the situation. Rebuilding trust in the financial system must be a core priority for policy makers. The government should focus on rebuilding the population's trust in the banking system as an essential precondition to enhanced financial inclusion. Moreover, a new regulation proposed by the NBT could, if implemented, improve the payment system in the country by permitting new players to enter the market, particularly mobile operators. This proposal still needs to be approved by the parliament. In any case it would be useful to adopt a systematic mechanism for the transfer and delivery of remittances and expand the range of financial services available (such as “account-to-account” systems, PC banking, mobile banking or ATM banking) increasing competitiveness and reducing costs.

The microfinance sector could be strengthened by pushing the application of the Microfinance Financial Reporting Standards (MFRS) elaborated by the Small Enterprise Education and Promotion Network (SEEP), particularly among small MFIs, to make them more transparent and thus open the door to their possible consolidation and entrance into the formal economy. This framework includes a core set of ratios to measure and analyse

financial performance and risk management, and is used by NGOs, non-bank financial institutions or companies, credit unions and co-operatives (SEEP Network, 2010). Banks and MFIs should increasingly focus on the goal of creating value for customers by launching new transparent credit products and schemes for migrants, with special packages including preferential rates and benefits related to productive investments in entrepreneurial activities.

The government and the NBT should push forward their efforts on financial literacy, especially by implementing the National Strategy for Consumer Protection and Financial Literacy, specifically addressing migrants and their needs (the inclusion of remittances in the formal financial system and their productive use, including by creating new businesses), and by monitoring and evaluating the impact of current and future financial education and business skills initiatives. Participation in the technical assistance project co-ordinated by the OECD/INFE would be a way of addressing some of these issues.

The MoLME could further develop its training centres to offer returning migrants business development services. These could include finding possible investors, matching with mentors, sharing knowledge with other businesses and returning migrants, creating links with business associations such as the Chamber of Commerce and expanding the list of public services delivered in the current training centres such as business registration, taxation and licensing, so that the centres would act as well-rounded one-stop shops for returning migrants willing to embark on entrepreneurship initiatives. A good example is the Repat initiative in Armenia (Box 5).

Box 5. RepatArmenia initiative

The Repat Armenia Foundation is an NGO, established in August 2012 and based in Yerevan. The organisation aims to inform, initiate and actively support the return of high-impact (professional, entrepreneurial) individuals and families to Armenia, leveraging a worldwide network of supporters. The three key principles behind its actions are:

- to promote the concept of repatriation
- to provide individual repatriation support
- to influence government policies for repatriation.

The foundation manages a website, RepatArmenia.org, which provides information about business regulation, education, healthcare and real estate in Armenia. For those who are considering a move to Armenia, the RepatArmenia Foundation also offers one-on-one consultations, networking opportunities during informal monthly events and connection with the Armenian Repatriates Network. It also assists potential repatriates by introducing them to professional service providers that can help them with employment, setting up a business or other aspects of integration.

Source: (Repat Armenia, 2016)

Notes

³ The payment system is the interconnected system of technologies, procedures, rules and money transfer systems, providing the circulation of money in the country. Its main function is the realisation of money transfers between credit organisations through correspondent accounts, opened within the National Bank.

⁴ Instruction No. 221 in October 2015

⁵ This measure is part of the monetary policy aim of building up foreign reserves to stabilise the exchange rate. To sterilise the effect on inflation the NBT has increased its sales of central bank securities and treasury bills from 3.7% of GDP in 2015 to 7.9% of GDP in 2016 (ADB, 2017).

⁶ The fund was established with the Order of the Government of the Republic of Tajikistan N.34 of February 5 2013, but operations started with the approval of the regulation for the fund, Order N.62 of February 14, 2015.

⁷ The previous one was approved in 2000.

⁸ Statement based on OECD interviews and discussion during the Public-Private Working Groups in Dushanbe in May and July 2017.

