

PPIAF Assistance in Tajikistan

Tajikistan has enjoyed relative political stability and strong economic growth since its civil war ended in 1997, but these impressive gains are at risk as the country tackles the impact of the ongoing global financial crisis as well as a series of food and energy crises that affected the country previously. Tajikistan still ranks as a low-income International Development Association country with gross national income per capita of \$700 in 2011.

Structural reforms have been undertaken in areas such as energy, transport, and private and financial sector development. However, there is a need to speed up these reforms. To unleash the potential of assets such as land, water, hydropower, and human capital, Tajikistan will need to mitigate the effects of the global financial crisis while working to build capacity towards post-crisis recovery and sustained development. Even as the impact of the crisis diminishes, the desire to implement difficult reforms may lessen in the face of strong resistance from vested interests. This would slow much needed progress in expanding productive capacity of the private sector.

The key impediments to investment, business development, and economic growth in Tajikistan are high risks, barriers to entry, and the cost of dealing with the government. Of the factors that are not within the control of a private firm, some are purely commercial, but others can be determined or controlled by government policies, laws, regulations, and administrative procedures. Thus **one key objective of PPIAF's strategy is to help address impediments to private investment and private sector development associated with government policies, laws, regulations, and administrative procedures.**

PPIAF's engagement in Tajikistan has so far consisted of two completed activities totaling \$520,000: one in 2001 targeting the water sector in particular, and the other in 2006 targeting private-public partnerships in infrastructure in general. There are also two ongoing activities in the water and energy sectors—totaling \$325,000—for which it is too early to show results.

Technical Assistance for Private Sector Participation in Water Supply

As the capital of an autonomous Soviet republic, Dushanbe had been provided with a water supply and sewerage system that ensured, according to official statistics, a service coverage rate of more than 90%. However, efficiency was severely limited by inadequate design and poor quality of installations and equipment. After Tajikistan's independence in 1991, the inter-republican budget transfer system came to an end. The outbreak of civil war in 1992 and severe successive floods in 1992, 1993, 1996, and 1998, accelerated the physical deterioration of water treatment plants and the distribution network. As a result, water supply in Dushanbe had become highly unsafe, unreliable, and inefficient. Responsibility for the delivery of urban water supply and sewerage services in Tajikistan has been decentralized to the municipal authorities. The Dushanbe municipality owns the Dushanbe Water and Sewerage Company (Dushanbe Vodokanal or DVK), an autonomous public-sector enterprise, which operates, in principle, on a commercial basis, though in 2001 was largely insolvent and could not meet its responsibilities.

To help DVK address the most critical deficiencies of water supply services and to initiate the process of transforming DVK into a viable utility, **PPIAF provided legal and technical support for selecting a private operator to manage the water supply system in the capital city and train DVK staff in monitoring and regulating private contractors.** A study tour to the United States and marketing outreach was also undertaken to enhance the capacity of DVK staff and the project coordination unit of the Dushanbe Water Supply Project in supervising the operator effectively. The Dushanbe Water Supply services contract was signed in 2002 with MVV Energie Group from Germany for \$2.8 million in a transparent manner. The project aimed at taking over management, operation, and maintenance services of DVK for a period of three years, as well as at implementing an investment program for urgent water supply improvements.

The contracting of the private operator led to increased revenues between 2002 and 2005 as a result of three tariff increases, as well as efforts to identify and register consumers. Cash collections have also improved, mainly through the abolishment of in-kind payments for service, and the establishment of a cash only policy for service. The ratio of collected revenues to operational costs, adequate maintenance, and project related expenses rose from 21% in 2002 to 65% in 2008. This has allowed DVK to meet its operating costs, including paying staff salaries and wages on time, as well as being able to pay for its consumables, which, in the first three years of the project, were paid out of credit funds.

Despite these improvements and actions, the financial performance of DVK is still very weak, tariffs remain below cost recovery levels, and it still incurs significant financial losses. Operating costs have increased significantly over the same period, thus contributing to the considerable losses. This substantial increase in operating costs simply reflects an attempt to adequately reflect the true costs of operating the system and adequate provision for system maintenance. DVK has a long way before it can become financially independent, and revenue collections will probably improve once users see improvements in service. The private contractor was negotiating with the Municipality in 2006 to extend its services contract, however the contract was not renewed.