CHAPTER 2. Increasing agribusiness exports

Trade in agriculture is crucial for the development of Tajikistan's economy, considering its importance for the country's gross domestic product (GDP) and exports. Fruit and vegetable products made up 6.8% of total exports in 2015, to a value of USD 57.2 million, of which 33% came from exports of dried fruits (apricots and nuts), 28% from onions and 7.9% from rice. The value of these exports fell from USD 60.7 million in 2014 and USD 66.5 million in 2013. The chief market for these products is Kazakhstan, which imported USD 38.4 million worth of fruit and vegetable products, or 67% of the total

Growth in exports of these products could support the development of small and medium-sized enterprises (SMEs), which are the main players in the markets. In 2015 there were 39 401 registered companies in Tajikistan in total, of which 1.3% had more than 200 employees (including publicly owned companies). Of the 8 981 formal companies in agriculture, 85% have fewer than 30 employees and 99% fewer than 200 (OECD, 2017b; TajStat, 2017).⁹

Export promotion efforts face some important structural challenges. First, Tajikistan's location and topography mean that developing the country's connective infrastructure will be a particular priority if it wishes to expand exports and diversify its export markets. Some 93% of the country is mountainous, the nearest seaport is 3 100 km from the border and the infrastructure on the overland trade routes with neighbouring countries (Afghanistan, China, Kyrgyzstan and Uzbekistan) are inadequate, despite recent developments with China.

Second, institutional export support structures require further improvement. Tajikistan has improved its trade regime by becoming a member of the World Trade Organization (WTO) in 2013 and is currently considering the possibility of joining the Eurasian Economic Union. Yet Tajikistan ranks 144th on the "trading across borders" indicator in the World Bank's *Doing Business 2016* report (World Bank, 2016). The "distance penalty" that Tajik exporters face in view of their location is thus compounded by difficult customs procedures and customs regulations, as well as the frequent lack of a recognised certification of compliance for exported products (OECD, 2015b).

Overview of 2014 recommendations

The 2014 OECD review focused on boosting agricultural trade, by suggesting policy choices that could enhance both the institutional export support structure (e.g. customs, certification and export promotion) and the agribusiness sector (e.g. strategy, vertical and horizontal integration and the availability of statistics) (OECD, 2015b).

Recommendation 1: Overhaul the export strategy and improve export support institutions

In 2014, the government was advised by the OECD to revise its border procedures to lower the administrative costs for enterprises willing to embark in international trade, which should be particularly beneficial for SMEs. In particular, the review recommended:

- Simplifying border procedures by introducing and adopting a risk-management approach to customs clearance, carrying forward work on establishing a “single window”¹⁰ for export-import and transit operations, and introducing a “trusted trader system” to simplify procedures for importing and exporting companies with a proven track record of impeccable behaviour.
- Increasing the effectiveness of overall export promotion activities by defining responsibilities for national branding, leveraging Tajik diaspora networks in export markets and guiding SMEs through the necessary administrative procedures for trade.
- Investing in modern quality-control and certification policies, including incentives to businesses to meet international standards (OECD, 2015b).

Recommendation 2: Improve taxation and financial system for agribusiness exporters

In various surveys, businesses in Tajikistan highlighted problems with the complexity of taxation and the unpredictability of its enforcement by tax inspectors (World Bank, 2017d; EBRD, 2017; IFC, 2011). The OECD recommended the introduction of a simpler model with a uniform tax for SMEs in agribusiness, aimed at:

- reducing the number of hours spent filling tax requirements
- reducing the number of agencies to be visited to comply
- guaranteeing transparency throughout the process (OECD, 2015b).

The 2014 review also recommended further support for financing agribusiness exports. This could be done by setting up an export finance institution that could provide export guarantees and subsidised loans for companies seeking to export. Setting up public agencies offering technical, financial and administrative support to exporting businesses has proven valuable in other countries in the region, including Kazakhstan (OECD, 2015b).

Recommendation 3: Strengthen the agribusiness value chain

To strengthen the supply chain, the OECD review suggested that Tajikistan should:

- Increase horizontal integration of producers by improving the legal framework and promoting service co-operatives.
- Enhance vertical co-operation through the establishment of agricultural clusters, bringing together producers, processors and exporters. A pilot cluster with the participation of banks, government agencies and academic institutions should be considered, for example in Sughd province, which is the region closest to the Silk Road and one of the most productive regions.
- The government should also invest more in the development of agribusiness skills, by focusing on offering better extension services and training opportunities (OECD, 2015b).

Recommendation 4: Institutions should better implement and monitor agribusiness policies

The OECD suggested that the government should enhance its ability to devise, implement and monitor agribusiness policies. This means:

- Improving co-ordination between the Ministry of Agriculture and the agencies operating in the sector (the National Statistical Institute and the Chamber of Commerce), and involving local businesses and agricultural business associations in the implementation of the agribusiness strategy.
- Defining clear goals and measurable outputs from the start of the strategic planning phase. The key performance indicators (KPIs) should be SMART: specific, measurable, achievable, realistic and time-bound, and they should be objectively monitored throughout the implementation phase (OECD, 2015b).

Findings of the 2017 monitoring assessment

Tajikistan has partially implemented the recommendations, but a number of steps remain if they are to be implemented fully and effectively.

Monitoring of Recommendation 1 indicates that effective implementation needs to follow the updating of strategic documents

Recommendation 1: Overhaul the export strategy and improve export-support institutions

New regulations and government strategies include the key building blocks of a well-functioning export support system, but effective implementation is needed

The Ministry of Economic Development and Trade (MEDT) has performed a thorough analysis of the main barriers to trade and elaborated a comprehensive strategy to overcome them. In particular, the Action Plan on Improving Investment Climate in the Agricultural Sector and Agricultural Trade Development (APIICA) and the Mid-Term Development Strategy of the Republic of Tajikistan for 2016-2020 explicitly include policy recommendations formulated by the OECD in 2014 (Box 6).

Box 6. OECD recommendations in the government's mid-term strategy

The government of Tajikistan elaborated an overarching strategy to guide policy making in the 2016-20 period. The main recommendations it included were:

- “Adopt the necessary changes in the customs code on eliminating the barriers for international trade development by SMEs”, arranging the operations in accordance with international standards, and “Improve customs regulation to support the local producers within the WTO norms”, in line with the recommendation of simplifying trade procedures including customs.
- “Improved regulatory framework for export development and selected import substitution”, in line with the recommendations for the improvement of export promotion institutions and activities.
- Develop and implement the concept of ‘reliable market player’ to simplify the procedures within the export activities”. This corresponds to the concept of a “trusted trader” in the OECD’s policy recommendation.¹¹

Sources: (OECD, 2015b); (Tajikistan G. o., 2016)

Since 2008, Article 399 of the Customs Code has provided for a risk-management approach to customs clearance (Government of Tajikistan, 2008). However, representatives of international organisations working with the customs authority report that the approach has not yet been implemented, which is confirmed by the OECD’s trade facilitation indicators (TFIs). The TFIs highlight the necessity of completing the development of risk-management procedures currently under elaboration to enhance automated formalities at the border (OECD, 2017a).

No substantial progress has been made towards the creation of a national brand during the monitoring period. A laudable exception was the regional brand for Sughd Oblast, created with the support of the United Nations Development Programme (UNDP) in the past years and now widely used to guarantee the product quality. The UNDP is now working with Kathlon region and its regional brand should start being used in 2017.

At the moment the diaspora networks are underutilised, with a few initiatives from the Ministry of Migration and Labour, more aimed at attracting foreign direct investment (FDI) than creating a network to support Tajik exporters in foreign markets.

A single window for customs has been partly implemented and should soon start operations

A customs single window is at an advanced stage of implementation thanks to the support of the European Union (EU) and the Asian Development Bank (ADB; Box 7). The single window for export, import and transit procedures in Tajikistan was approved and established by two successive government resolutions in 2008 and 2010.¹²

Box 7. The single window for customs in Tajikistan

The implementation phase started with an EU-funded project in 2012-14 and led to:

- The definition of the detailed specification and requirements of the information system for the single window and the development of the portal to manage applications for the issuance of permits in electronic form by nine “single window centres”.
- The completion of tendering for the hardware needed and its delivery to the 52 active offices and 12 servers, and the establishment of a virtual private communications network for the transmission of electronic data.
- A series of training courses in the use of the platform were conducted in all 52 offices.

However, the single window has not been fully implemented yet due to technical issues with the information technology system that should manage its activity. It remains a priority for the government and is included in the Mid-Term Strategy 2016-2020. Implementation continues with the support of the ADB.