Results of PPIAF's Activities in Assisting Tajikistan's Private Sector Participation in Water Supply

| Category | Outputs |
|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capacity and awareness building | |
| <i>Workshops/seminars</i> | <ul style="list-style-type: none"> • Training and capacity building in the performance monitoring of private sector operator and management contract regulation and supervision, 2001 • Water sector staff and decision makers in the municipality participated in a study tour to utilities and to regulatory agencies that supervise contractors in the United States, 2001 |
| Project cycle related assistance | |
| <i>Transaction support</i> | <ul style="list-style-type: none"> • Training in International Competitive Bidding Selection of international utility operators for the management contract. A training workshop via videoconference was successfully completed in 2001. This training allowed the government's decision makers to evaluate effectively the qualifications of interested international utility operators. |

| Category | Outcomes |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Enabling environment reform | |
| <i>Institutions created or strengthened</i> | <ul style="list-style-type: none"> • Tariff increases and better collection practices have raised the ratio of collected revenues to operational costs, adequate maintenance, and project related expenses from 21% in 2002 to 65% in 2008 |
| Capacity and awareness building | |
| <i>Technical capacity enhanced</i> | <ul style="list-style-type: none"> • Capacity of DVK and the project coordination unit of the Dushanbe Water Supply Project enhanced, 2001 |
| Project cycle related assistance | |
| <i>Transactions facilitated</i> | <ul style="list-style-type: none"> • The German-owned MVV Energie Group engaged in a three-year \$2.8 million service contract with DVK, 2001 |

Building Capacity to Implement Options for Private Sector Participation in Infrastructure

In 2005 PPIAF assistance was requested to assist the State Property Committee in its efforts to oversee the privatization of various infrastructure enterprises earmarked for private sector participation. In particular, this activity helped (i) identify appropriate options and approaches for private participation in infrastructure including community-based ones whenever appropriate and feasible; and (ii) build capacity and strengthen the State Property Committee to oversee the restructuring of various infrastructure enterprises including providing parameters and checklists for designing an appropriate regulatory framework. The activity also helped build consensus for the identified options and approaches, including identifying consumer preferences in the design of acceptable private sector participation options, implementing the program for introducing private participation in the infrastructure enterprises as contained in the government's private sector participation strategy; and preparing a framework for developing programs for post privatization support to these infrastructure enterprises.

These objectives were achieved through a number of activities. An evaluation report of different infrastructure sector and enterprise (railways, power, gas, telecommunications, and airlines) restructuring plans was delivered. Training was provided on company valuation and financial modeling to the staff of the State Property Committee. Study tours were successfully conducted in Ankara and Kiev to learn from their sector restructuring experience. Several stakeholder consultation workshops were organized. An organization structure for implementing the public-private partnership (PPP) program was outlined. Recommendations were made to strengthen the capacity of the State Property Committee for implementing the PPP program.

The Committee has recently been renamed as the State Committee for Investments and Property Management (SCIPM). A new Chairman has been appointed and has been given the rank of a Cabinet Minister. SCIPM has agreed to several recommendations from the PPIAF-funded activity, including setting up a PPP Unit within SCIPM. The SCIPM Chairman has requested follow-up funding support from PPIAF to assist and strengthen the PPP Unit.

PPIAF's engagement has clearly strengthened the country's focus on private sector development. Further to PPIAF's activity, a donor coordination council was formed in 2007 to assist the government in developing its Poverty Reduction Strategy, including a strategy for Private Sector Development approved in the same year. Implementation of the strategy started slowly but the pace picked up in 2009. The present global financial crisis provides the opportunity to speed up implementation and increase the supply response of the economy.

Results of PPIAF's Activities in Assisting with Private Sector Participation in Infrastructure

| Category | Outputs |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Enabling environment reform | |
| <i>Analyses/assessments prepared</i> | <ul style="list-style-type: none"> Evaluation report of different infrastructure sector and enterprise (railways, power, gas, telecommunications, and airlines) restructuring plans, February 2006 |
| Capacity and awareness building | |
| <i>Workshops/seminars</i> | <ul style="list-style-type: none"> Capacity building support provided to State Property Committee on wide ranging issues to facilitate implementation of infrastructure PPP program. Extensive training sessions and workshops were also organized for its staff, February 2006 |

| Category | Outcomes |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Enabling environment reform | |
| <i>Institutions created or strengthened</i> | <ul style="list-style-type: none"> Strengthened the government's focus on private sector development, which led in 2007 to a donor coordination council assisting the government in developing its Poverty Reduction Strategy, including a strategy for Private Sector Development approved in the same year. The role of SCIPM has been strengthened and its Chairman has been given the rank of a Cabinet Minister to help effectively move reforms forward, 2010 |
| Capacity and awareness building | |
| <i>Technical capacity enhanced</i> | <ul style="list-style-type: none"> Staff of State Property Committee more knowledgeable on company valuation, financial modeling, and sector restructuring, 2006 |
| <i>Consensus achieved</i> | <ul style="list-style-type: none"> SCIPM has agreed to several recommendations from the PPIAF-funded activity, including setting up a PPP Unit within SCIPM, 2010 |