No institutional public structure to support exports has been created, with most of the activities to support businesses carried out by the Chamber of Commerce.

Progress has been made in accreditation but further efforts are needed on product certification

The MEDT has taken several steps to improve product certification in collaboration with Tajikstandart, the government agency in charge of defining and implementing standards, to improve the quality of laboratories and enhance the certification system. Food and agricultural products tested by the agency are accredited by the national system of accreditation of Kazakhstan. Three laboratories and 23 methods of chemical analysis have been accredited since August 2012, with an accreditation period of 5 years up to August 2017 (USAID and GAIN, 2015). In July 2015 the laboratories were audited again by the Kazakhstan National Centre for Accreditation and passed the test, thus easing cross-border trade in these products. Specialists from the agency train companies to implement and maintain procedures based on the Hazard Analysis and Critical Control Point (HACCP) procedures.

Since 2014 Tajikstandart and the MEDT have also been developing new methods in accordance with international standards. For example on new accreditation of potential testing laboratories and on planning for the supply of new equipment. The quality of the laboratories should be improved to offer a wider variety of services to assess product quality and to make it easier to export products.

The government has also established a National Centre for Accreditation, to resolve the conflict of interest arising from Tajikstandart managing both certification and accreditation. Since 2007 the International Trade Centre (ITC) has recommended separating the two functions, as keeping accreditation and conformity assessment services in the same organisation is considered unacceptable at international level, as the risk of

collusion is too high.¹³ This has led to a lack of recognition of Tajik certification by foreign bodies, and in turn increased difficulties for Tajik exporters as exports need to be retested and recertified (ITC, 2007). The Swiss State Secretariat for Economic Affairs (SECO) and the ITC have continued their support and in 2015, by Order No. 626 of the Government of Tajikistan, the independent National Accreditation Centre was established. It should become a member of the mutual recognition arrangements of the International Laboratory Accreditation Cooperation (ILAC) and the International Accreditation Forum (IAF) to gain international recognition of its test reports and certificates. However business associations note¹⁴ that it is not yet fully functioning.

Monitoring of Recommendation 2 shows that tax administration remains an issue, despite efforts to improve tax legislation

Recommendation 2: Improve taxation and financial system for agribusiness exporters

Legislation to simplify tax collection is in place but tax administration is still considered a major barrier by local and foreign businesses

The government has simplified tax compliance for SMEs in agribusiness in recent years but fiscal pressure is still high. A new tax code came into force in January 2013, introducing a special system of payment for agricultural producers which requires taxpayers to pay only one type of tax (uniform tax). The same reform also simplified tax reports. In August 2016 the government presented a draft law¹⁵ that aims to further simplify the tax system and attract foreign investment.

Tajikistan has created a system for the electronic submission of tax returns to simplify tax administration. It introduced this e-filing in 2012 with the support of the World Bank (World Bank, 2017b), but by 2014 only 6 000 firms out of a potential 80 500 were using the service. During the monitoring period the number increased steadily, with more than 20 500 taxpayers submitting their declaration electronically in 2016.

Tajikistan has also expanded its electronic system for filing and paying taxes, as recorded in the Paying Taxes category of the World Bank's *Doing Business* rankings. These efforts have led to Tajikistan significantly improving its ranking during the monitoring period, climbing from 178th in 2014 to 140th in 2017. The number of tax payments per year has fallen from 69 to 12, even if the total hours needed to pay taxes remained broadly unchanged. For those without an Internet connection, the offices of the tax inspectorates provide accessible terminals for the provision of electronic tax returns. However, business associations report that digitisation is only partial, as the forms have to be downloaded, signed and then sent by post to the tax administration.

Despite these legal and technical improvements, the government still needs to take action in this area, as many private enterprises and international organisations still consider the tax system to be opaque and unpredictable. The "revenue based" tax system gives tax agents incentives to reach revenue targets that may be misaligned with the business reality of companies. At the moment the government, with the support of the World Bank, is devising a reform to the Tax Department to make it more efficient and effective at collecting revenue, enhance the level of voluntary compliance, and improve the quality of taxpayer services. This reform will be concluded by the end of 2019 (World Bank, 2017e).

The Ministry of Agriculture, as well as agricultural firms interviewed by the OECD, also report important issues linked to the implementation of the uniform tax. It appears that farmers have to pay additional taxes on top of the uniform tax in several economic sectors, which undermines the purpose of a single unified tax. For instance, first transformation steps of agricultural raw materials such as cotton are subject to additional taxation. Agricultural firms also mention that the tax administration has stopped refunding value-added tax (VAT) on domestic products. VAT refunds for SMEs are a common tax practice in OECD member and non-member countries to ensure that VAT remains neutral for business taxpayers. OECD economies in particular have implemented many different VAT simplification measures, including exemption threshold and simplified schemes for calculating VAT liability (OECD, 2015c). Tajikistan's tax code is also frequently reported to be complex and burdensome, especially for SMEs.

The government strategy includes an export guarantee fund, but it has yet to be implemented

Tajikistan does not yet have a national system to support exports although the government is discussing the possibility of setting up an export guarantee fund that could benefit firms in the agriculture sector. The MEDT and the Ministry of Finance mentioned that the creation of a bank for export promotion is included in the Mid-Term Strategy for 2016-20.¹⁶ This activity has not been funded by the state budget, and no precise implementation timeline has been defined. An inter-ministerial working group is considering the options, but no decision has been made.

OECD member countries have well-integrated export promotion systems, which also offer subsidised finance, to support the international competitiveness of their businesses. These systems share several key features: an active network of public and private players in home and target countries, the close involvement of private players in the system, the creation of a specific agency to support exports, tailor-made services for businesses and SMEs, and funding and risk insurance mechanisms dedicated to exports (Lederman, Olarreaga, & Payton, 2006; IGC, 2011). France provides a good example of a structured export system that was reorganised to improve its co-ordination and efficiency (Box 8).

Box 8. Good practice in trade promotion: The example of Business France

Business France is a national agency focused on the international development of the French economy. It demonstrates how a country can successfully engage in trade promotion. Business France supports French companies in their international development by operating in multiple trade-related areas as well as co-ordinating with a plethora of institutional partners. The agency is also in charge of attracting foreign direct investment (FDI) to France and promoting France's attractiveness to foreign businesses. Its engagement has thus helped to display the open and diversified nature of the French economy. This is an outcome Tajikistan is still aspiring to.

In particular, Business France has managed to set up a functioning ecosystem based on agreements with shareholders and stakeholders spread all across France. Co-operation works in multiple ways: agreements are established to ease the international development and growth of the French economy. Its stakeholders are:

- The French state: a Performance and Objectives Contract determines the export strategy and the exact resources allocated over a three-year period.
- The French regions: Business France has to deliver optimal trade promotion services to companies spread across France's territory.
- BPIFrance, France's development bank: allowing the provision of joint services to SMEs, particularly with regards to export financing and export promotion services. This facilitates business opportunities for SMEs and mid-size companies abroad.
- The Chamber of Commerce and Industry (CCI): the CCI identifies and trains SMEs, while Business France delivers the trade promotion services. A similar division of labour has been set up with the trade consulting companies which offer downstream business development services.
- MEDEF, the employer's union of France: co-ordinates with the representatives of French businesses.

For example, Business France supplies four types of services to the agribusiness sector: 1) business intelligence (e.g. tailored market studies); 2) trade fairs (e.g. design and management of French pavilions); 3) Business-to-business (e.g. product presentations and events); and 4) tailor-made individual services (e.g. communication services or product market tests).

Business France thus offers services on both the macro and micro level: it co-ordinates on the macro level to support the strategic development of France's international trade, and at the same time it supports businesses on the micro level, creating business and investment opportunities for SMEs and mid-size companies abroad.

Sources: (Business France, Business France website, 2017a; Business France, "Business France presentation", OECD Working Group (April 2017), 2017b)

Monitoring of Recommendation 3 shows that efforts have been mostly focused on skills enhancement

Recommendation 3: Strengthen the agribusiness value chain

The Ministry of Agriculture, with the help of international organisations (IOs), has supported the strengthening of agribusiness value chains with the Programme for Reforming the Agriculture Sector of the Republic of Tajikistan for 2012-2020.

The Agrarian University of Tajikistan and the development community are focusing on programmes to develop skills in the agribusiness sector

The Agrarian University of Tajikistan, under the Ministry of Education, offers courses and material to contribute to the development of a skilled workforce. IOs have also carried out many important programmes since 2014, focusing on making the agribusiness sector competitive and boosting skills, with the objectives of improving food security, private-sector development and enhanced trade (Box 9).

Box 9. Skill enhancement in the agribusiness sector

The Enhanced Competitiveness of Tajikistan Agribusiness Programme funded by the EU is aimed at the development of Tajik agrifood value chains, the competitiveness of agri-food enterprises and the quality and marketing of their products (European Commission, 2017b). Other projects are playing an important role in sustaining the development of the agribusiness sector, skills and trade, including the German Society for International Cooperation's (GIZ) Support to Regional Trade in Central Asia programme, the United Kingdom's Department for International Development's (DFID) Growth in Rural Economy and Agriculture in Tajikistan programme, the UNDP's Formulation of Trade Development Programmes at National and Oblasts Levels, and SECO's Trade Co-operation Programme.

Horizontal integration has been given some support through co-operatives and extension services

The organisation and development of extension advisory support for farmers is one of the stated priorities of the government's Programme for Reforming the Agriculture Sector of the Republic of Tajikistan for 2012-2020. The Ministry of Agriculture has departments in all districts and regions which work in close collaboration with farmers and include agricultural specialists to advise small-scale farmers. In 2013 the Ministry of Agriculture started participating in a Japanese International Cooperation Agency (JICA) project to train five officials in Japan every year in the most up-to-date techniques which they can then disseminate in Tajikistan.

The non-commercial co-operative Sarob became almost completely financially sustainable in 2015 and has 74 advisory service offices in Khatlon Region. The co-operative plays a major role in the horizontal integration of the sector and was established in 2012 through the technical assistance groups (TAGs) project funded by the EU, DFID

and GIZ. Other TAGs are active in the country, working on a “fee for service” basis and providing an effective service to farmers to achieve measurable yield increases, based on regular crop monitoring, crop management advice and effective use of inputs such as fertilisers, water and pesticides (WOCAT, 2017).

Many non-governmental organisations (NGOs) also offer advisory services in Tajikistan, supported by international organisations. For instance, in Soghd Region alone there are 117 advisory service offices; 50 of which were organised with the support of NGOs and the remaining 67 by rural organisations, which collaborate with 65 079 individual farmers (*dekhan farms*).¹⁷

Monitoring of Recommendation 4 suggests that proper statistics and key performance indicators are still lacking

Recommendation 4: Institutions should better implement and monitor agribusiness policies

The mid-term government strategy includes agricultural policy actions recommended by the OECD

The government has included the OECD’s recommendation to increase the focus on reliable data for policy making in the agri-business sector in both the Action Plan on Improving Investment Climate in the Agricultural Sector and Agricultural Trade Development (APIICA) and the Mid-term Development Strategy of the Republic of Tajikistan for 2016-2020. This reflects the government’s recognition of the need to increase the effectiveness of its policies.

Business surveys should be institutionalised and focus more on understanding the crucial issues for agribusinesses

The Ministry of Agriculture gathers micro-level data in all regions of Tajikistan through its regional offices, but with a focus on production. These data are subsequently transmitted to the National Statistical Institute for re-elaboration and then published on a quarterly and annual basis. The Chamber of Commerce carries out business surveys¹⁸ with its members and shares the results with the government, but this exercise is not focused enough on agribusiness issues to fully inform policy decisions.

The experience of OECD countries shows that surveys focusing on relations with supply chains, and barriers to doing business such as skills, access to finance, infrastructure, regulations, environment, and awareness of government’s programmes can contribute to effective policy making. The ministry should develop the internal capacity to monitor and analyse the results in order to draw policy conclusions. For example, in Canada, the Ministry of Agriculture surveys farmers through its local agencies and with the support of private contractors. These surveys enable the ministry to gain insights on the use of its services, measure satisfaction, gather feedback and suggestions, and better understand the use of technology by farmers. The ministry can then assess and adjust its advisory, insurance, training, funding and many other programmes accordingly (Government of Canada, 2012).

The Ministry of Agriculture is building internal capacity, but still needs to implement a thorough monitoring system

From 2013 to 2016, over 360 specialists from the Ministry of Agriculture were enrolled in special training to build its institutional capacity (Box 10).

Box 10. Training the staff of the Ministry of Agriculture of Tajikistan

With the support of several development partners and IOs such as JICA, the Turkish International Cooperation Agency, the Thailand International Cooperation Agency and the Food and Agriculture Organization of the United Nations (FAO), specialists of the Ministry of Agriculture took part in study trips to receive short training courses in several topics, including strengthening the indicators of emergency situations for animal diseases, quality control of individual products in agro-industry, establishing information and consulting centres, novel methods of agricultural development, and strengthening farming organisations in Central Asian countries.

Source: (Tajikistan M. o., Action plan on Improving the Investment Climate in the Agricultural Sector, 2016)

The Ministry of Agriculture frequently creates monitoring documents and reports. However, it has yet to identify and monitor detailed KPIs focusing on outcomes, create a thorough monitoring system, and understand how monitoring can feed into policy making.

Proper policy design and implementation is crucial and the government should rely on market signals to guide the allocation of resources. The OECD has learned that, to be effective, agricultural policies should follow a cycle that starts with the formulation of policy objectives and continues with the evaluation of the performance of current policies, the design of the new policies and finally a process to monitor and evaluate the achievements of these policies. In principle, the design of the information systems should go hand-in-hand with the design of the policies so that adequate information is generated from the beginning. Moreover, in-depth studies of this kind allow for consultation with the potential winners and losers from a reform, so that appropriate responses and corrections can be devised (Van Tongeren, 2008). These principles are also reiterated in the latest OECD publication on the specific policies undertaken by OECD member countries and developing economies during the last year (OECD, 2016b).

The way forward

One overarching necessity to enhance policy making is to improve government statistics regarding SMEs. The data currently available through the National Statistical Institute of Tajikistan are limited to general information such as total numbers and numbers of *dekhan* farms. They do not allow policy makers to craft tailored policies taking into account precise numbers, sectors of activity, share of revenues from export, financial situation, productivity and regional peculiarities. The annual Structural Business Statistics (SBS) of the European Union, managed by Eurostat, constitutes a best practice example that Tajikistan could consider following (Eurostat, 2017).

On the export side, Tajikistan needs to implement its new strategies and regulations on exports and improve co-ordination between institutions supporting exporters. Export promotion activities are reported to be carried out by the Ministry of Economy. The mandate to conduct these activities could be extended to Tajinvest, which is already in charge of investment promotion, and resources need to be assigned to perform these activities. The experience of OECD member countries and of other Central Asian countries, including Kyrgyzstan (see Box 11, shows that having a single agency in charge of export and investment promotion can help find synergies (office sharing, marketing, support functions) and implement joint actions, although the two missions are different.

Tajikistan should also introduce a more structured approach to “nation branding” to support export promotion and the attractiveness of Tajik products, possibly through Tajinvest. The agency recently took part in a mission to Armenia to study the work carried out in these areas by a partnership of Business France and the Development Foundation of Armenia, Armenia’s national authority for investment, export and tourism promotion. To increase its reach, the Agency should further co-operate with the Chamber of Commerce and the network that it has developed with other chambers of commerce in the regions where Tajikistan exports, especially in Russia and China.

Box 11. Export promotion in Kyrgyzstan

Kyrgyzstan created the Agency of Investment Promotion in 2014 under the Ministry of Economy, and has extended its mandate to include export promotion activities since November 2016. Both activities of the new State Agency for Investment and Export promotion (SAIEP) correspond to different missions and national strategies.

The IPA’s mission is to improve the investment climate of Kyrgyzstan and to build confidence through long-term fruitful partnerships with international investors. The agency is drafting a new investment promotion strategy that focuses on priority sectors.

The new export promotion function aims to increase export flows and select the sectors in which the country should specialise by implementing targeted actions. Kyrgyzstan had already launched its Export Promotion Strategy 2015-2017 when it added the functions of an EPA to the existing IPA. The strategy identifies priority sectors, including garment, dairy, agricultural products and tourism, as well as activities such as trade facilitation, information and promotion, access to finance, and quality of infrastructure.

The agency is currently in the process of developing its export promotion activities, and exploring synergies with the investment promotion part. The experience of OECD member countries such as Business France suggest that synergies can be found in marketing activities, joint offices and support functions, among others.

Sources: (OECD, 2017b; Business France, 2017c; Government of Kyrgyzstan, 2015; State Agency for Investment and Export Promotion of Kyrgyzstan, 2017)

Tajikistan should implement the risk-management approach to customs, combined with bringing the single window into full operation in the coming years. The government should also support the operations of the new National Centre for Accreditation, as it will bring the separation Tajikistan needs between its certification and accreditation procedures, which will in turn ease the trading of agricultural products. Moreover, the quality of the laboratories should be improved to offer a wider variety of services to assess product quality and make them exportable to foreign markets (which should themselves be carefully studied to assess the best possible positioning in terms of the price, quality and quantity of Tajik products).

The government should rebuild trust by acting to make the tax system fairer for firms in the agriculture sector. It will need to make important reforms including: reducing areas of ambiguity in the interpretation of the tax code, minimising unnecessary tax audits, and rationalising tax exemptions and systematising the eligibility criteria for them (Strokova & Ajwad, 2017).

On the agriculture side, the government could further improve the legal framework, including tax incentives, and increase technical and financial support for establishing co-operatives in order to further develop co-operation. Kazakhstan has successfully developed its network of co-operatives by educating farmers about them and providing technical assistance (OECD, 2015d). The government could invest in the establishment of commodity protocols with existing and new markets and promote an agribusiness council to spearhead/co-ordinate commodity development and provide “soft” infrastructure to facilitate market access for agricultural products.

Finally, to monitor the effective impact of its agricultural policies, the government should build the internal capacity of its agriculture ministry and build reliable surveys among farmers and agribusinesses to have reliable statistics. The government should develop detailed KPIs that focus on outcomes and a thorough monitoring system, while ensuring that monitoring and evaluation feed effectively into policy making. In this area, the government could make use of the business surveys conducted by the Chamber of Commerce to determine the factors impeding the development of export of agricultural products.

Notes

⁹ To these numbers, we should also add the informal micro-companies which are especially prevalent in agriculture, about which there is very little data. Recent estimates suggest that the number of employees in informal agricultural companies could be double those in formal companies (Strokova & Ajwad, 2017).

¹⁰ A “single window” is a system that allows traders to lodge information with a single body to fulfil all import- or export-related regulatory requirements. The “entrance”, either physical or electronic, is managed by an agency that then in turn informs all other appropriate agencies, guaranteeing savings in the time and cost of compliance for traders.

¹¹ Programmes identifying “reliable market players” or “trusted traders” are also called authorised economic operator (AEO) programmes. They are voluntary trade facilitation initiatives that recognise businesses with a secure supply chain and compliant trade practices, rewarding accredited businesses with a range of trade facilitation benefits (e.g. priority trade services, differentiated examinations, mutual recognition arrangements). To become a “trusted trader”, an operator must meet a wide range of criteria, including a positive track record of compliance with trade regulations and co-operation with customs authorities (usually at least two years), financial solvency, and proven practical standards of competence or professional qualifications (European Commission, 2017; Government of Australia, 2017).

¹² First introduced with Resolution of the Government of Tajikistan No. 659 (2008) and then established with Resolution No. 630 (2010) of the Government of Tajikistan.

¹³ In an analysis of 2006, none of the 10 laboratories visited, which were accredited, would have passed an assessment in accordance with the ISO/IEC 17025 standards (ITC, 2007).

¹⁴ Statement based on OECD interviews and discussion during the Public-Private Working Groups in Dushanbe in May and July 2017.

¹⁵ Draft law named “About modification and additions in Tax Code of the Republic of Tajikistan”.

¹⁶ The Key Direction 3.6.1.2 called Establish the Institutions of Export Promotion includes the specific policy action “Establish the bank for export promotion and import substitution”.

¹⁷ *Dekhan* is the word used for individual or family farms in Central Asia.

¹⁸ Five other business associations carried out business surveys with grant support from the UNDP in 2014-16.

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